



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

For the three and six months ended June 30, 2017

Dated: August 11, 2017

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*This Management's Discussion and Analysis ("MD&A") of the consolidated financial position for the three and six months ended June 30, 2017, should be read in conjunction with the consolidated interim financial statements of Talon Metals Corp. ("Talon" or the "Company") and notes thereto for the three and six months ended June 30, 2017.*

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 Company's ongoing discussions with Kennecott Exploration Company in respect of its decision to grant the Company the Tamarack Purchase Option (defined below) or proceed with the Tamarack Joint Venture (defined below) in respect of the Tamarack Project, the exploration plans and timing thereof for the Tamarack Project (defined below) and announcements of exploration results, 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 cut additional costs, sell non-core assets and/or raise additional capital).

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; 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 and/or 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, 2016, is available on SEDAR at [www.sedar.com](http://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 sell non-core assets, cut costs and/or raise financing. There can be no assurance that the Company will be successful in selling non-core assets, cutting sufficient costs and/or, in compliance with the RCF Loan Agreement (defined below), raising financing to meet the Company's commitments.

The Company has not earned any revenue to date from its operations. The Company, and its 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 June 30, 2017, the Company had working capital of \$1.2 million (December 31, 2016 – \$0.3 million) and Shareholders' equity of \$15.6 million (December 31, 2016 – \$18.7 million). Working capital is defined as current assets less current liabilities.

These circumstances 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.

## **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.

	2017		2016				2015	
	June 30	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30
Total revenues	1,047	719	2,085	472	426	172	181	125
Net income/(loss) from continuing operations	(1,676,223)	(1,921,049)	(1,180,884)	112,754	(2,143,446)	1,846,098	(5,610,027)	1,260,398
Net income/(loss) from continuing operations per share – basic and diluted	(0.01)	(0.01)	(0.01)	0.00	(0.01)	0.01	(0.03)	(0.01)
Net income/(loss) and comprehensive income/(loss)	(1,676,223)	(1,921,049)	(1,180,884)	112,754	(2,143,446)	1,846,098	(5,610,027)	1,260,398
Net comprehensive income/(loss) per share – basic and diluted	(0.01)	(0.01)	(0.01)	0.00	(0.01)	0.01	(0.03)	(0.01)

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 stock option compensation payment expense, impairment losses, gains/losses on investments and foreign currency translation gains/losses. Commencing in 2016, significant volatility in net income and loss arose as a result of the quarterly revaluation to fair value of the RCF Loan (defined below) in accordance with the IFRS fair value standards.

## **REVIEW OF QUARTERLY RESULTS**

Certain amounts in the consolidated 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.

### **Revenue**

Revenue is comprised solely of interest income on the Company's cash and cash equivalents balance. Revenues for the three and six months ended June 30, 2017 were \$1,047 and \$1,766, respectively, compared to \$426 and \$598 for the three and six-month period in the prior year. The increase in revenues year over year, although generally immaterial, was due to slightly higher interest rates on U.S. dollar balances as a result of recent increases in U.S. interest rates.

## Expenses

Salaries, benefits, consulting and Brazil administration fees decreased to \$83,420 for the three months ended June 30, 2017 compared to \$175,798 for the three months ended June 30, 2016, and \$191,318 for the six months ended June 30, 2017 compared to \$382,302 for the six months ended June 30, 2016. The decreases are due to the Company continuing to undertake cost-cutting measures where possible, including a recent reduction in the number of employees currently working for the Company.

More generally, over the past few years the Company has undertaken a number of additional cost-cutting initiatives, including:

- A voluntary reduction of the salaries of seven of the Company's senior employees, including the CEO and President, effective January 1, 2014, and the CFO, effective February 1, 2014. The salary reductions ranged from 10% to 50%. Effective January 1, 2016, the President agreed to further reduce his salary by an additional \$50,000 per year with the agreement that such reduced amount will be deferred and only paid to him upon a termination without cause or a change of control of the Company.
- Effective December 1, 2015, the Executive Chairman agreed to reduce his salary from \$200,000 per year to \$100,000 per year with the entire amount being deferred and only paid to him upon a termination without cause or a change of control of the Company.
- Effective July 1, 2015, the board of directors of the Company agreed to defer their cash remuneration with such deferred amounts only being paid on the sale of the Company or the Tamarack Project, or when the Company has at least \$3 million in the treasury, provided always that the RCF Loan must have already been repaid or converted into common shares of the Company.

Professional fees were relatively consistent at \$34,685 for the three months ended June 30, 2017 compared to \$21,570 in the same period in the prior year. For the six months ended June 30, 2017, professional fees were \$58,396 compared to \$37,285 in the same period in the prior year. As part of ongoing cost-cutting measures, the Company continues to perform legal and tax work in-house whenever possible.

Office and general expenses were approximately 50% less during the three and six months ended June 30, 2017 compared to the same periods in the prior year as a result of the Company's ongoing cost-cutting measures.

Travel decreased to \$1,089 for both the three and six months ended June 30, 2017 compared to \$1,559 for the three months ended June 30, 2016 and \$9,184 for the six months ended June 30, 2016. The Company endeavours to minimize costs at all times.

Listing, filing and shareholder communications decreased to \$13,396 for the three months ended June 30, 2017 compared to \$19,280 in the same period in the prior year, and decreased to \$42,569 for the six months ended June 30, 2017 compared to \$54,520 in the same period in the prior year. The decreases were the result of reduced securities commissions filing fees, press release fees and transfer agent fees.

Stock option compensation expense decreased to nil for the three and six months ended June 30, 2017 compared to \$21,956 and \$43,596 during the three and six months ended June 30, 2016, respectively. The decreases were the result of no options being granted in the current periods, and no options subject to a vesting schedule being granted in recent quarters that would impact the expense in the current periods.

### **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 are 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 matures on the maturity date (the "**Maturity Date**") being the earlier of: (i) November 25, 2018; and (ii) the date upon which RCF elects to accelerate the due date upon the occurrence of certain events, including an event of default.
- The RCF Loan bears interest at the rate of 12% per annum. All interest accrues and becomes payable on the Maturity Date. The Company may only prepay the RCF Loan (including, accrued interest), in full or in part, with the prior approval of RCF.
- Under the terms of the RCF Loan, RCF may 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 has not been capitalized is 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 being converted pursuant to RCF's conversion right will 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.
- For as long as the RCF Loan Agreement is in effect or while 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 may maintain its percentage interest in common shares of the Company on a partially diluted basis, assuming the full exercise of all rights under the RCF Loan to receive common shares, including all rights of conversion.



- At all times, (a) while any obligation remains outstanding under the RCF Loan Agreement, or (b) RCF and its affiliates, on a partially diluted basis, hold common shares of the Company equal to or exceeding 10% of all common shares of the Company issued and outstanding, RCF will have the right to nominate one individual to serve on the Company's board of directors.
- A number of events constitute an event of default under the RCF Loan Agreement, including certain material adverse changes, the delisting of the Common Shares from the TSX, the abandonment or termination of a material portion of the Tamarack Project or a change of control of the Company. Upon an event of default, the principal and interest will become due and payable and interest will accrue at the default interest rate of 17% per annum.
- The Company must adhere, within five percent (5%), to an agreed overhead budget.
- Up to June 30, 2017, the Company was not permitted to issue common shares or other securities convertible into common shares of the Company for consideration less than the Conversion Price.

#### *RCF Unsecured Convertible Loan Amendment*

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.

The RCF Loan is 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 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 International Accounting Standard 39, the Company has 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.

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The fair value of the RCF Loan has been determined using a combination of the Black-Scholes option pricing model for the equity conversion portion and the discounted cash flow method for the loan portion. The following assumptions were used to determine the fair value of the RCF Loan at June 30, 2017 and December 31, 2016:

	June 30, 2017	Dec 31, 2016
Risk-free interest rate	1.50%	0.73%
Expected volatility	60%	60%
Talon share price	\$ 0.105	\$ 0.07
Expected dividend yield	0%	0%
Effective interest rate on bifurcated loan portion	24.01%	24.01%
Actual interest rate	12.00%	12.00%
Period end foreign CAD/USD foreign exchange rate	1.2977	1.3427

Sensitivity analysis: As at June 30, 2017, the value of the RCF Loan assuming different share prices (share price being the most critical input variable) as at the end of the current reporting period is as follows:

Valuation date share price	\$ 0.085	\$ 0.105	\$ 0.125	\$ 0.156
Fair value of Unsecured Convertible Loan				
In US dollars millions	\$ 17.52	18.43	19.59	21.81
In Canadian dollars millions	\$ 22.74	23.92	25.43	28.31

A continuity schedule reconciling the change in fair value of the RCF Loan is as follows:

	Six months ended		Year ended	
	June 30, 2017		December 31, 2016	
	USD	CAD	USD	CAD
Fair value - beginning of year	\$ 13,868,065	\$ 18,620,651	\$ 14,008,646	\$ 19,387,966
Increase in principal	2,000,000	2,619,800	-	-
Less: Allocation to RCF Warrants	(343,831)	(450,385)	-	-
Expenses allocated to loan portion	(86,641)	(113,491)	-	-
Interest expense	1,069,689	1,415,056	1,758,295	2,417,380
Fair value adjustment	1,923,623	1,826,154	(1,898,876)	(3,184,695)
Increase (decrease)	4,562,840	5,297,135	(140,581)	(767,315)
Fair value - end of year	\$ 18,430,905	\$ 23,917,786	\$ 13,868,065	\$ 18,620,651

The most important input impacting the fair value adjustment is the Company's share price, which increased during the six months ended June 30, 2017, thus causing an increase in the fair value of the RCF loan and an income statement loss. The interest expense is the result of accounting accretion of the RCF Loan at the effective interest rate or yield to maturity noted above of 24.01% determined at inception of the loan. The actual interest rate remains at 12%.

## Investments and Foreign Exchange

Foreign currency translation resulted in a loss of \$8,661 for the three months ended June 30, 2017 compared to a gain of \$149,386 in the same period during the prior year. For the six months ended June 30, 2017, the Company recognized a gain of \$13,802 compared to gain of \$279,961 in the same period during the prior year. This balance is highly variable due to the volatility of exchange rates and the Company's cash balance.

The Company sold its remaining shares in Tlou Energy Limited ("**Tlou Energy**") in the second quarter of 2016 for net proceeds of \$578,470. In the three and six months ended June 30, 2016, losses were recognized while during the equivalent periods in 2017, there was no gain or loss as the Company no longer held any shares of Tlou Energy. The amount recognized was volatile as it related to the change in the value of shares of Tlou Energy on the Australian Securities Exchange ("**ASX**").

## Net Loss

Net loss for the three months ended June 30, 2017 was \$1,676,223 or \$0.01 per share (basic and diluted), which was primarily the result of a loss on fair value revaluation of the RCF Loan and administration expenses<sup>1</sup>. This compares to a net loss of \$2,143,446 or \$0.02 per share (basic and diluted) for the three months ended June 30, 2016, which was primarily the result of the loss on fair value revaluation of the RCF Loan, an investment loss on the shares held of Tlou Energy and administration expenses.

Net loss for the six months ended June 30, 2017 was \$3,597,272 or \$0.03 per share (basic and diluted), which was primarily the result of a loss on fair value revaluation of the RCF Loan and administration expenses. This compares to a net loss of \$297,946 or \$nil per share (basic and diluted) for the six months ended June 30, 2016, which was primarily the result of an investment loss on the shares held of Tlou Energy and administration expenses offset by a gain on fair value revaluation of the RCF Loan.

## COMPANY OVERVIEW

The Company is a mineral exploration company currently focused on the exploration and development of the Tamarack nickel-copper-PGE 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.

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

Pursuant to the original terms of the Tamarack Earn-in Agreement, Talon Nickel had the right to acquire a 30% interest in the Tamarack Project over a three year period (the "**Earn-in Period**") by making US\$7.5 million in installment payments to Kennecott, and incurring US\$30 million in exploration expenditures (the "**Tamarack Earn-in Conditions**"). In addition, Talon Nickel agreed to make certain land option payments on behalf of Kennecott, which are payable over the Earn-in Period (and, when payable, are included as part of the Tamarack Earn-in Conditions).

On March 26, 2015, Kennecott and Talon Nickel amended the Tamarack Earn-in Agreement (the "**Tamarack Earn-in First Amending Agreement**") to defer an option payment (the "**Deferred Option Payment**") and delay further cash calls from being made by Kennecott.

Concurrent with the RCF Financing, on November 25, 2015, Kennecott and Talon Nickel entered into a further agreement to amend the Tamarack Earn-in Agreement (the "**Tamarack Earn-in Second Amending Agreement**"), to provide, among other things:

- that upon receipt by Kennecott from Talon Nickel of the sum of US\$15 million (which is in addition to previous amounts paid to Kennecott of US\$10.52 million), Talon Nickel will earn an 18.45% interest in the Tamarack Project and Talon Nickel will have no further funding requirements to earn its interest in the Tamarack Project;
- once Kennecott has spent the funds advanced by Talon Nickel on exploration activities in respect of the Tamarack Project, subject to certain self-funding rights by Kennecott during such period, Kennecott will have 180 days to elect whether to: (a) proceed with a 81.55/18.45 joint venture on the Tamarack Project, with Kennecott owning an 81.55% participating interest, and Talon Nickel owning an 18.45% participating interest (the "**Tamarack Joint Venture**"); or (b) grant Talon Nickel the right to purchase Kennecott's interest in the Tamarack Project for a total purchase price of US\$114 million (the "**Tamarack Purchase Option**"). In the event Kennecott grants Talon Nickel the Tamarack Purchase Option, and Talon Nickel elects to proceed with the Tamarack Purchase Option, Talon Nickel will have up to 18 months to close the transaction, provided it makes an upfront non-refundable payment of US\$14 million; and
- Until Kennecott makes its decision as to whether to grant the Company the Tamarack Purchase Option, the Company is responsible for certain costs to keep the Tamarack Project in good standing based on its 18.45% interest. If the Company fails to make any of such payments, its interest in the Tamarack Project will be diluted in accordance with the Tamarack Earn-in Agreement.

Kennecott continues to be the operator of the Tamarack Project.

Following on from the closing of the RCF Financing, on January 4, 2016, Talon Nickel made the US\$15 million payment to Kennecott (the "**Final Earn-in Payment**"). As such, Talon Nickel currently holds an 18.45% interest in the Tamarack Project.

As at December 31, 2016, Kennecott had spent the US\$15 million Final Earn-in Payment.

The total amount paid by Talon Nickel to Kennecott to earn its 18.45% interest in the Tamarack Project was 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 a third amending agreement with Kennecott (the "**Tamarack Earn-in Third Amending Agreement**") in respect of the Tamarack Earn-in Agreement, as amended.

Pursuant to the Tamarack Earn-in Third Amending Agreement, Talon Nickel and Kennecott agreed to co-fund a 2016/2017 winter exploration program at the Tamarack Project in the approximate amount of US\$3,500,000, with Talon Nickel funding its proportionate share of 18.45% thereof. The Tamarack Earn-in Third Amending Agreement also provided that Kennecott may elect at any time up to and including September 25, 2017 to grant Talon Nickel the Tamarack Purchase Option or proceed with the Tamarack Joint Venture in respect of the Tamarack Project (the "**Kennecott Decision Deadline**"). The material terms of the Tamarack Joint Venture and Tamarack Purchase Option remain unchanged.

### **Tamarack North Project**

The Tamarack North Project is located adjacent to the town of Tamarack in north-central Minnesota approximately 85 km west of Duluth and 200 km north of Minneapolis.

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 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 October 6, 2014, Talon released a technical report prepared in accordance with NI 43-101 in respect of the Tamarack North Project. The technical report is entitled "First Independent Technical Report on the Tamarack North Project, Tamarack, Minnesota" dated October 6, 2014 ("**Tamarack North Technical Report**") and was prepared by independent "Qualified Persons" Brian Thomas (P. Geo) of Golder Associates Ltd. ("**Golder**"), Paul Palmer (P. Eng) of Golder and Manochehr Oliazadeh Khorakchy (P. Eng) of Hatch Ltd. Please refer to the Tamarack North Technical Report for further information, including the QA/QC, analytical and testing procedures employed by Kennecott at the Tamarack North Project. The Tamarack North Technical Report is available under Talon's SEDAR profile at [www.sedar.com](http://www.sedar.com).

On April 8, 2015, the Company issued an updated resource estimate for the Tamarack North Project. This updated independent mineral resource estimate was largely the result of the

successful 2014 drilling of the step-out holes from the Massive Sulphide Unit Mineral Zone; more particularly, the positive results from drill holes 14TK0211 and 14TK0213.

The updated independent mineral resource estimate for the Tamarack North Project was prepared by Brian Thomas (P.Geol), Senior Resource Geologist at Golder and is summarized below. The effective date of the resource estimate is April 3, 2015. Mr. Thomas is an independent "Qualified Person" pursuant to National Instrument 43-101 ("NI 43-101").

Domain	Mineral Resource Classification	Tonnes (000)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Au (g/t)	NiEq (%)	Lbs NiEq (000,000)
SMSU	Indicated	3,751	1.81	1.00	0.05	0.41	0.25	0.19	2.35	194.3
SMSU	Inferred	949	1.12	0.62	0.03	0.25	0.16	0.14	1.47	30.8
<b>MSU</b>	<b>Inferred</b>	<b>422</b>	<b>6.00</b>	<b>2.48</b>	<b>0.13</b>	<b>0.78</b>	<b>0.53</b>	<b>0.26</b>	<b>7.26</b>	<b>67.5</b>
138 Zone	Inferred	2,012	0.95	0.78	0.03	0.23	0.14	0.17	1.33	59.0
<b>Total</b>	<b>Indicated</b>	<b>3,751</b>	<b>1.81</b>	<b>1.00</b>	<b>0.05</b>	<b>0.41</b>	<b>0.25</b>	<b>0.19</b>	<b>2.35</b>	<b>194.3</b>
<b>Total</b>	<b>Inferred</b>	<b>3,383</b>	<b>1.63</b>	<b>0.94</b>	<b>0.04</b>	<b>0.31</b>	<b>0.19</b>	<b>0.17</b>	<b>2.11</b>	<b>157.4</b>

Notes:

- All resources are reported at a 0.90% NiEq cut-off
- Tonnage estimates are rounded down to the nearest 1,000 tonnes
- Mining recovery and dilution factors have not been applied to the estimates
- Estimates do not include metallurgical recovery

$$\text{NiEq\%} = \text{Ni\%} + \text{Cu\%} \times 2.91/9.20 + \text{Co\%} \times 14/9.20 + \text{Pt [g/t]}/31.103 \times 1,400/9.2/22.04 + \text{Pd [g/t]}/31.103 \times 600/9.2/22.04 + \text{Au [g/t]}/31.103 \times 1,300/9.2/22.04$$

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

During the first quarter of 2016, Talon provided Kennecott with the Final Earn-in Payment of US\$15 million. The Final Earn-in Payment was used by Kennecott for exploration expenditures and land option payments in respect of the Tamarack North Project and Tamarack South Project. As at December 31, 2016, Kennecott had spent the US\$15 million Final Earn-in Payment.

On December 16, 2016, Talon and Kennecott entered into the Tamarack Earn-in Third Amending Agreement. Pursuant to this agreement, Talon and Kennecott agreed to co-fund a 2016/2017 winter exploration program at the Tamarack Project in the approximate amount of US\$3,500,000, with Talon funding its proportionate share of 18.45% thereof. This program has been completed.

### Upcoming Work – Tamarack North Project and Tamarack South Project

Now that the winter exploration program has been completed, Kennecott must elect at any time up to and including September 25, 2017 (the Kennecott Decision Deadline) whether to grant Talon Nickel the Tamarack Purchase Option or proceed with the Tamarack Joint Venture in respect of the Tamarack Project (as further detailed under "Tamarack Project – Tamarack Earn-in Agreement" (above)). The Company is in ongoing discussions with Kennecott concerning Kennecott's intentions.

### ***Qualified Persons***

James McDonald, Vice President, Resource Geology of Talon is a Qualified Person within the meaning of NI 43-101. Mr. McDonald has reviewed, approved and verified the data disclosed in this MD&A (other than the mineral resource estimates in respect of the Tamarack North Project), including sampling, analytical and test data underlying the technical information.

The "Qualified Person", as such term is defined in NI 43-101, who is responsible for the independent resource estimate in this MD&A is Brian Thomas, senior resource geologist at Golder and independent of Talon. Mr. Thomas is responsible for the mineral resource estimates in this MD&A and has reviewed, approved and verified the data disclosed in this MD&A relating to the mineral resource estimates (including sampling, analytical and test data underlying the mineral resource estimates).

### **Investments**

In May 2016, Talon sold all of its remaining 14,285,714 shares in ASX listed Tlou Energy for net proceeds of \$578,470.

### **CAPITAL EXPENDITURES ON EXPLORATION PROJECTS**

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

	<b>Dec 31, 2016</b>	<b>2017 Additions</b>	<b>Write-down</b>	<b>June 30, 2017</b>
<i>Mineral properties</i>				
Tamarack Project	\$37,052,077	\$1,194,192	-	\$38,246,269
Trairão Project	-	4,469	(4,469)	-
	<u>\$37,052,077</u>	<u>\$1,198,661</u>	<u>\$(4,469)</u>	<u>\$38,246,269</u>

Amounts incurred on the exploration of mineral properties for the six months ended June 30, 2017 amounted to \$1.2 million, and is the result of a US\$604,000 payment pursuant to the Tamarack Earn-in Third Amending Agreement and other amounts incurred by Talon in respect of the Tamarack Project outside of the Tamarack Earn-in Agreement (as amended).

Amounts incurred on the exploration of mineral properties for the six months ended June 30, 2016 amounted to \$21.5 million, and is, other than certain amounts incurred by Talon in respect of the Tamarack Project outside of the Tamarack Earn-in Agreement (as amended), the result of Talon paying the Final Earn-in Payment (US\$15 million) to Kennecott on January 4, 2016.

### **FINANCIAL INSTRUMENTS**

	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>Dec 31, 2016</b>
<i>Held for trading, measured at fair value:</i>			
Cash and cash equivalents	\$1,553,982	\$1,361,420	\$676,542
Unsecured convertible loan	\$23,917,786	\$18,149,977	\$18,620,651

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 June 30, 2017, the Company had a cash and cash equivalents balance of \$1.6 million, (December 31, 2016 - \$0.7 million) to settle current liabilities of \$0.4 million (December 31, 2016 - \$0.5 million).

In order to meet future working capital requirements, the Company may need to sell non-core assets, cut additional costs and/or raise additional capital (as permitted pursuant to the RCF Loan Agreement). There can be no assurance that the Company will be successful in selling non-core assets, cutting sufficient costs and/or, in compliance with the RCF Loan Agreement, raising capital to meet the Company's future working capital requirements. Such uncertainty casts 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.

In accordance with the RCF Loan Agreement, up to June 30, 2017, the Company was not permitted to issue common shares or other securities convertible into common shares of the Company for consideration less than the Conversion Price. During the six month period ended June 30, 2017 and in 2016, the Company was compliant with this requirement. In January 2017, pursuant to the RCF Loan First Amending Agreement, the Company issued the RCF Warrants at a price below the Conversion Price.

See "*Financial Condition, Cash Flow, Liquidity and Capital Resources – Liquidity and Capital Resources*" and "*Risks and Uncertainties*" 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 June 30, 2017, 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 and, to a much lesser extent, the Brazilian real. Payments made to Kennecott pursuant to the Tamarack Earn-in Agreement (as amended) and, if applicable, for the Purchase Option or any payments that may be due under the Tamarack Joint Venture will be made in United States dollars. In addition, the RCF Loan is denominated in United States dollars. Transfers made to the Brazilian subsidiaries of the Company are made in United States dollars or Canadian dollars and subsequently converted in Brazil to Brazilian reals. Talon's salaries, consulting and administrative costs are denominated in Canadian dollars. To date, with the exception of the RCF Financing, Talon's financing activities have been in 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.

Talon is exposed to movements in the United States dollar as a result of the RCF Loan, which at June 30, 2017 had a fair value of \$23.9 million. The RCF Loan matures on November 25, 2018.

At June 30, 2017, the Company had net monetary liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	\$(22.91) million
Brazilian real	\$ (0.22) million

If foreign exchange rates 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 loss of the Company for the period ended June 30, 2017 of approximately \$1.2 million.

### 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 June 30, 2017, the Company had interest bearing debt of \$23.9 million pursuant to the RCF Loan. Interest rate risk on the Company's debt is mitigated by the fixed interest rate of 12% and relatively short term to maturity (approximately 1.4 years) of the RCF Loan.

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 June 30, 2017:

#### *Level 1*

Cash and cash equivalents	\$1,553,982
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#### *Level 3*

RCF Loan	\$23,917,786
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A loss on investments for the three months ended June 30, 2017 of \$nil (three months ended June 30, 2016 - \$0.4 million) has been recognized in the Company's consolidated statements of loss and comprehensive loss. This relates to the revaluation of investments based on the closing bid price of the investments at the end of each quarter and any realized gains or losses.

## **FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flow Highlights**

	Six months ended June 30, 2017 (unaudited)	Six months ended June 30, 2016 (unaudited)	Year ended Dec 31, 2016
Operating activities	\$(521,413)	\$(520,869)	\$(750,746)
Investing activities	(1,198,661)	(206,230)	(471,959)
Financing activities	2,597,514	74,506	(114,766)
Increase (decrease) in cash & cash equivalents	877,440	(652,593)	(1,337,471)
Beginning cash & cash equivalents	676,542	2,014,013	2,014,013
Ending cash & cash equivalents, including restricted cash	\$1,553,982	\$1,361,420	\$676,542

### ***Operating Activities***

Operating activities for the six months ended June 30, 2017 consumed \$0.5 million of cash primarily due to net operating expenses. This compares to \$0.5 million used in the same period of last year which was also primarily due to net operating expenses. See "Review of Quarterly Results" for a discussion of operating expenses.

### ***Investing Activities***

Investing activities for the six months ended June 30, 2017 consumed \$1.2 million compared to \$0.2 million in the same period in the prior year. In both cases, it was due to capitalized exploration costs, with the amount in 2017 partially the result of a \$604,000 payment pursuant to the Tamarack Earn-in Agreement (as amended), and the 2016 amount the result of the Final Earn-in Payment offset by proceeds on sale of investments and cash previously classified as restricted cash.

### ***Financing Activities***

On December 29, 2015, RCF provided the Company with US\$15 million, as follows: (a) US\$1 million via the RCF Private Placement, and (b) US\$14 million via the RCF Loan. The entire US\$15 million was paid to Kennecott on January 4, 2016 for the Company to earn an 18.45% interest in the Tamarack Project.

In the second quarter of 2016, the Company issued shares to RCF to settle certain legal costs associated with the RCF Loan in accordance with the RCF Loan Agreement.

In the fourth quarter of 2016, the Company incurred costs of \$114,766 associated with the RCF Loan First Amending Agreement which resulted in a cash outflow from financing activities of \$0.1 million for the year ended December 31, 2016.

In the first quarter of 2017, the Company received US\$2 million from RCF in exchange for a US\$2 million increase to the principal amount of the RCF Loan and the issuance of the RCF Warrants.

The Company evaluates possible financing activities on an ongoing basis taking into account the terms of the RCF Loan Agreement, 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 December 29, 2015, RCF provided the Company with US\$15 million, as follows: (a) US\$1 million via the RCF Private Placement, and (b) US\$14 million via the RCF Loan. The entire US\$15 million was paid to Kennecott on January 4, 2016 for the Company to earn an 18.45% interest in the Tamarack Project.

On January 18, 2017, at a special meeting of shareholders, the shareholders of the Company approved the RCF Loan First Amending Agreement and the Company received US\$2 million as an increase to the principal amount of the RCF Loan.

As of June 30, 2017, the Company had a cash and cash equivalents balance of \$1.6 million (December 31, 2016 - \$0.7 million) to settle current liabilities of \$0.4 million (December 31, 2016 - \$0.5 million).

The Company currently incurs approximately \$150,000 per month on salaries, other administrative/overhead costs, costs related to the Tamarack Project and costs related to the Trairão Project. For the ensuing 12 month period (up to August 31, 2018), the Company expects to incur a total of approximately \$1.8 million on such costs, excluding the impact of any additional cost-cutting. In order to meet future working capital requirements, the Company may need to sell non-core assets, cut costs and/or raise additional capital (as permitted pursuant to the RCF Loan Agreement). There can be no assurance that the Company will be successful in selling non-core assets, cutting sufficient costs and/or, in compliance with the RCF Loan Agreement, raising financing to meet the Company's future working capital requirements.

Under the terms of the RCF Loan Agreement, among other things, a change in the business, financial condition or prospects of the Company or its subsidiaries, which has had, or could be reasonably expected to have, a Material Adverse Effect (as defined in the RCF Loan Agreement) constitutes an event of default. Where the Company is in default under the RCF Loan Agreement, and such default is not waived by RCF, it permits the acceleration of the repayment of the RCF Loan. If the repayment of the RCF Loan is accelerated, it is very unlikely that the Company will be able to satisfy such repayment obligation in full and RCF will have all of the rights and remedies provided to it in the RCF Loan Agreement and all other rights and remedies available to RCF at law or in equity.

Such uncertainty casts 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.

In accordance with the RCF Loan Agreement, up to June 30, 2017, the Company was not permitted to issue common shares or other securities convertible into common shares of the Company for consideration less than the Conversion Price. During the six months ended June 30, 2017 and all of 2016, the Company was compliant with this requirement. In January 2017, pursuant to the RCF Loan First Amending Agreement, the Company issued the RCF Warrants at a price below the Conversion Price.

See "*Financial Instruments – Liquidity Risk*" and "*Risks and Uncertainties*" for further important information.

**A summary of Contributed Surplus for the period from January 1, 2015 to June 30, 2017 is as follows:**

Balance	December 31, 2014	\$15,488,318
Options	Options vested 2015	581,860
Balance	December 31, 2015	16,070,178
Options	Options vested 2016	43,596
Warrants	Warrants expired 2016	64,690
Balance	December 31, 2016	16,178,464
Warrants	Warrants expired 2017	29,543
Balance	June 30, 2017	\$16,208,007

**DISCLOSURE OF OUTSTANDING SHARE DATA**

The following details the share capital structure of the Company as at August 11, 2017:

	Expiry Date	Exercise Price	Total
Common Shares			129,645,201
Stock Options	Feb 20, 2018	\$0.30	200,000
Stock Options*	Mar 20, 2018	\$0.30	1,000,000
Stock Options	May 28, 2020	\$0.20	64,350
Stock Options	Nov 25, 2020	\$0.156	9,755,000
Stock Options	Apr 12, 2021	\$0.156	300,000
Warrants	Aug 21, 2017	\$0.37	250,000
Warrants	Nov 6, 2017	\$0.45	7,377,725
Warrants	Nov 25, 2018	\$0.156	1,000,000
Warrants	Apr 30, 2018	\$0.13	166,666
Warrants	Jan 18, 2021	\$0.11	15,000,000
Total fully diluted number of shares			164,758,942

\*Unvested and not expected to vest

Pursuant to the Company's incentive stock option plan (the "**Plan**"), during the year ended December 31, 2016, the Company issued 300,000 stock options exercisable at \$0.156 to a new director of the Company.

The following details the change in stock options outstanding of the Company during the six months ended June 30, 2017:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	11,319,350	\$0.17
Granted	-	-
Expired	-	-
Cancelled	-	-
Outstanding – end of the period	11,319,350	\$0.17

Other than 2,233,733 stock options, all of the stock options outstanding have been issued pursuant to the Plan.

### **Estimated fair value of stock options**

The Company determined the fair value of the stock options issued during the six months ended June 30, 2017 and year ended December 31, 2016 using the Black-Scholes option pricing model using the following assumptions:

	<u>2017</u>	<u>2016</u>
Risk-free interest rate	N/A	0.72%
Expected life	N/A	5 years
Expected volatility	N/A	60%
Dividend yield	N/A	Nil

For the six months ended June 30, 2017, a stock option compensation expense of nil was recognized by the Company, compared to \$43,596 during the same period in the prior year.

### **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, 2016 under the heading "Risk Factors" available on SEDAR at [www.sedar.com](http://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.

#### *RCF Loan*

If RCF elects not to convert the entire amount owing under the RCF Loan into common shares of the Company, the principal amount advanced and outstanding under the RCF Loan and all interest accrued thereon will be due and payable to RCF on the Maturity Date (November 25, 2018). The Company's ability to repay the principal and accrued interest depends upon the Company's future ability to obtain financing. If the Company cannot raise sufficient funds to repay the RCF Loan, RCF will have all rights and remedies available at law or in equity, which may include acquiring the Company's interest in the Tamarack Project. In addition, if all or part of the RCF Loan is not paid when due, such overdue amount bears interest at an increased rate of 17% per annum. A failure to repay the RCF Loan could materially adversely affect the Company's business and future operations (including, its ability to continue as a going concern) and may result in the Company losing its interest in the Tamarack Project.

The RCF Loan 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 incur additional indebtedness, to create liens or other encumbrances, to maintain operations within an agreed upon operating budget, 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 which, if not waived, could permit acceleration of the repayment of the RCF Loan. If the repayment of the RCF Loan is accelerated, it is unlikely that the Company will have or be able to raise sufficient capital to satisfy such repayment obligation in full.

If RCF elects to convert, in whole or in part, the principal and interest outstanding under the RCF Loan into common shares of the Company, such conversion will likely involve substantial dilution to existing shareholders which may result in RCF owning a majority of the Company. In such a situation, RCF will likely be able control most of the decisions of the Company, irrespective of the wishes of other shareholders of the Company.

#### *Working Capital Requirements*

In order to meet future working capital requirements, the Company may need to sell non-core assets, cut additional costs and/or, as permitted pursuant to the RCF Loan Agreement, raise additional capital. 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, 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 selling non-core assets, cutting sufficient costs and/or, in compliance with the RCF Loan Agreement, raising capital 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 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 and six months ended June 30, 2017 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 June 30, 2018 is dependent on the Company's ability to sell non-core assets, reduce its working capital requirements and/or secure additional financing in compliance with the terms of the RCF Loan Agreement.

#### *Kennecott Decision Deadline*

Now that the 2016/2017 winter exploration program at the Tamarack Project has been completed, Kennecott must elect at any time up to and including September 25, 2017 (the Kennecott Decision Deadline) whether to grant Talon Nickel the Tamarack Purchase Option or proceed with the Tamarack Joint Venture in respect of the Tamarack Project (as further detailed under "Tamarack Project – Tamarack Earn-in Agreement" (above)).

In the event Kennecott grants Talon Nickel the Tamarack Purchase Option, and Talon Nickel elects to proceed with the Tamarack Purchase Option, Talon Nickel will be required to make an upfront non-refundable payment to Kennecott in the amount of US\$14 million. Currently, Talon Nickel does not have enough money in its treasury to make such upfront non-refundable payment to Kennecott, and consequently, is not currently in a financial position whereby it could elect to proceed with the Tamarack Purchase Option if it wanted to. In order for Talon Nickel to be able to proceed with the Tamarack Purchase Option, the Company would be required to raise additional capital (as permitted pursuant to the RCF Loan Agreement). There can be no assurance that the Company will be successful in raising such capital.

In the event (i) the Company is unable due to lack of financial wherewithal to proceed with the Tamarack Purchase Option, (ii) the Company is unwilling to proceed with the Tamarack Purchase Option, or (iii) Kennecott elects to proceed with the Tamarack Joint Venture, the Tamarack Joint Venture will be formed on the basis of the already negotiated and agreed to joint venture agreement (the "**Mining Venture Agreement**"). The Mining Venture Agreement requires Talon Nickel to incur significant costs, including, but not limited to, a minimum of approximately US\$1.1 million per annum until the completion of a feasibility study in accordance with the terms of the Mining Venture Agreement and compensation to Kennecott for its services as the manager under the Mining Venture Agreement. In order to fund the aforementioned expenditures, the Company would be required to raise additional capital (as permitted pursuant to the RCF Loan Agreement) 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. In the event Tamarack Nickel is unable to fund its obligations under the Mining Venture Agreement, Talon Nickel's interest in the Tamarack Project will be diluted, which, among other things, could constitute an event of default under the RCF Loan Agreement.

#### *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 the Company's Brazilian assets (including, the Trairao Project) and may have a material adverse impact on the ability of the Company to carry on operations.

#### *Tamarack Earn-In Agreement and Tamarack Joint Venture*

The Company has met its obligations under the Tamarack Earn-in Agreement (as amended) to earn an 18.45% interest in the Tamarack Project. However, until Kennecott makes its decision as to whether to grant the Company the Tamarack Purchase Option, the Company is responsible for certain costs to keep the Tamarack Project in good standing based on its 18.45% interest. If the Company fails to make any of such payments, its interest in the Tamarack Project will be diluted in accordance with the Tamarack Earn-in Agreement.

In addition, if the Company and Kennecott form the Tamarack Joint Venture, the Company has funding obligations to advance the Tamarack Project based on its 18.45% interest. Should the Company be unable to meet any of these funding obligations, the Company's interest in the Tamarack Project will be diluted.



### *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 or Kennecott will result in a profitable commercial mining operation. Talon cannot give any assurance that its and Kennecott's (in respect of the Tamarack Project) 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. In addition, Kennecott is the operator of the Tamarack Project and, although Talon is able to provide its input at Technical Committee meetings and otherwise, the ultimate exploration decisions are made by Kennecott. 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 (and Kennecott's as it relates to the Tamarack Project) 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 (or, if applicable, Kennecott as it relates to the Tamarack Project) 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*

The Company is exposed to movements in the United States dollar as the majority of Talon's non-working capital costs are in United States dollars. Payments made to Kennecott pursuant to the Tamarack Earn-in Agreement (as amended) and, if applicable, for the Tamarack Purchase Option or any payments that may be due under the Tamarack Joint Venture will be made in United States

dollars. In addition, the Company's indebtedness under the RCF Loan is denominated in United States dollars. However, to date, other than the RCF Loan, Talon's financing activities have generally only been in Canadian dollars and the majority of the Company's administrative costs are in Canadian dollars.

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 (as permitted under the RCF Loan Agreement) 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 and/or the repayment of any amounts owing under the RCF Loan. 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 and Kennecott (in respect of the Tamarack Project) 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 and Kennecott's (in respect of the Tamarack Project) exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Company's properties. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the

Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of the Company's existing and/or new properties.

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates, including as it relates to the Tamarack Project, Minnesota. 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 (or Kennecott's as it relates to the Tamarack Project) 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 (or Kennecott's as it relates to the Tamarack Project). 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 applications. 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, which would 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. With respect to Brazil, the Company's interests in mineral properties are comprised of exclusive rights under government licenses to conduct exploration operations and, in due course if warranted and approved by the government, development and mining, on the license areas. 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. In addition, with respect to the Tamarack Project, Kennecott is responsible for land tenure as the operator of the project and certain aspects of this process may be out of the Company's control. The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties (including, the Tamarack Project), there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims (including, native land claims) and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties. To mitigate certain of these risks, the Company has purchased title insurance over certain areas of the Tamarack North Project. There is no guarantee a given title defect may be claimable under the policy.

*Insurance and Uninsured Risks*

Talon's business (and that of Kennecott as it relates to its operatorship of the Tamarack Project) 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. In addition, given that the Tamarack Project is operated by Kennecott, insurance over the Tamarack Project is maintained by Kennecott and may not protect Talon. 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 pursuant to the Tamarack Earn-in Agreement (as amended) or thereafter, including, if applicable, pursuant to the Tamarack Joint Venture.

**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.

The Company previously entered into a services agreement with a company owned by a director of Talon (Luis Azevedo) (the "**Brazil Agreement**") pursuant to which the company provided Talon with certain accounting, legal and general administrative functions in Brazil for a monthly service fee of US\$5,000. The Brazil Agreement was terminated on December 31, 2015. For 2016, Talon renegotiated for an expanded bundle of services to be provided by the company owned by Mr. Azevedo in exchange for a reduced fee of \$40,000 for the entire year (the "**2016 Brazil Agreement**"). For 2017, fees for the bundle of services were set at \$43,000 for the entire year (the "**2017 Brazil Agreement**").

Under the 2016 Brazil Agreement, \$40,000 was paid in 2016 and under the 2017 Brazil Agreement, \$43,000 was paid in 2017.

Accounts payable and accrued liabilities at June 30, 2017 include \$3,139 payable to a company controlled by a director of the Company (Luis Azevedo) for services rendered (December 31, 2016 - \$5,145 payable to a company controlled by a director of the Company (Luis Azevedo) to refund him for the payment of such amount on the Company's behalf).

The remuneration of directors and officers of the Company for the three and six months ended June 30, 2017 and 2016 was as follows:

TALON METALS CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three and six months ended June 30, 2017

	Three months June 30, 2017	Three months June 30, 2016	Six months June 30, 2017	Six months June 30, 2016
Cash Compensation	\$164,250	\$255,000	\$337,083	\$517,083
Stock Option Compensation	-	21,676	-	43,194
Aggregate Compensation	\$164,250	\$276,676	\$337,083	\$560,277

The decreases in cash compensation for the three and six months ended June 30, 2017 compared to the prior year was primarily due to a reduction in the number of employees currently working for the Company.

No stock options were issued during the three and six months ended June 30, 2017, while the following stock options were issued during the second quarter of 2016 to a new director of the Company:

Date of Grant	Number	Exercise Price	Expiry Date
April 12, 2016	300,000	\$0.156	April 12, 2021

### **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 and the valuation of the RCF Loan.

The uncertainty in regards to the valuation of resource properties arises as a result of the estimates and judgements such as forecasts of metal prices, operating costs, capital costs, development of infrastructure such as roads, railroads, ports and barge ports and income taxes among numerous other valuation inputs, discount rates, comparability of the Company's properties to those of other market participants, the willingness and ability of potential buyers to acquire the Company's resource properties and the selection of market-participant assumptions used in the determination of the recoverable amount.

The uncertainty in regards to the valuation of the RCF Loan arises as a result of inputs such as expected price volatility, the price of the Company's shares and credit yield-to-maturity as well as the valuation model itself.

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 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 7 of the financial statements.

The convertible loan is 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 International Accounting Standard 39, 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 June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **OUTLOOK**

On December 16, 2016, Talon and Kennecott entered into the Tamarack Earn-in Third Amending Agreement. Pursuant to this agreement, Talon and Kennecott agreed to co-fund a 2016/2017 winter exploration program at the Tamarack Project in the approximate amount of US\$3,500,000, with Talon funding its proportionate share of 18.45% thereof. This program has been completed.

Now that the winter exploration program has been completed, Kennecott must elect at any time up to and including September 25, 2017 (the Kennecott Decision Deadline) whether to grant Talon Nickel the Tamarack Purchase Option or proceed with the Tamarack Joint Venture in respect of the Tamarack Project (as further detailed under "*Tamarack Project – Tamarack Earn-in Agreement*" (above)). The Company is in ongoing discussions with Kennecott concerning Kennecott's intentions.