



TALON METALS CORP.

Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(Expressed in Canadian dollars)

These unaudited Condensed Consolidated Interim Financial Statements of Talon Metals Corp. have not been reviewed by the auditors of the Company. This notice is being provided in accordance with Section 4.3(3)(a) of National Instrument 51-102 (Continuous Disclosure Obligations).

Talon Metals Corp.
Condensed Consolidated Interim Balance Sheets

(Expressed in Canadian dollars)

(Unaudited)

	<i>Notes</i>	March 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		\$ 1,127,059	\$ 222,630
Prepayments		14,163	26,159
Deferred financing costs		-	5,330
Accounts and other receivables		4,746	1,519
		<u>1,145,968</u>	<u>255,638</u>
Non-current assets			
Equipment and software		17,182	18,286
Resource properties and deferred expenditures	4, 7, 15	47,238,047	39,988,432
		<u>\$ 48,401,197</u>	<u>\$ 40,262,356</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	\$ 480,806	\$ 401,000
Accrued liabilities - joint venture partner		731,000	-
Contingencies	15, 16	668,125	227,373
Unsecured convertible loan	5	-	31,575,058
Unsecured non-convertible promissory note	6	-	1,480,601
		<u>1,879,931</u>	<u>33,684,032</u>
Royalty put option	7	1,105,585	-
Asset retirement obligation	8	991,447	-
		<u>\$ 3,976,963</u>	<u>\$ 33,684,032</u>
Shareholders' equity			
Share capital	9a	\$ 118,545,318	\$ 80,182,410
Warrants	9b	887,922	465,163
Contributed surplus		18,570,697	16,679,917
Deficit		<u>(93,579,703)</u>	<u>(90,749,166)</u>
		<u>44,424,234</u>	<u>6,578,324</u>
		<u>\$ 48,401,197</u>	<u>\$ 40,262,356</u>

Nature of Operations and Going Concern - Note 1
Subsequent Event - Note 19

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the audit committee of the board of directors on May 14, 2019

Signed: "Gregory S. Kinross"

"John D. Kaplan"

Talon Metals Corp.**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss***(Expressed in Canadian dollars)**(Unaudited)*

	<i>Notes</i>	Three months ended March 31, 2019	Three months ended March 31, 2018
Expenses			
Salaries, benefits, consulting and Brazil administration	15, 16	\$ 146,857	\$ 70,559
Professional fees		56,375	7,098
Office and general		12,326	15,976
Insurance		15,125	14,750
Travel		2,876	-
Marketing		915	-
Listing, filing and shareholder communications		33,314	29,296
Stock option compensation	10	1,890,780	-
Depreciation of equipment and software		1,105	2,721
Impairment loss on resource properties	4	1,180	5,633
Loss on revaluation of royalty put option	7	3,357	-
Financing expenses - royalty put option	7	131,707	-
Loss on revaluation of unsecured convertible loan	5	514,768	1,826,905
Interest expense and accretion on unsecured non-convertible promissory note	6	31,403	-
Gain on repayment of unsecured non-convertible promissory note	6	(54,728)	-
Interest rate accretion on asset retirement obligation	8	105	-
Foreign currency translation loss		43,772	6,506
		<u>2,831,237</u>	<u>1,979,444</u>
Interest income		700	209
Net loss and comprehensive loss		<u>\$ (2,830,537)</u>	<u>\$ (1,979,235)</u>
Basic and diluted net loss per share	11	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average shares outstanding		<u>204,105,550</u>	<u>129,645,201</u>

The accompanying notes are an integral part of these consolidated financial statements.

Talon Metals Corp.

Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian dollars)

(Unaudited)

	Notes	Common shares		Warrants	Contributed surplus	Deficit	Shareholders' equity
		Number	Amount				
Balance at January 1, 2019	9a	129,645,201	\$ 80,182,410	\$ 465,163	\$ 16,679,917	\$ (90,749,166)	\$ 6,578,324
Shares issued		279,226,307	38,362,908	-	-	-	38,362,908
Warrants issued	9b	-	-	422,759	-	-	422,759
Stock option compensation payments	10	-	-	-	1,890,780	-	1,890,780
Net income (loss)		-	-	-	-	(2,830,537)	(2,830,537)
Balance at March 31, 2019		408,871,508	\$ 118,545,318	\$ 887,922	\$ 18,570,697	\$ (93,579,703)	\$ 44,424,234
Balance at January 1, 2018	9a	129,645,201	\$ 80,182,410	\$ 467,546	\$ 16,677,534	\$ (81,309,971)	\$ 16,017,519
Stock option compensation payments	10	-	-	-	-	-	-
Net income (loss)		-	-	-	-	(1,979,235)	(1,979,235)
Balance at March 31, 2018		129,645,201	\$ 80,182,410	\$ 467,546	\$ 16,677,534	\$ (83,289,206)	\$ 14,038,284

The accompanying notes are an integral part of these consolidated financial statements.

Talon Metals Corp.
Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash flows from operating activities		
Net loss	\$ (2,830,537)	\$ (1,979,235)
Non-cash adjustments:		
Stock option compensation	1,890,780	-
Gain (loss) on fair value revaluation of royalty liability	3,357	-
Financing expenses - royalty put option	131,707	
Loss on revaluation of unsecured convertible loan	514,768	1,826,905
Interest expense and accretion on unsecured non-convertible promissory note	31,403	-
Foreign exchange gain on unsecured non-convertible promissory note	(13,793)	-
Impairment loss on resource properties	1,180	5,633
Gain on repayment of unsecured non-convertible promissory note	(54,728)	-
Interest rate accretion on asset retirement obligation	105	
Foreign exchange gain on contingencies	(5,498)	6,789
Depreciation of equipment and software	1,105	2,721
	<u>(330,151)</u>	<u>(137,187)</u>
Working capital adjustments:		
Decrease in prepayments	11,996	17,260
Decrease in deferred financing costs	5,330	-
Increase in accounts and other receivables	(3,227)	(3,819)
Increase (decrease) in accounts payables and accrued liabilities	79,806	(39,164)
Increase in contingencies	446,250	-
Net cash flows provided by (used in) operating activities	<u>210,004</u>	<u>(162,910)</u>
Cash flows from investing activities		
Acquisition of resource properties and deferred expenditures	(8,307,461)	(199,368)
Net cash flows used in investing activities	<u>(8,307,461)</u>	<u>(199,368)</u>
Cash flows from financing activities		
Proceeds from issuance of common shares and warrants	3,150,000	-
Proceeds from sale of royalty and issuance of warrants	6,727,500	-
Financing costs	(875,614)	-
Net cash flows provided by financing activities	<u>9,001,886</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	904,429	(362,278)
Cash and cash equivalents, beginning of the year	222,630	700,238
Cash and cash equivalents, end of the year	<u>\$ 1,127,059</u>	<u>\$ 337,960</u>
Issuance of shares for acquisition of resource properties	2,002,500	-
Increase in asset retirement obligation related to resource properties	991,342	-

The accompanying notes are an integral part of these consolidated financial statements.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Talon Metals Corp. (“Talon” or the “Company”) is a mineral exploration company 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). The Company’s interest in the Tamarack Project is held through its indirect Delaware, USA subsidiary, Talon Nickel (USA) LLC (“Talon Nickel”). As of December 31, 2018, Talon Nickel held a 17.56% interest in the Tamarack Project, which was earned pursuant to an Exploration and Option Agreement (the “Tamarack Earn-in Agreement”) (as amended) that Talon Nickel is a party to with Kennecott Exploration Company (“Kennecott”), a subsidiary of the Rio Tinto Group. On January 11, 2018, Talon Nickel and Kennecott entered into the mining venture agreement in respect of the Tamarack Project (the “Mining Venture Agreement”). On November 7, 2018, the Company announced that it entered into an option agreement (the “2018 Option Agreement”) with Kennecott, pursuant to which Talon will have the right to acquire up to a 60% interest in the Tamarack Project on the satisfaction of certain terms and conditions. The 2018 Option Agreement became effective on March 13, 2019 (whereupon the Mining Venture Agreement is held in abeyance). See Note 4(a) for further information.

The Company also holds a 100% interest in the Trairão iron project (the “Trairão Project”) in Brazil which is held through its indirect Brazilian subsidiary, Talon Ferrous Mineração Ltda.

The Company’s head office address is Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

The Company has not earned any revenue to date from its operations. The Company, and its partner Kennecott, are in the process of exploring the Tamarack Project 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, 2019, the Company had a working capital deficit of \$0.7 million (December 31, 2018 – \$33.4 million) and shareholders’ equity of \$44.4 million (December 31, 2018 – \$6.6 million). Working capital is defined as current assets less current liabilities. On May 15, 2019, the Company completed a common share private placement, raising gross proceeds of \$1.75 million. See Subsequent Events Note (Note 19) for further information.

These condensed consolidated interim financial statements 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.

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 Note 13(b) “Liquidity Risk” for more information in this regard.

These condensed consolidated interim financial statements do not give effect to any adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), interpretations as issued by the International Accounting Standards Board (“IASB”) and in particular, International Accounting Standard (“IAS”) 34 (Interim Financial Reporting) as issued by the IASB.

These condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors of the Company on May 14, 2019.

Basis of preparation

These condensed consolidated interim financial statements are presented in Canadian dollars. The condensed consolidated interim financial statements are prepared on the historical cost basis, except for portfolio investments and financial instruments that are measured at fair value.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of Talon and its wholly-owned subsidiaries Talon Metals Services Inc, Talon Nickel (USA) LLC, and Talon Ferrous Mineracao Ltda. All intercompany balances and transactions have been eliminated on consolidation.

A subsidiary is an entity that is controlled by the Company. In assessing control, potential voting rights that are presently exercisable or convertible, are taken into account in the assessment of whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Company.

Foreign currencies

Functional and presentation currency

The Canadian dollar is the functional currency and reporting currency of the Company and of all its subsidiaries.

The condensed consolidated interim financial statements are presented in Canadian dollars. Monetary items are translated into Canadian dollars at the rate of exchange in effect at the end of the reporting period. Revenues and expenses are translated into Canadian dollars at the rates of exchange prevailing when the underlying transactions occurred.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit, money market funds and short-term investments with remaining maturities of three months or less at the time of acquisition. At March 31, 2019 and December 31, 2018, the Company held both cash and cash equivalents.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of loss and comprehensive loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company provides for depreciation of its equipment and software at the following annual rates:

Office and equipment	10% to 33% straight-line basis
Software	33% straight-line basis

Resource properties and deferred exploration and evaluation costs

Interests in mineral exploration properties are recorded at cost. Exploration and development expenditures, including an allocation of salaries, benefits and consulting fees, 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 or written down to the net recoverable amount of the deferred exploration expense.

The cost of mineral properties includes the cash consideration paid and the fair 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 condensed consolidated interim 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.

The amounts shown for mineral properties and deferred exploration costs represents cost to date less accumulated impairment, 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.

Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In order to determine fair value, the Company considers multiple valuation approaches, including the income, market and cost approaches. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statements of loss and comprehensive loss for the year.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of loss and comprehensive loss.

Asset retirement obligations

A provision is recognized on the consolidated balance sheets when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company's asset retirement obligations arise from its obligations to undertake site reclamation and remediation in connection with its resource properties. The estimated costs of reclamation are based on current regulatory requirements and the estimated reclamation costs at the date of purchase. Future changes to those regulations and standards, as well as changes resulting from operations may result in actual reclamation costs differing from the estimate.

Deferred taxes

The Company uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using income tax rates in effect for the period in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates or laws is recognized as part of the provision for income taxes in the period the changes are considered substantively enacted.

Deferred tax benefits attributable to these differences, if any, are recognized to the extent that the realization of such benefits is probable.

Financial instruments

Financial assets

Under IFRS 9, financial assets are classified as either financial assets at fair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at fair value through profit or loss ("FVTPL")

Financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income ("FVTOCI"). Gains or losses on these items are recognized in profit or loss.

The Company's cash and cash equivalents are classified as financial assets measured at FVTPL.

ii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the object of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

The Company's accounts and other receivables are classified as financial assets measured at amortized cost.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

The Company's accounts payable, contingencies and unsecured non-convertible promissory note do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

ii. Financial liabilities recorded at fair value through profit or loss ("FVTPL")

Financial liabilities are classified as fair value through profit or loss if they fall into one of the five exemptions detailed above.

The Company's unsecured convertible loan is classified as FVTPL.

Transaction costs

Transaction costs associated with financial instruments, carried at fair value through profit or loss, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's condensed consolidated interim financial statements.

Unsecured convertible loan

In December 2015, the Company issued an unsecured convertible loan (Note 5) which was subsequently

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

increased in January 2017 and repaid in full (through the issuance of common shares) in March 2019. The Company has designated the unsecured convertible loan at fair value through profit and loss. The Company has used estimates in determining the fair value of the unsecured 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, the price of the Company's shares 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 unsecured convertible loan are disclosed in Note 5.

Unsecured non-convertible promissory note

In March 2018, the Company issued an unsecured non-convertible promissory note (Note 6). The unsecured non-convertible promissory note was subsequently repaid in full (through the issuance of common shares) in March 2019. The Company has designated the unsecured convertible loan as other liabilities. Interest is not payable in cash but is accrued based on the interest rate of the promissory note and the period that the promissory note is outstanding.

Stock option compensation

The Company's shareholder-approved stock option plan allows employees, directors and consultants of the Company to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, and includes directors and most consultants of the Company. The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

Comprehensive income

Other comprehensive income is a component of shareholders' equity. Comprehensive earnings are composed of the Company's net earnings and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale financial assets, foreign currency translation on net investments in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes.

The Company does not have any other comprehensive income components and, as such, comprehensive income (loss) is equal to net earnings (loss).

Segment reporting

A segment is a component of the Company that is distinguishable by economic activity (business segment), or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company operates in one business segment, namely, mineral exploration and geographically in the USA and Brazil. Substantially all working capital and investments are held at head office and substantially all equipment is held at head office or in Brazil. The segmentation of resource properties and deferred expenditures by mineral property, and hence by country, are presented in Note 4.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

New accounting standard adopted

IFRS 16 Leases: Effective January 1, 2019, the Company adopted IFRS 16 Leases, which replaced IAS 17 Leases and requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The Company currently has no material outstanding leases and there was no material impact on the condensed consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim 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 unsecured convertible loan.

The uncertainty in regard to 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.

4. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration activities or hold an interest in an exploration project are located in the USA (the Tamarack Project) and Brazil (the Trairão Project). Details of the change for the period ended March 31, 2019 and the year ended December 31, 2018 are as follows:

	December 31, 2017			December 31, 2018			Recovery from	March 31,
	Additions	Write-downs		Additions	Write-down	sale of royalty	2019	
Tamarack Project (a)	\$ 38,893,303	\$ 1,095,129	\$ -	\$ 39,988,432	\$ 12,031,123	\$ -	\$ (4,781,508)	\$ 47,238,047
Trairao Project (b)	-	9,244	(9,244)	-	1,180	(1,180)	-	-
Total	\$ 38,893,303	\$ 1,104,373	\$ (9,244)	\$ 39,988,432	\$ 12,032,303	\$ (1,180)	\$ (4,781,508)	\$ 47,238,047

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties and those which it has an interest in, there is no guarantee that title to any of these mineral 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 or Kennecott (in respect of the Tamarack Project) may be unable to operate their properties as permitted or to enforce their rights with respect to its properties. In regard to the Trairão Project, the material licenses

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

have reached the end of their validity and the Company has submitted a final exploration report to the Departamento Nacional de Produção Mineral ("DNPM") in respect of these licenses. In 2013, the Company was granted a suspension of the DNPM's review and approval of the final exploration report (called 'sobrestamento') which lasted for a period of three years. Prior to the expiry of the three-year period, the Company submitted another request for sobrestamento and the Company is awaiting a decision by the DNPM on such request.

(a) Tamarack Project

On June 25, 2014, Talon's wholly owned indirect subsidiary, Talon Nickel, entered into the Tamarack Earn-in Agreement with Kennecott, pursuant to which Talon Nickel received the right to acquire an interest in the Tamarack Project.

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 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 had agreed to make certain land option payments on behalf of Kennecott, which were 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 amended the Tamarack Earn-in Agreement to defer the second year option payment in the amount of \$2.5 million from June 25, 2015 to December 21, 2015 (the "Deferred Option Payment") and delay further cash calls from being made by Kennecott until October 1, 2015. The Deferred Option Payment was recognized as a liability on June 25, 2015 and subsequently extinguished on December 29, 2015 as part of the Debt Settlement Agreement (Note 5). The extinguishment was applied against the resource properties and deferred expenditures balance, which was where the Deferred Option Payment had been previously capitalized.

On November 25, 2015, Kennecott and Talon Nickel entered into a further agreement to amend the Tamarack Earn-in Agreement, to provide, among other things:

- that upon receipt by Kennecott from Talon of US\$15 million (which is in addition to previous amounts paid to Kennecott of US\$10.52 million), Talon will earn an 18.45% interest in the Tamarack Project and Talon will have no further funding requirements to earn its interest in the Tamarack Project;
- once Kennecott has spent the funds advanced by Talon on exploration activities in respect of the Tamarack Project, subject to certain self-funding rights by Kennecott during the earn-in 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 owning an 18.45% participating interest (the "Tamarack Joint Venture"); or (b) grant Talon the right to purchase Kennecott's interest in the Tamarack Project for a total purchase price of US\$114 million (the "Purchase Option"). In the event Kennecott grants Talon the Purchase Option, and Talon elects to proceed with the Purchase Option, Talon 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.

On January 4, 2016, Talon Nickel made the US\$15 million payment to Kennecott to earn an 18.45% interest in the Tamarack Project. There are no further amounts required to be paid to earn the 18.45% interest.

The total amount paid to Kennecott to earn the 18.45% interest was US\$25.52 million.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

On December 16, 2016, Talon Nickel and Kennecott entered into a further agreement to amend the Tamarack Earn-in Agreement pursuant to which 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. In addition, Talon Nickel and Kennecott agreed that Kennecott may elect at any time up to and including September 25, 2017 to grant Talon Nickel the Purchase Option or proceed with the Tamarack Joint Venture in respect of the Tamarack Project. On the same date, Talon entered into an amendment to the RCF Loan (defined below) as explained in Note 5.

Throughout 2017, Talon Nickel paid an additional US\$717,347 to Kennecott pursuant to the Tamarack Earn-in Agreement (as amended).

On September 25, 2017, 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). Pursuant to the Tamarack Earn-in Agreement, Talon Nickel had until November 6, 2017 to advise Kennecott as to whether or not it would exercise the Tamarack Purchase Option. Effective November 1, 2017, Kennecott agreed to grant Talon Nickel an extension until December 31, 2017 to make its election as to whether it would exercise the Tamarack Purchase Option. In return for the granting of such extension by Kennecott, Talon Nickel agreed to grant Kennecott a 0.5% NSR in the event Talon Nickel exercises the Tamarack Purchase Option.

On November 16, 2017, Talon Nickel elected not to exercise the Tamarack Purchase Option.

On January 11, 2018, Talon Nickel and Kennecott entered into the Mining Venture Agreement. Pursuant to the Mining Venture Agreement:

- Kennecott was appointed “Manager” of the Tamarack Project, with a number of explicit duties and obligations as detailed under the terms of the Mining Venture Agreement.
- Talon Nickel and Kennecott agreed to establish a management committee to determine overall policies, objectives, procedures, methods and actions under the Mining Venture Agreement, and to provide general oversight and direction to the Manager who was vested with full power and authority to carry out the day-to-day management under the Mining Venture Agreement. The Management Committee consisted of two members appointed by Talon Nickel and two members appointed by Kennecott.
- Beginning with the first program and budget under the Mining Venture Agreement, each proposed program and budget had to provide for an annual expenditure of at least US\$6.15 million until the completion of a Feasibility Study (as defined under the Mining Venture Agreement). The failure of either party to fund its share of each proposed program and budget would have resulted in dilution (and in certain circumstances accelerated dilution) in accordance with the terms of the Mining Venture Agreement.
- In the event either party’s participating interest in the Tamarack Project diluted below 10%, such party’s interest would have been converted into a 1% Net Smelter Returns Royalty (as defined under the Mining Venture Agreement);
- In the event of a proposed transfer of either party’s interest in the Tamarack Project to a third party, the non-transferring party had a right of first refusal. In the event the non-transferring party elected not to exercise its right of first refusal, the non-transferring party had a tag-along right, while the transferring party had a drag-along right.

Talon elected to not participate in the 2018 exploration program. Consequently, Talon Nickel’s interest in the Tamarack Project, as of December 31, 2018, had been diluted to 17.56%.

On November 7, 2018, Talon Nickel entered into an option agreement (the “2018 Option Agreement”) with Kennecott pursuant to which Talon Nickel has the right to acquire up to a 60% interest in the Tamarack

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

Project. Pursuant to the terms of the 2018 Option Agreement, Talon Nickel will take over operatorship of the Tamarack Project and have the right to acquire a 51% interest in the Tamarack Project (for clarity which is an additional 33.46% to its current ownership interest of 17.56%) upon (i) the payment of US\$6 million in cash to Kennecott (paid on March 13, 2019), which is due on the effective date of the 2018 Option Agreement (the “Initial Payment”); (ii) the issuance of US\$1.5 million worth of common shares of the Company to Kennecott (issued on March 7, 2019); (iii) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel either spending US\$10 million or completing a prefeasibility study on the Tamarack Project; and (iv) within 3 years of the effective date of the 2018 Option Agreement, 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% on satisfaction of certain conditions. Upon Talon Nickel vesting with its applicable joint venture interest in the Tamarack Project, the parties will 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 will be required to fund the Tamarack Project in accordance with their respective ownership interests or be diluted.

On March 7, 2019, the Company issued US\$1.5 million worth of common shares of the Company to Kennecott. The 2018 Option Agreement became effective on March 13, 2019 when the Company paid the Initial Payment to Kennecott.

On March 7, 2019, Talon Nickel sold a royalty and warrants for gross proceeds of US\$5 million or C\$6.7 million (see Note 7), of which the majority (C\$5.4 million) was allocated to the royalty component which was accounted for as a reduction to resource properties and deferred expenditures. Financing expenses of \$0.6 million associated with the royalty component of the transaction were also capitalized to resource properties and deferred expenditures.

(b) Trairão Project

On September 29, 2010, Talon announced that it had acquired 100% of the rights to the Trairão Project and the Inajá South Project in Pará State, Brazil, through concluding two separate agreements with Codelco do Brasil Mineração Ltda. (“Codelco”) and Barrick International (Barbados) Corp. (“Barrick Barbados”).

Under the agreement with Codelco, Talon paid Codelco a nominal purchase price and will pay a royalty of US\$0.7005 per tonne of iron mined and sold.

Under the agreement with Barrick Barbados, Talon paid Barrick Barbados a nominal purchase price and is obliged to pay certain production related royalties, at varying levels in respect of specific metals. In the case of the Trairão Project, the royalty payable is US\$0.2995 per tonne of iron mined and sold. However, Talon has the right to buy back this royalty for US\$599,000 during the 12-month period following the start of commercial production.

On December 31, 2015, the Company determined that the carrying value of the property would not be recoverable and wrote off the carrying value of the property in full. The determination was made taking into consideration the deterioration in projected future iron ore prices, the closing of a local off-taker, the poor and declining condition of roads with little prospect of improvement and the poor general market conditions. The fair value measurement falls within a Level 3 estimate under IFRS.

5. UNSECURED CONVERTIBLE LOAN FROM RESOURCE CAPITAL FUND VI L.P. (RCF 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.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

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 11,540,833 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 “Unsecured Convertible Loan” or “RCF Loan”, and the agreement governing the RCF Loan, the “RCF Loan Agreement”). The RCF Loan would have matured 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 had an interest rate of 12% per annum. All interest accrued, compounded quarterly and would have become payable on the Maturity Date. The Company had the 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 could 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 would have been 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 was in effect or while RCF and its affiliates, on a partially diluted basis, held common shares of the Company equal to or exceeding 10% of all common shares issued and outstanding, RCF had 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 could 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 remained outstanding under the RCF Loan Agreement, or (b) RCF and its affiliates, on a partially diluted basis, held common shares of the Company equal to or exceeding 10% of all common shares of the Company issued and outstanding, RCF had the right to nominate one individual to serve on the Company’s board of directors.
- A number of events constituted 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 would have become due and payable and interest would accrue at the default interest rate of 17% per annum.
- The Company was required to 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.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

The Unsecured Convertible Loan was denominated in US dollars and convertible into common shares based on the principal and interest balance translated to Canadian dollars. Management has determined that the Unsecured Convertible 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 criteria and therefore represents a derivative liability. In accordance with IFRS 9, the Company designated the entire Unsecured Convertible Loan at fair value through profit or loss. The Unsecured 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.

The total expenses associated with the RCF Financing totalled \$635,996, with \$593,596 allocated to the loan component and \$42,400 allocated to the common shares component.

Increase to RCF Loan

On December 16, 2016, the Company 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 is exercisable for one common share in the Company at an exercise price of \$0.11 up to January 18, 2021 (Note 7(b)).

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 total cash expenses associated with the increase to the RCF Loan totalled \$137,052, allocated \$113,491 to the loan component and \$23,561 to the warrant component.

Extension of the Maturity Date

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. All other terms and conditions of the RCF Loan remained in full force and effect.

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.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

Fair value determination

The fair value of the Unsecured Convertible Loan, including the increase thereto, 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 Unsecured Convertible Loan at March 6, 2019 (the day before repayment) and December 31, 2018:

	Mar 6, 2019	Dec 31, 2018
Risk-free interest rate	1.63%	1.64%
Expected volatility	60%	60%
Talon share price	\$ 0.090	\$ 0.075
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	1.3420	1.3642

Sensitivity analysis: As at March 6, 2019, the value of the Unsecured Convertible Loan, including the increase thereto, assuming different share prices (given share price is the most critical input variable) as at the end of the current reporting period is as follows:

Valuation date share price	\$ 0.06	\$ 0.080	\$ 0.10	\$ 0.156
Fair value of Unsecured Convertible Loan				
In US dollars millions	\$ 23.91	23.91	23.91	23.91
In Canadian dollars millions	\$ 32.09	32.09	32.09	32.09

Repayment by issuing common shares

On November 7, 2018, the Company announced that it had entered into amending agreements in connection with its existing debt facilities with RCF. 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 at \$0.156 in respect of the interest component, with interest calculated to November 7, 2018, of the RCF Loan (the "Amended Convertible Loan"). The Amended Convertible Loan and the conversion thereof was to become effective immediately following the Initial Payment by Talon Nickel in accordance with the terms of the 2018 Option Agreement, 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 above agreements were amended, and the Company completed a private placement common share offering and a royalty financing. See Notes 7 and 9 for further information. RCF agreed to convert the outstanding principal and interest of the RCF Loan at the conversion price of C\$0.156. In connection therewith, RCF was issued 196,776,515 common shares (which used an agreed exchange rate of C\$1.3350 = US\$1 and accrued interest to March 6, 2019). The RCF Loan and the conversion of principal and interest at the conversion price of C\$0.156 was previously approved by shareholders in December 2015 and then again, as amended, in January 2017. 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 C\$0.156.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

A continuity schedule reconciling the change in fair value of the Unsecured Convertible Loan follows:

	Period ended March 31, 2019		Year ended December 31, 2018	
	USD	CAD	USD	CAD
Fair value - beginning of year	\$ 23,145,476	\$ 31,575,058	\$ 18,456,720	\$ 23,153,956
Interest expense	480,667	637,556	2,508,233	3,250,879
Fair value adjustment	285,800	(122,787)	2,180,523	5,170,223
Increase	766,467	514,769	4,688,756	8,421,102
Fair value as of March 6, 2019	23,911,943	32,089,828		
Repayment in shares and residual fair value	(23,911,943)	(32,089,828)		
Fair value - end of year or period	\$ -	\$ -	\$ 23,145,476	\$ 31,575,058

The repayment in shares and residual fair value was credited to common shares issued in the Statement of Changes in Equity.

As at March 6, 2019, the principal plus accrued interest of the Unsecured Convertible Loan was US\$22.994 million or \$30.697 million (December 31, 2018 - US\$22.49 million or \$30.68 million).

As of March 7, 2019, the Company no longer had any debt outstanding to RCF, nor any remaining obligations under the RCF Loan Agreement.

6. UNSECURED NON-CONVERTIBLE PROMISSORY NOTE FROM RCF (RCF PROMISSORY NOTE)

On March 29, 2018, the Company entered into an unsecured non-convertible promissory note in the amount of US\$1,000,000 (the "RCF Promissory Note") with RCF. The proceeds of the RCF Promissory Note were received on April 3, 2018. The interest rate was 12% per annum. All interest accrued, compounded quarterly and became payable at maturity. The RCF Promissory Note was scheduled to mature on November 25, 2018, however, it was extended to April 2, 2019 as a result of an agreement dated June 25, 2018 between the Company and RCF that became effective on July 26, 2018.

Direct expenses of \$36,653 associated with the RCF Promissory Note were netted against the proceeds of the RCF Promissory Note and are being amortized to expense over the life of the loan. The RCF Promissory Note is being accounted for using the amortized cost method with compound interest accrued for each quarter.

As at December 31, 2018, the Amended Promissory Note was not convertible into common shares of the Company.

As at March 6, 2019, the principal plus accrued interest of the RCF Promissory Note was US\$1.12 million or \$1.49 million (December 31, 2018 - US\$1.09 million or \$1.49 million).

Repayment by issuing common shares

On November 7, 2018, the Company announced that the RCF Promissory Note was to be amended to provide for its conversion at a price of \$0.10 per share for all outstanding principal and interest, with interest calculated to November 7, 2018 (the "Amended Promissory Note"). The Amended Promissory Note (and the conversion thereof) was to become effective immediately following the Initial Payment by Talon Nickel in accordance with the terms of the 2018 Option Agreement, 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.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

On March 7, 2019, the conversion price of the Amended Promissory Note was further amended such that the Company repaid the RCF Promissory Note in full by delivering common shares of Talon at a conversion price of C\$0.0826, which was based on the 5-day volume weighted average price based on the rules of the Toronto Stock Exchange. In connection therewith, RCF was issued 18,043,542 common shares in the capital of Talon (which used an agreed exchange rate of C\$1.3350 = US\$1 and accrued interest to March 6, 2019).

Taking into account the value of the RCF Promissory Note as of March 6, 2019, the day before the repayment of the RCF Promissory Note, and the number of shares issued at a price of C\$0.08 per share based on the price of the contemporaneously completed private placement (See Note 9), a gain of \$54,728 was recognized.

7. 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 ("the Royalty Put Option"). The Royalty Put 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 gross 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
Royalty	\$ 4,035,969	5,430,397
Royalty Put Option	819,196	1,102,228
Royalty Warrants	144,835	194,875
	<u>\$ 5,000,000</u>	<u>6,727,500</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 option will be exercised of 10%. The Royalty Warrants were valued using the Black-Scholes model using the following

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

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 included \$192,707 related to the issuance of the Royalty Broker Warrants. The Royalty Broker 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%. The financing costs 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, 2019, the Royalty Put Option was revalued using the methodology discussed above with the following estimates: a risk-free discount rate of 1.54% and a probability that the option will be exercised of 10%.

8. ASSET RETIREMENT OBLIGATION

The Company has legal and contractual environmental obligations to provide for the retirement of its mining assets, to return all sites to their approximate initial state and to ensure that there is no significant source of environmental contamination or danger to human beings, wildlife and fish species. Although the ultimate expected cost of the asset retirement obligation is uncertain, it has been estimated based on information currently available, including environmental remediation plans and regulatory requirements.

Any estimation change during the period or year is capitalized to resource properties and deferred expenditures (Note 4). The Company expenses accretion.

As of March 31, 2019, the Company estimated the asset retirement obligation to be \$991,447 (December 31, 2018 – nil). Key assumptions include total undiscounted expected costs of \$999,552, inflation of 2% and a discount rate of 2.22% based on the yield on U.S. government bonds with a similar term to maturity of the total expected costs. For the three months ended March 31, 2019, interest rate accretion of \$105 was recognized. The obligation is expected to be paid primarily over the years 2020 to 2026.

9. SHARE CAPITAL AND OTHER EQUITY

(a) Authorized, issued and outstanding common shares

Authorized – 100,000,000,000 common shares, no par value.

Issued and outstanding – 408,871,508 at March 31, 2019 and 129,645,201 at December 31, 2018.

Common share private placement

On March 7, 2019, the Company completed a private placement of 39,375,000 common shares at a price of C\$0.08 per share for aggregate gross proceeds of C\$3.15 million.

In connection with the private placement, the Company issued 1,500,000 broker warrants (“March Broker Warrants”) with an exercise price of C\$0.0826 and expiration date of March 7, 2022.

Shares issued to RCF

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

In connection with the repayment of the RCF Loan and the RCF Promissory Note, on March 7, 2019, the Company issued 196,776,515 common shares at C\$0.156 per common share and 18,043,542 common shares at C\$0.0826 per common share, respectively.

Shares issued to Kennecott

On March 7, 2019, the Company issued 25,031,250 common shares to Kennecott (representing US\$1.5 million worth of common shares at C\$0.08 per common share), which was a requirement under the 2018 Option Agreement.

(b) Warrants

Warrant transactions for the period ended March 31, 2019 and the year ended December 31, 2018 are as follows:

	Period ended March 31, 2019			Year ended December 31, 2018		
	Number of warrants	Exercise price	Fair value	Number of warrants	Exercise price	Fair value
Outstanding – beginning of the year	16,000,000	\$ 0.113	\$ 465,163	16,166,666	\$ 0.11	\$ 467,546
Issued	1,500,000	0.0826	58,463	-	-	-
Issued	4,944,375	0.0826	192,707	-	-	-
Issued	5,000,000	0.0826	194,875	-	-	-
Expired	-	-	-	(166,666)	0.13	(2,383)
Outstanding – end of the year or period	27,444,375	\$ 0.100	\$ 911,208	16,000,000	\$ 0.113	\$ 465,163

As discussed in Note 9(a), the Company issued the March Broker Warrants (1,500,000) as part of the common share private placement completed on March 7, 2019. The March Broker Warrants have a contractual life of 3 years and an exercise price of \$0.0826.

As discussed in Note 7, the Company issued the Royalty Warrants (5,000,000) and the Royalty Broker Warrants (4,944,375) as part of a financing involving the sale of a royalty (completed on March 7, 2019). The Royalty Warrants and the Royalty Broker Warrants have a contractual life of 3 years and an exercise price of \$0.0826.

The March Broker Warrants, the Royalty Warrants and the Royalty Broker 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%.

As at March 31, 2019 and December 31, 2018, warrants outstanding were as follows:

March 31, 2019			December 31, 2018		
Number of warrants	Exercise price	Expiration date	Number of warrants	Exercise price	Expiration date
1,000,000	\$ 0.156	November 25, 2020	1,000,000	\$ 0.156	November 25, 2018
15,000,000	0.11	January 18, 2021	15,000,000	0.11	January 18, 2021
11,444,375	0.0826	March 7, 2022	-	-	-
27,444,375	\$ 0.100		16,000,000	\$ 0.113	

10. STOCK OPTION COMPENSATION – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company. The exercise price of each option is determined by the Board of Directors of Talon but, in any event, is not lower than the closing market price on the TSX

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

on the trading day immediately preceding the date the option is granted. The terms and conditions of the options are determined by the Board of Directors of the Company pursuant to the rules of the Plan. All options are granted for a term not exceeding ten years from the grant date. The total number of options that can be granted is limited to 12.5% of the issued and outstanding share capital of the Company.

A summary of the change in options outstanding during the period ended March 31, 2019 and the year ended December 31, 2018 is as follows:

	Period ended March 31, 2019		Year ended December 31, 2018	
	Number of stock options	Exercise price	Number of stock options	Exercise price
Outstanding – beginning of the year	10,119,350	\$ 0.156	11,319,350	\$ 0.172
Issued	32,467,103	0.095	-	-
Expired	(400,000)	0.156	(200,000)	0.30
Expired			(1,000,000)	0.30
Outstanding – end of the year or period	42,186,453	\$ 0.109	10,119,350	\$ 0.156

1,233,733 of the 42,186,453 options outstanding have been issued outside of the Plan. No options were exercised during the period ended March 31, 2019 and the year ended December 31, 2018.

As at March 31, 2019, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercise price	Exercisable	Exercise price
January 31, 2012	1,966,267	0.156	1,966,267	0.156
January 31, 2012	833,733	0.156	833,733	0.156
April 4, 2012	1,033,940	0.156	1,033,940	0.156
April 25, 2012	376,060	0.156	376,060	0.156
June 15, 2012	400,000	0.156	400,000	0.156
February 20, 2013	100,000	0.156	100,000	0.156
February 28, 2013	100,000	0.156	100,000	0.156
August 1, 2013	350,000	0.156	350,000	0.156
October 1, 2013	500,000	0.156	500,000	0.156
May 28, 2014	300,000	0.156	300,000	0.156
July 2, 2014	1,395,000	0.156	1,395,000	0.156
May 28, 2015	64,350	0.20	64,350	0.20
May 28, 2015	2,000,000	0.156	2,000,000	0.156
April 12, 2016	300,000	0.156	300,000	0.156
March 22, 2019	32,467,103	0.095	32,467,103	0.095
Total / weighted average	42,186,453	\$ 0.109	42,186,453	\$ 0.109

The Company determined the fair value of the stock options issued during the period ended March 31, 2019 and the year ended December 31, 2018 using the Black-Scholes option pricing model using the following assumptions:

	2019	2018
Risk-free interest rate	1.48%	N/A
Expected life	5 years	N/A
Expected volatility	75%	N/A
Dividend yield	0%	N/A

A stock option compensation expense of \$1,890,780 for the three months ended March 31, 2019 (Three month ended March 31, 2018 – \$nil) was recognized in the consolidated statements of loss and

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

comprehensive loss.

11. NET INCOME OR LOSS PER SHARE

(a) Basic

Basic net income and net loss per share has been calculated using the weighted average number of common shares outstanding during the year.

(b) Diluted

Diluted net loss per share has not been presented as it is anti-dilutive.

12. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities, the unsecured convertible loan and the unsecured non-convertible promissory note.

The Company has classified its financial assets and liabilities carried at fair value through profit and loss into the following levels (as discussed in Note 2) as follows:

	<u>Mar 31, 2019</u>	<u>Dec 31, 2018</u>
Level 1		
Cash and cash equivalents	\$ 1,127,059	\$ 222,630
Level 3		
Unsecured Convertible Loan	\$ -	\$ 31,575,058
Royalty put option	1,105,585	-

13. FINANCIAL RISK MANAGEMENT

(a) 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.

(b) Liquidity risk

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.

On March 29, 2018, the Company entered into the RCF Promissory Note with RCF. The RCF Promissory Note was scheduled to mature on November 25, 2018 and carried an interest rate of 12% per annum. The proceeds of the RCF Promissory Note were received on April 3, 2018.

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 (defined above) whereby the maturity date of the RCF Loan was extended from November 25, 2018 to April 2, 2019. In addition, on July 26,

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

2018, the maturity date of the RCF Promissory Note was extended to April 2, 2019.

On March 7, 2019, the Company completed a common share private placement, a royalty financing, the conversion of the RCF Loan into common shares of the Company and the repayment of the RCF Promissory Note by issuing common shares.

As of March 31, 2019, the Company had a cash and cash equivalents balance of \$1.1 million, (December 31, 2018 – \$0.2 million) to settle current liabilities of \$1.9 million (December 31, 2018 - \$33.7 million).

In order to meet future working capital requirements, the Company will need to raise additional capital, 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 future working capital requirements.

(c) 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. As at March 31, 2019 and December 31, 2018, the Company held no investments other than cash and cash equivalents which management considers to not be materially susceptible to market risks.

(d) Foreign exchange risk

The Company is exposed to movements in the United States dollar. Payments made to Kennecott pursuant to the Tamarack Earn-in Conditions were made in United States dollars and any future payments pursuant to the 2018 Option Agreement will be in United States dollars. In addition, the RCF Loan and the RCF Promissory Note were denominated in United States dollars. The Company's exposure to the Brazilian Real is not material.

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, have been repaid, and as such, are no longer outstanding as of March 31, 2019. As of March 31, 2019, Talon is exposed to movements in the United States dollar as a result of the Royalty Put Option discussed in Note 7 and certain accounts payable denominated in United States dollars.

At March 31, 2019, the Company had net monetary liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	\$ (2.00 million)
Brazilian Real	\$ (0.22 million)

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 period ended March 31, 2019 of approximately \$0.11 million.

(e) 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 in regard to its interest income on Treasury Bills and other short-term notes contained within money market funds.

The risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which these investments mature. The investments are typically short-term investments with a term of less than ninety days.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2019 and 2018 (Expressed in Canadian dollars)

As of March 31, 2019, the Company had interest bearing debt of \$nil (December 31, 2018 – \$32.97 million pursuant to the RCF Loan and the RCF Promissory Note).

14. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at March 31, 2019 was \$44.4 million (December 31, 2018 – \$6.6 million). The Company manages its capital structure and attempts to make adjustments to it, in order to have the funds available to support its exploration, development and/or operating activities.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholders' returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing short-term loans or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at December 31, 2018, the Company had outstanding the RCF Loan (Note 5) and the RCF Promissory Note (Note 6).

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the period ended March 31, 2019 and the year ended December 31, 2018.

For further discussion related to Capital Risk Management, see Note 11(b) "Liquidity Risk".

15. 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") are provided by a company owned by a director of Talon (Luis Azevedo). In 2018, the Brazil Services were provided for \$38,000 for the year (the "2018 Brazil Agreement"). For 2019, the Company has not yet entered into an agreement concerning the Brazil Services.

Accounts payable and accrued liabilities at March 31, 2019 include \$2,834 payable to a company controlled by a director of the Company (Luis Azevedo) for services rendered in connection with the sale of a royalty previously held by the Company and the 2018 Brazil Agreement (December 31, 2018 - \$2,904).

The remuneration, including benefits, of directors and officers of the Company for the three months ended March 31, 2019 and 2018 was as follows:

	Three months ended Mar 31,	
	2019	2018
Cash compensation	\$ 45,500	\$ 164,250
Contingent compensation	186,250	-
Stock option compensation	1,729,108	-
Aggregate compensation	<u>\$ 1,960,858</u>	<u>\$ 164,250</u>

Since January 1, 2019, in an effort to help the Company conserve as much cash as possible, the CEO, President and CFO of the Company have agreed to defer their salaries. The specific terms and conditions of such deferral (including the length thereof) are currently under consideration. The deferred salaries (\$186,250) have been recorded herein as Contingent compensation, and subject to the conditions to be agreed upon by the CEO, President and CFO, will eventually be payable.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

Cash compensation and contingent compensation are recorded on the consolidated statements of loss and comprehensive loss in "Salaries, benefits, consulting and Brazil administration" and on the consolidated balance sheets in "Resource properties and deferred expenditures". The amount of cash compensation and contingent compensation that was capitalized to Resource properties and deferred expenditures for the three months ended March 31, 2019 was \$128,160 (2018 – \$127,410).

16. CONTINGENCIES

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable.

The Company has been named a defendant in two legal actions in Brazil, including a labour lawsuit involving a former employee (the Company has appealed the ruling) and a lawsuit related to the termination of a mineral assignment agreement. Legal counsel is of the opinion that some amount of loss is probable and thus a liability of \$221,875 (December 31, 2018 – \$227,373) has been recognized. The change from December 31, 2018 to March 31, 2019 was the result of foreign currency translation from Brazilian Real to Canadian dollars.

As discussed in Note 15, since January 1, 2019, in an effort to help the Company conserve as much cash as possible, the CEO, President and CFO of the Company have agreed to defer their salaries. The specific terms and conditions of such deferral (including length thereof) are currently under consideration. The deferred salaries (\$186,250) have been recorded herein as Contingent compensation, and subject to the conditions to be agreed upon by the CEO, President and CFO, will eventually be payable.

In a further effort to help the Company conserve cash, certain brokers that assisted with the common share financing and royalty financing completed in March 2019 have agreed to defer their cash commissions (a total deferral of \$260,000) until completion of the next financing by the Company.

17. INCOME TAXES

Deferred tax assets have not been recognized in respect of deductible temporary differences of \$16,400,000 (December 31, 2018 - \$16,800,000) which arise from non-capital losses in Brazil (see Note 4(b)). The non-capital losses may be used to offset the Company's taxable income in Brazil. These non-capital losses may be carried forward indefinitely.

Deferred tax assets of \$2,803,000 (December 31, 2018 - \$2,647,000) from US net operating losses have been offset against deferred tax liabilities of \$2,803,000 (2018 - \$2,647,000) on US mineral properties, since the taxes are levied by the same taxation authority and the Company has the legal right and intent to offset.

18. GEOGRAPHIC INFORMATION

Interest income is earned in Canadian dollars. The Company's equipment and mineral properties are in Canada, the USA and Brazil.

Talon Metals Corp.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

19. SUBSEQUENT EVENT

On May 15, 2019, the Company completed a private placement of 20,235,000 common shares at a price of C\$0.0868 per share for aggregate gross proceeds of \$1,756,398. In connection with the private placement, the Company issued 645,660 broker warrants with an exercise price of C\$0.116 and an expiration date of May 15, 2022.