TALON METALS CORP

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2018

Dated: March 28, 2019

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*This Management's Discussion and Analysis ("**MD&A**") of the consolidated financial position for the year ended December 31, 2018, should be read in conjunction with the consolidated financial statements of Talon Metals Corp. ("**Talon**" or the "**Company**") and notes thereto for the year ended December 31, 2018.*

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

FORWARD-LOOKING INFORMATION

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

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

Forward-looking information is subject to significant risks and uncertainties and other factors that could cause the actual results to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the failure of exploration programs to identify mineralization, the failure to establish estimated mineral resources and any reserves; the grade, quality and recovery of mineral resources varying from estimates; risks related to the exploration stage of the Company's properties; the possibility that future exploration results and metallurgical testing will not be consistent with the Company's expectations; changes in nickel, copper and/or PGE prices; 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, 2018, is available on SEDAR *at www.sedar.com.*

GOING CONCERN

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

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

As at December 31, 2018, the Company had a working capital deficit of $33.4 million (December 31, 2017 – $22.9 million) and shareholders' equity of $6.6 million (December 31, 2017 – $16.0 million). Working capital is defined as current assets less current liabilities. On March 7, 2019, the Company completed the Private Placement (defined below), the Triple Flag Royalty (defined below) financing, the conversion of the RCF Loan (defined below) into common shares of the Company and the repayment of the Promissory Note (defined below) by issuing common shares of the Company. Please see *"Subsequent Events and Outlook"* for further information.

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 ANNUAL RESULTS

	Year ended Dec 31, 2018 (audited)	Year ended Dec 31, 2017 (audited)	Year ended Dec 31, 2016 (audited)
Total revenue	$2,996	$4,236	$3,155
Net loss from continuing operations attributable to Talon shareholders	(9,439,195)	(3,153,628)	(1,365,478)
Net loss from continuing operations per share attributable to Talon shareholders – basic and diluted	(0.07)	(0.02)	(0.01)
Total assets	40,262,356	39,645,792	37,910,395
Total non-current financial liabilities	-	-	18,620,651
Dividends	-	-	-

REVIEW OF ANNUAL 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 years ended December 31, 2018 and 2017 were immaterial.

Expenses

Salaries, benefits, consulting and Brazil administration fees remained relatively constant at $385,322 for the year ended December 31, 2018, compared to $379,939 for the year ended December 31, 2017.

Over the past few years the Company has undertaken a number of salary 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 increased from $100,296 for the year ended December 31, 2017 to $227,866 for the year ended December 31, 2018. The increase was the result of increased legal costs related to the 2018 Option Agreement (defined below) announced in November 2018 and the Company's pursuit of various financing options. As part of ongoing cost-cutting measures, the Company continues to perform legal and tax work in-house whenever possible.

Office and general expenses increased from $50,334 for the year ended December 31, 2017 to $67,913 for the year ended December 31, 2018. The increase was primarily the result of costs associated with the creation of a new website, exhibiting at the Prospectors and Developers Association of Canada (PDAC) convention and the payment of certain membership dues.

Insurance decreased from $82,907 for the year ended December 31, 2017 to $65,987 for the year ended December 31, 2018 because of a delay in obtaining certain insurance in 2016 that resulted in the 2017 expense being higher than it otherwise would have been.

Travel increased significantly from effectively $nil for the year ended December 31, 2017 to $14,466 for the year ended December 31, 2018 in connection with travel relating to the negotiation of the 2018 Option Agreement (defined below) and road shows in pursuit of various financing options.

Listing, filing and shareholder communications expenses remained relatively constant for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Stock option compensation expense was $nil for the year ended December 31, 2018 and 2017. No stock option compensation expense was recognized during recent periods because no options were granted during 2017 or 2018, and no options subject to a vesting schedule impacted the expense in either year.

RCF Unsecured Convertible Loan

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

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

- RCF provided the Company with US$15 million, as follows: (a) US$1 million via a private placement subscription for common shares in the capital of the Company at a subscription price of C$0.12 per common share (the "**RCF Private Placement**"), and (b) US$14 million via an unsecured convertible loan (the "**RCF Loan**", and the agreement governing the RCF Loan, the "**RCF Loan Agreement**"). The RCF Loan was to mature on the maturity date (the "**Maturity Date**") being the earlier of: (i) November 25, 2018; and (ii) the date upon which RCF elected to accelerate the due date upon the occurrence of certain events, including an event of default.

- The RCF Loan had an interest rate of 12% per annum. All interest accrued and became payable on the Maturity Date. The Company had a right to prepay the RCF Loan (including, accrued interest), in full or in part, only with the prior approval of RCF.

- Under the terms of the RCF Loan, RCF had the right to elect to convert all or part of the principal amount of the RCF Loan (including all capitalized interest) into common shares of the Company at any time at a conversion price of $0.156 per common share (the "**Conversion Price**"), representing a 30% premium to the RCF Subscription Price. Interest that had not been capitalized was to be converted at a price equal to the volume weighted average trading price for the five trading days prior to the conversion. Any amount converted pursuant to RCF's conversion right was to be converted from United States dollars into Canadian dollars based on the currency exchange rate as reported by Bloomberg as of 5:00 p.m. (EST) on the first business day preceding the conversion date.

- For as long as the RCF Loan Agreement was 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 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 was entitled to 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 was to become due and payable and interest was to 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.

RCF Unsecured Convertible Loan Amendments

On December 16, 2016, Talon entered into an amending agreement (the "**RCF Loan First Amending Agreement**") with RCF to amend the RCF Loan Agreement. Pursuant to the terms of the RCF Loan First Amending Agreement, RCF agreed to increase the principal amount of the RCF Loan by US$2,000,000 (from US$14,000,000 to US$16,000,000) to be provided, subject to certain closing conditions, including the receipt of shareholder approval, in a second advance on substantially the same terms as the RCF Loan.

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

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

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

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

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

The fair value of the RCF Loan was 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 December 31, 2018 and December 31, 2017:

	Dec 31, 2018	Dec 31, 2017
Risk-free interest rate	1.64%	1.50%
Expected volatility	60%	60%
Talon share price	$ 0.075	$ 0.060
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	1.3642	1.2545

Sensitivity analysis: As at December 31, 2018, 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 was as follows:

Valuation date share price		**$ 0.06**	**$ 0.075**	**$ 0.10**	**$ 0.156**
Fair value of Unsecured Convertible Loan					
In US dollars millions	$	23.13	23.15	23.30	25.87
In Canadian dollars millions	$	31.56	31.58	31.79	35.29

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

	Year ended December 31, 2018		Year ended December 31, 2017	
	USD	**CAD**	**USD**	**CAD**
Fair value - beginnning of year	$ 18,456,720	$ 23,153,956	$ 13,868,065	$ 18,620,651
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	2,508,233	3,250,879	2,216,881	2,877,382
Fair value adjustment	2,180,523	5,170,223	802,246	(400,002)
Increase (decrease)	4,688,756	8,421,102	4,588,655	4,533,305
Fair value - end of period or year	$ 23,145,476	$ 31,575,058	$ 18,456,720	$ 23,153,956

The most important input impacting the fair value adjustment is the Company's share price, which increased by 25% from December 31, 2017 to December 31, 2018. The interest expense is the result of additional accrued interest at rate of 12%. The fair value adjustment is the result of accretion at the effective interest rate or yield to maturity noted above of 24.01% in excess of the actual interest rate of 12% and changes in the value of the conversion option.

RCF Unsecured Non-Convertible Promissory Note

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

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

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

On November 7, 2018, the Company entered into amending agreements in connection with the RCF Loan and the Promissory Note. Pursuant to the terms of the amending agreements, the Company agreed to reduce the conversion price under the RCF Loan to $0.10 per share (from $0.156 per share) in respect of the principal component of the RCF Loan and maintain the conversion price at $0.156 in respect of the interest component of the RCF Loan (the "**RCF Loan Third Amending Agreement"**). In addition, the Company and RCF agreed to amend the Promissory Note to provide for its conversion at a price of $0.10 per share for all outstanding principal and interest (the "**Amended Promissory Note**"). The RCF Loan Third Amending Agreement and the Amended Promissory Note (and the conversion of thereof) were to become effective immediately following the Initial Cash Payment (defined below) by Talon Nickel in accordance with the terms of the 2018 Option Agreement (defined below), evidence of US$1.5 million in working capital to advance the Tamarack Project and shareholder approval at a meeting that was to occur in Q1 2019. Up until March 6, 2019 and including December 31, 2018, RCF retained its option to convert the RCF Loan into common shares at the Conversion Price.

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

As of the date hereof, the Company no longer has any debt outstanding to RCF nor any remaining obligations under the RCF Loan Agreement.

Investments and Foreign Exchange

Foreign currency translation resulted in a loss of $39,817 for year ended December 31, 2018 compared to a loss of $5,915 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.

Net Loss

Net loss for the year ended December 31, 2018 was $9.4 million or $0.07 per share (basic and diluted), which was primarily the result of a loss on fair value revaluation of the RCF Loan and administration expenses[1]. This compares to a net loss of $3.2 million or $0.02 per share (basic and diluted) for the year ended December 31, 2017, which was primarily the result of a loss on fair value revaluation of the RCF Loan and administration expenses.

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.

	2018				2017			
	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31
Total revenues	311	857	1,619	209	935	1,535	1,047	719
Net income/(loss) from continuing operations	(3,360,851)	(1,698,064)	(2,401,045)	(1,982,235)	1,187,266	(743,622)	(1,676,223)	(1,921,049)
Net income/(loss) from continuing operations per share – basic and diluted	(0.03)	(0.01)	(0.02)	(0.02)	0.01	(0.01)	(0.01)	(0.01)
Net income/(loss) and comprehensive income/(loss)	(3,360,851)	(1,698,064)	(2,401,045)	(1,982,235)	1,187,266	(743,622)	(1,676,223)	(1,921,049)
Net income/(loss) and comprehensive income/(loss) per share – basic and diluted	(0.03)	(0.01)	(0.02)	(0.02)	0.01	(0.01)	(0.01)	(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 gains/losses on the revaluation to fair value of the RCF Loan (defined below) in accordance with the IFRS fair value standards and foreign currency translation gains/losses.

COMPANY OVERVIEW

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

[1] "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.

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.

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 were payable over the Earn-in Period (and, when payable, were 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 had 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 would have had 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 granted Talon Nickel the Tamarack Purchase Option, and Talon Nickel elected to proceed with the Tamarack Purchase Option, Talon Nickel would have had up to 18 months to close the transaction, provided it made an upfront non-refundable payment of US$14 million; and

- Until Kennecott made its decision as to whether to grant the Company the Tamarack Purchase Option, the Company was responsible for certain costs to keep the Tamarack Project in good standing based on its 18.45% interest. If the Company failed to make any of such payments, its interest in the Tamarack Project will be diluted in accordance with the Tamarack Earn-in Agreement.

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**") to earn 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 a 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
	$ 25,520,800

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 remained unchanged.

On the Kennecott Decision Deadline, Talon Nickel received notification from Kennecott that it had decided to grant Talon Nickel the Tamarack Purchase Option on the terms of the Tamarack Earn-in Agreement (as amended). 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 and Talon Nickel entered into a fourth amending agreement (the "**Tamarack Earn-in Fourth Amending Agreement**") in respect of the Tamarack Earn-in Agreement (as amended), whereby 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, pursuant to the terms of the Tamarack Earn-in Fourth Amending Agreement, Talon Nickel agreed to grant Kennecott a 0.5% NSR in the event Talon Nickel exercised the Tamarack Purchase Option.

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

On January 11, 2018, Talon Nickel and Kennecott entered into a fifth amending agreement (the "**Tamarack Earn-in Fifth Amending Agreement**") in respect of the Tamarack Earn-in Agreement (as amended), pursuant to which they agreed to (i) enter into the Mining Venture Agreement with immediate effect, and (ii) accelerate the timing of the approval process for the 2018 winter exploration program so that the 2018 winter exploration program was approved with immediate effect.

Since the Tamarack Earn-in Fifth Amending Agreement, Talon Nickel has elected to not financially participate in any funding made in respect of the Tamarack Project. This has resulted in dilution of its interest from 18.45% to 17.56%. Going forward, Talon Nickel will be required to fund the Tamarack Project in accordance with the 2018 Option Agreement (defined below).

Tamarack Joint Venture

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

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 established 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 is 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 was 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 result in dilution (and in certain circumstances accelerated dilution) in accordance with the terms of the Mining Venture Agreement.

- In the event that either party's participating interest in the Tamarack Project had 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.

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

2018 Option Agreement

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

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

(1) the payment of US$6 million in cash to Kennecott (the "**Initial Cash Payment**");

(2) the issuance of US$1.5 million worth of common shares of Talon to Kennecott (the "**Share Payment**");

(3) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel either spending US$10 million or completing a pre-feasibility study on the Tamarack Project; and

(4) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel paying Kennecott an additional US$5 million in cash.

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

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

(2) paying Kennecott the additional sum of US$10 million in cash on or before the seventh anniversary of the effective date of the Option Agreement.

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.

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

Tamarack North Project

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

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

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

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

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

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

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

All resources reported at a 0.83% NiEq cut-off.
No modifying factors have been applied to the estimates.
Tonnage estimates are rounded to the nearest 1,000 tonnes.
Metallurgical recovery factored in to the reporting cut-off.
NiEq% = Ni%+ Cu% x $3.00/$8.00 + Co% x $12.00/$8.00 + Pt [g/t]/31.103 x $1,300/$8.00/22.04 + Pd [g/t]/31.103 x $700/$8.00/22.04 + Au [g/t]/31.103 x $1,200/$8.00/22.04

On December 18, 2018, Talon released an initial preliminary economic assessment over a subset of the Resource Estimate within the Tamarack Zone as part of an updated independent technical report prepared in accordance with NI 43-101 in respect of the Tamarack North Project (the "**PEA**"). The PEA is entitled "Preliminary Economic Assessment (PEA) of the Tamarack North Project – Tamarack, Minnesota" with an effective date of December 14, 2018. The Resource Estimate maintains an effective date of February 15, 2018.

The PEA was prepared by independent "Qualified Persons" (as that term is defined in NI 43-101) Leslie Correia (Pr. Eng) of Paterson & Cooke Canada Inc, Silvia Del Carpio (P. Eng., MBA) of

DRA, Tim Fletcher (P. Eng.) of DRA, Daniel Gagnon (P. Eng.) of DRA, Kebreab Habte (P. Eng.) of Golder, Oliver Peters (P. Eng.) of Metpro, Tom Radue (P. Eng.) of Barr Engineering Company and Brian Thomas (P. Geo.) of Golder.

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

Upcoming Work – Tamarack North Project and Tamarack South Project

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

Going forward, the Company's primary objective is to deliver a pre-feasibility study in respect of the Tamarack North Project. The Company plans to conduct the work as outlined in the section titled "Recommendations" of the PEA. The total estimated cost is US$9,392,000.

Qualified Persons

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

The "Qualified Person", as such term is defined in NI 43-101, who is responsible for the Resource Estimate in this MD&A is Mr. Brian Thomas, senior resource geologist at Golder and independent of Talon. Mr. Thomas has reviewed, approved and verified the data disclosed in this MD&A relating to the Resource Estimate including sampling, analytical and test data underlying the Resource Estimate and has visited the site and reviewed and verified the QA/QC procedures used by Kennecott at the Tamarack North Project and found them to be consistent with industry standards.

CAPITAL EXPENDITURES ON EXPLORATION PROJECTS

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

	Dec 31, 2017	2018 Additions	Write-down	Dec 31, 2018
Mineral properties				
Tamarack Project	$38,893,303	1,095,129	-	39,988,532
Trairão Project	-	9,244	(9,244)	-
	$38,893,303	1,104,373	(9,244)	39,988,532

Amounts incurred on the exploration of mineral properties for the year ended December 31, 2018 amounted to $663,404 and is the result of 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 year ended December 31, 2017 amounted to $1.8 million, and was 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).

FINANCIAL INSTRUMENTS

	Dec 31, 2018	Dec 31, 2017
Held for trading, measured at fair value Cash and cash equivalents	$222,630	$700,238
Unsecured convertible loan	$31,575,058	$23,153,956
Held at amortized cost Unsecured non-convertible promissory note	$1,480,601	-

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 December 31, 2018, the Company had a cash and cash equivalents balance of $0.2 million, (December 31, 2017 - $0.7 million) to settle current liabilities of $33.7 million (December 31, 2017 - $23.6 million). On March 7, 2019, the Company completed the Private Placement (defined below), the Triple Flag Royalty (defined below) financing, the conversion of the RCF Loan into common shares of the Company and the repayment of the Promissory Note by issuing common shares of the Company. Please see *"Subsequent Events and Outlook"* for further information.

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

On March 29, 2018, the Company entered into the US$1 million Promissory Note with RCF and the proceeds were received by the Company on April 3, 2018.

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

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

In addition, on July 26, 2018, the maturity date of the Promissory Note was extended to April 2, 2019.

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

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

Market Risk

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

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

As at December 31, 2018 and December 31, 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. Payments made to Kennecott and the majority of costs associated with the operatorship of the Tamarack Project are made in United States dollars. Talon's salaries, consulting and administrative costs are denominated in

Canadian dollars. Talon's financing activities have been in both United States dollars and Canadian dollars. The Company's exposure to the Brazilian Real is not material.

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 December 31, 2018 had a fair value of $31.6 million and the Promissory Note, which at December 31, 2018 had a balance of $1.4 million. Both the RCF Loan and the Promissory Note were set to mature on April 2, 2019, but were converted into common shares of the Company on March 7, 2019.

At December 31, 2018, the Company had net monetary liabilities in foreign currencies, as follows (Canadian dollar equivalent):

United States dollars	$(33.00) million
Brazilian real	$ (0.22) million

If foreign exchange rates changed by 5% on the last day of the year with all other facts/assumptions held constant, there would be a change in the net loss of the Company for the year ended December 31, 2018 of approximately $1.7 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 December 31, 2018, the Company had interest bearing debt of $33.1 million pursuant to the RCF Loan and the Promissory Note. Interest rate risk on the Company's debt was mitigated by the fixed interest rate of 12% and relatively short term to maturity (approximately 0.3 years) of both the RCF Loan and the Promissory Note. As of the date hereof, the Company no longer has interest bearing debt (see *"Review of Annual Results - Conversion of the RCF Unsecured Convertible Loan and the RCF Unsecured Non-Convertible Promissory Note"*).

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

Fair Value Hierarchy

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

The Company has classified its financial assets and liabilities as follows at December 31, 2018:

Level 1	
Cash and cash equivalents	$222,630
Level 3	
RCF Loan	$31,575,058

FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

	Year ended Dec 31, 2018	**Year ended Dec 31, 2017**
Operating activities	$(617,782)	$(728,094)
Investing activities	(1,104,373)	(1,845,724)
Financing activities	1,244,547	2,597,514
Increase (decrease) in cash & cash equivalents	(477,608)	23,696
Beginning cash & cash equivalents	700,238	676,542
Ending cash & cash equivalents	$222.630	$700,238

Operating Activities

Operating activities for the year ended December 31, 2018 consumed $0.6 million of cash primarily due to net operating expenses. This compares to $0.7 million used in the same period of last year which was also primarily due to net operating expenses. See *"Review of Annual Results*" for a discussion of operating expenses.

Investing Activities

Investing activities for the year ended December 31, 2018 consumed $1.1 million compared to $1.8 million in the same period in the prior year. In both cases, it was due to capitalized exploration costs, with the amount in 2017 including US$604,000 in payments made to Kennecott pursuant to the Tamarack Earn-in Agreement (as amended).

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 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.

On March 29, 2018, the Company entered into the US$1 million Promissory Note with RCF and the proceeds were received by the Company on April 3, 2018.

Subsequent to December 31, 2018, the Company completed a number of financings. See *"Subsequent Events and Outlook"* for further information.

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

Liquidity and Capital Resources

On 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.

On March 29, 2018, the Company entered into the US$1 million Promissory Note with RCF and the proceeds were received by the Company on April 3, 2018.

On July 26, 2018, the maturity dates of the RCF Loan and the Promissory Note were extended to April 2, 2019.

As of December 31, 2018, the Company had a cash and cash equivalents balance of $0.2 million, (December 31, 2017 - $0.7 million) to settle current liabilities of $33.7 million (December 31, 2017 - $23.6 million).

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

Subsequent to December 31, 2018, the Company completed a number of financings. See *"Subsequent Events and Outlook"* for further information.

The Company currently incurs approximately $150,000 per month on salaries, other administrative/overhead costs, certain costs related to the Tamarack Project and costs related to the Trairão Project (collectively, "**Overhead Costs**"). For the ensuing 12 month period (up to March 31, 2020), the Company expects to incur a total of approximately $1.8 million on Overhead Costs, excluding the impact of any additional cost-cutting.

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

Such 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.

As discussed in the section *"Upcoming Work – Tamarack North Project and Tamarack South Project"*, the Company estimates that it will require US$9,392,000 to complete the work outlined in the section titled "Recommendations" of the PEA. Pursuant to the 2018 Option Agreement, the Company has the option to spend US$10 million on the Tamarack Project (or complete a pre-feasibility study on the Tamarack Project) and pay Kennecott US$5 million by March 13, 2022 to earn a 51% interest in the Tamarack Project. If the Company does not do so, the Company will not earn a 51% interest in the Tamarack Project and an amended version of the Mining Venture Agreement will come into force with the Company's current ownership interest of 17.56%, subject to additional dilution as may be applicable.

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

A summary of Contributed Surplus for the period from January 1, 2016 to December 31, 2018 is as follows:

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	499,070
Balance	December 31, 2017	$16,677,534
Warrants	Warrants expired 2018	2,383
Balance	December 31, 2018	$16,679,917

DISCLOSURE OF OUTSTANDING SHARE DATA

The following details the share capital structure of the Company as at March 28, 2019:

	Expiry Date	Exercise Price	Total
Common Shares			408,871,508
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
Stock Options	Mar 22, 2024	$0.095	32,467,102
Warrants	Nov 25, 2020	$0.156	1,000,000
Warrants	Jan 18, 2021	$0.11	15,000,000
Warrants	Mar 7, 2022	$0.0826	6,444,375
Warrants	Mar 7, 2022	$0.0826	5,000,000
Total fully diluted number of shares			478,902,335

As at December 31, 2018, there were 129,645,201 common shares outstanding. On March 7, 2019, the number of common shares outstanding increased to 408,871,508 common shares as the result of: (i) the conversion of all outstanding principal and interest under the RCF Loan and the Promissory Note (see *"Review of Annual Results - Conversion of the RCF Unsecured Convertible Loan and the RCF Unsecured Non-Convertible Promissory Note"*), (ii) the Private Placement (defined below) (see *"Subsequent Events and Outlook*), and (iii) the Share Payment. The RCF Loan was converted at $0.156/share resulting in the issuance of 196,776,515 common shares. The Promissory Note was converted at $0.0826/share resulting in the issuance of 18,043,542 common shares. The Private Placement resulted in the issuance of 39,375,000 common shares at a price of $0.08 per common share for aggregate gross proceeds of $3.15 million. The Share Payment resulted in the issuance of 25,031,250 common shares.

On March 22, 2019, a total of 32,467,102 stock options were issued to members of the board, management, an employee and consultants of the Company. These stock options have an exercise price of $0.095 and are exercisable until March 22, 2024.

The following details the change in stock options outstanding of the Company during the year ended December 31, 2018:

	Options	Weighted Average Exercise Price
Outstanding – beginning of year	11,319,350	$0.172
Granted	-	-
Expired	(200,000)	0.30
Expired	(1,000,000)	0.30
Cancelled	-	-
Outstanding – end of the period	10,119,350	$0.156

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

Estimated fair value of stock options

The Company determined the fair value of the stock options issued during the year ended December 31, 2018 and the year ended December 31, 2017 using the Black-Scholes option pricing model using the following assumptions:

	2018	2017
Risk-free interest rate	N/A	N/A
Expected life	N/A	N/A
Expected volatility	N/A	N/A
Dividend yield	N/A	N/A

For the year ended December 31, 2018, a stock option compensation expense of nil was recognized by the Company, compared to nil 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, 2017 under the heading "Risk Factors" available on SEDAR at www.sedar.com. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. The Company may face additional risks and uncertainties, including, risks and uncertainties that are unknown to the Company or risks and uncertainties that the Company now believes to be unimportant, which could have a material adverse effect on the business of the Company. If any of the risks actually occur, the business, financial condition or results of operations of the Company could be negatively affected.

Triple Flag Royalty Financing

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

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

Nickel's participating interest in the Tamarack Project), which could negatively impact the overall economic viability of the Tamarack Project.

Pursuant to the Royalty Agreement, Talon and its related entities have provided security to the Royalty Holder to support the payment and performance obligations related to the Triple Flag Royalty and the guarantees. In the event Talon Nickel fails to meet such obligations, the Royalty Holder has the right to exercise its security and may, among other things, acquire Talon Nickel's entire interest in the Tamarack Project.

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

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

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 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 placees to purchase any new share issuances at prices which will not lead to severe dilution to existing shareholders, or at all. There can be no assurance that the Company will be successful in raising capital, selling non-core assets and/or cutting sufficient costs to meet the Company's future working capital requirements. If the Company is not successful in doing so (or in doing so sufficiently), it may have a material adverse effect on the Company's business, financial condition and results of operations (including, in certain circumstances, the ability of the Company to continue to operate as a going concern).

Ability to Continue as a Going Concern

The Company believes that it has 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 year ended December 31, 2018 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 December 31, 2019 is dependent on the Company's ability to secure additional financing, sell non-core assets and/or reduce its working capital requirements.

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.

2018 Option Agreement

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

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

Exploration, Development and Operating Risks

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Actual exploration, development and/or other costs and economic returns may differ significantly from those the Company has anticipated. It is impossible to ensure that the exploration programs planned by Talon 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. 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 they may relate 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

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

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

Changes in the Price of Nickel

The ability to develop the Tamarack Project is directly related to the market price of nickel. Nickel is sold in an active global market and traded on commodity exchanges, such as the LME and the

New York Mercantile Exchange. Nickel prices are subject to significant fluctuations and are affected by many factors, including actual and expected macroeconomic and political conditions, levels of supply and demand, the availability and costs of substitutes, input costs, foreign exchange rates, inventory levels, investments by commodity funds and other actions of participants in the commodity markets. Nickel prices have fluctuated widely, particularly in recent years. Consequently, the economic viability of the Tamarack Project cannot be accurately predicted and may be adversely affected by fluctuations in nickel prices.

Uncertainty Relating to Inferred and Indicated Mineral Resources

There is a risk that the inferred and indicated mineral resources currently reported for the Tamarack Project cannot be converted into mineral reserves as the ability to assess geological continuity is not sufficient to demonstrate economic viability. Due to the uncertainty that may attach to inferred and indicated mineral resources, there is no assurance that inferred and indicated mineral resources will be upgraded to resources with sufficient geological continuity to constitute proven and probable mineral reserves as a result of continued exploration.

Governmental Regulation; Environmental Risks and Hazards

The mineral exploration activities of the Company 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, including any limitation, or prohibition, on sulphide mining, or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Company's properties. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of the Company's existing and/or new properties.

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

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

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

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations, including approvals that may be required for the Company to act as operator in respect of the Tamarack Project while the Tamarack Project exploration leases are in the name of Kennecott. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned exploration or development of its properties, including the Tamarack Project.

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

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

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

Land Title

With respect to the Tamarack Project, the mineral and surface interests are held in Kennecott's name through various Minnesota state leases, private agreements and fee ownership. 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. 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.

Insurance and Uninsured Risks

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

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

Political, Judicial, Administrative, Taxation or Other Regulatory Factors

Talon may be adversely affected by changes in political, judicial, administrative, taxation or other regulatory factors in the areas in which Talon operates and/or holds interests. Such changes could have a material adverse effect on the Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, or abandonment or delays in development of the Company's existing and/or new properties, including impacting decisions to continue with the funding of the Tamarack Project.

RELATED PARTY TRANSACTIONS AND BALANCES

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

Certain of Talon's accounting, legal and general administrative functions in Brazil (the "**Brazil Services**") are provided by a company owned by a director of Talon (Luis Azevedo). In 2017, the Brazil Services were provided for $43,000 for the year (the "**2017 Brazil Agreement**") while in

2018 the Brazil Services will be provided for approximately $38,000 (the "**2018 Brazil Agreement**").

Accounts payable and accrued liabilities at December 31, 2018 include $2,904 payable to a company owned 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, 2017 - $3,030).

The remuneration of directors and officers of the Company for the years ended December 31, 2018 and 2017 was as follows:

	Year ended Dec 31, 2018	**Year ended Dec 31, 2017**
Cash Compensation	869,000	$665,583
Stock Option Compensation	-	-
Aggregate Compensation	869,000	$665,583

The increase in cash compensation for the year ended December 31, 2018 compared to the prior year was primarily due to the President of the Company rejoining the Company on a full-time basis.

No stock options were issued during the years ended December 31, 2018 and 2017.

On March 22, 2019, 29,690,989 stock options were issued to members of the board and management of the Company (a total of 32,467,102 stock options were issued on that date which, in addition to issuances to members of the board and management, also included issuances to an employee of the Company and consultants to the Company).

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 regard 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 6 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

The CEO and the CFO, with the assistance of management, have conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2018. Based on the evaluation, the CEO and the CFO have concluded that as at December 31, 2018, the Company's internal control over financial reporting is effective, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework.

No changes were made to the Company's internal control over financial reporting during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

SUBSEQUENT EVENTS AND OUTLOOK

On March 7, 2019, pursuant to a royalty agreement (the "**Royalty Agreement**"), 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 million. The Company, together with its subsidiaries, Cloudmine Holdings Limited and Talon Metals (USA) Inc., 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 "**Triple Flag Royalty**").

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 Triple Flag Royalty for a cash payment of US$8.6 million (the "**Put Right**"). This option may be accelerated in a number of circumstances, including upon an event of default as defined under the Royalty Agreement. In the event the Royalty Holder does not exercise the one-time put right, Talon Nickel has a one-time option to reduce the percentage of the Triple Flag 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 Triple Flag Royalty and the guarantees. In connection with the Royalty Agreement, Talon issued the Royalty Holder 5,000,000 common share purchase warrants each exercisable to acquire one common share in the capital of the Company until March 7, 2022 at an exercise price of $0.0826 per share.

Concurrently with the entering into of the Royalty Agreement, the Company completed a private placement offering of 39,375,000 common shares in the capital of the Company at a price of C$0.08 per common share for aggregate gross proceeds of C$3.15 million (the "**Private Placement**").

The proceeds received by the Company from the Royalty Agreement and some of the proceeds from the Private Placement were used by the Company to make the Initial Cash Payment due under the 2018 Option Agreement on March 13, 2019. Talon also issued 25,031,250 common shares to Kennecott (representing US$1.5 million worth of common shares at C$0.08 per share), which was a further requirement under the 2018 Option Agreement. Pursuant to the 2018 Option Agreement, Talon has the right to acquire up to a 60% interest in the Tamarack Project.

Going forward, the Company's primary objective is to deliver a pre-feasibility study in respect of the Tamarack North Project. The Company plans to conduct the work as outlined in the section titled "Recommendations" of the PEA. The total estimated cost is US$9,392,000.