



## **TALON METALS CORP.**

### **Condensed Interim Consolidated Financial Statements**

**For the three months ended June 30, 2020 and 2019**

*(Expressed in Canadian dollars)*

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

**Talon Metals Corp.**  
**Condensed Interim Consolidated Statements of Financial Position**

(Expressed in Canadian dollars)

(Unaudited)

|  | Notes        | June 30,<br>2020     | December 31,<br>2019 |
|--|--------------|----------------------|----------------------|
| <b>Assets</b>  |              |                      |                      |
| <b>Current assets</b>  |              |                      |                      |
| Cash and cash equivalents                                      |              | \$ 5,280,169         | \$ 7,270,711         |
| Prepayments  |              | 57,541               | 32,429               |
| Deferred financing costs                                       |              | 378,759              | 58,527               |
| Accounts and other receivables                                 |              | 17,525               | 2,033                |
|  |              | <u>5,733,994</u>     | <u>7,363,700</u>     |
| <b>Non-current assets</b>                                      |              |                      |                      |
| Equipment and software   |              | -                    | 7,991                |
| Resource properties and deferred expenditures                  | 4, 7, 10, 15 | 59,684,904           | 51,843,327           |
|  |              | <u>\$ 65,418,898</u> | <u>\$ 59,215,018</u> |
| <b>Liabilities</b>   |              |                      |                      |
| <b>Current liabilities</b>                                     |              |                      |                      |
| Accounts payable and accrued liabilities                       | 15           | \$ 298,454           | \$ 772,530           |
| Accounts payable - board fees                                  | 15           | 319,221              | 368,471              |
| Contingencies  | 16           | 103,242              | 133,591              |
| Deferred payments to joint venture partner - exploration costs | 17           | 880,434              | -                    |
|  |              | <u>1,601,351</u>     | <u>1,274,592</u>     |
| Royalty put option   | 7            | 1,168,855            | 971,234              |
| Asset retirement obligation                                    | 8            | 1,198,415            | 1,122,648            |
|  |              | <u>\$ 3,968,621</u>  | <u>\$ 3,368,474</u>  |
| <b>Shareholders' equity</b>                                    |              |                      |                      |
| Share capital  | 9a           | \$ 133,727,053       | \$ 129,971,715       |
| Warrants   | 9b           | 1,234,978            | 1,188,498            |
| Contributed surplus  |              | 20,184,364           | 20,051,418           |
| Accumulated other comprehensive income                         |              | 1,882,071            | (637,575)            |
| Deficit  |              | (95,578,189)         | (94,727,512)         |
|  |              | <u>61,450,277</u>    | <u>55,846,544</u>    |
|  |              | <u>\$ 65,418,898</u> | <u>\$ 59,215,018</u> |

**Nature of Operations and Going Concern - Note 1**

**Subsequent Event - Note 20**

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

Approved by the audit committee of the board of directors on August 14, 2020

Signed:

"Gregory S. Kinross"

"David E. Singer"

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

|   | <b>Notes</b> | <b>Three months<br/>ended<br/>June 30, 2020</b> | <b>Three months<br/>ended<br/>June 30, 2019</b> | <b>Six months<br/>ended<br/>June 30, 2020</b> | <b>Six months<br/>ended<br/>June 30, 2019</b> |
|---|--------------|---|---|---|---|
| <b>Expenses</b>   |              |   |   |   |   |
| Salaries, benefits, consulting and Brazil administration                    | 15, 16       | \$ 177,380                                      | 201,618   | \$ 410,554                                    | \$ 348,475                                    |
| Professional fees   |              | 54,723  | 25,017  | 110,248                                       | 81,392  |
| Office and general  |              | 11,560  | 13,863  | 25,642  | 26,189  |
| Insurance   |              | 19,736  | 18,689  | 34,861  | 33,814  |
| Travel  |              | (5,848)   | 22,781  | 5,470   | 25,657  |
| Marketing   |              | 26,752  | 14,460  | 79,020  | 15,375  |
| Listing, filing and shareholder communications                              |              | 14,234  | 36,247  | 69,805  | 69,561  |
| Contingencies   | 16           | -   | -   | -   | -   |
| Stock option compensation   | 10           | (41,304)  | 546,003   | (41,304)                                      | 2,436,783                                     |
| Depreciation and write-down of equipment and software                       |              | -   | 1,071   | -   | 2,176   |
| Impairment loss on resource properties                                      |              | -   | 1,150   | -   | 2,330   |
| Loss on sale of subsidiary  | 4b           | -   | -   | 3,620   | -   |
| Loss on revaluation of royalty put option                                   | 7            | (4,251)   | (31,150)  | 149,762                                       | (27,793)                                      |
| Financing expenses - royalty put option                                     | 7            | -   | -   | -   | 131,707                                       |
| Loss on revaluation of unsecured convertible loan                           | 5            | -   | -   | -   | 514,768                                       |
| Interest expense and accretion on unsecured non-convertible promissory note | 6            | -   | -   | -   | 31,403  |
| Gain on repayment of unsecured non-convertible promissory note              | 6            | -   | -   | -   | (54,728)                                      |
| Accretion on asset retirement obligation                                    | 8            | 1,893   | 3,894   | 3,825   | 3,999   |
| Foreign currency (gain) loss  |              | 68,669  | (5,202)   | 13,581  | 38,570  |
|   |              | <u>323,544</u>                                  | <u>848,441</u>                                  | <u>865,084</u>                                | <u>3,679,678</u>                              |
| Interest income   |              | 874   | 17  | 14,407  | 717   |
| <b>Net loss</b>   |              | (322,670)                                       | (848,424)                                       | (850,677)                                     | (3,678,961)                                   |
| Other comprehensive income  |              |   |   |   |   |
| Currency translation differences  | 2            | (2,363,328)                                     | -   | 2,519,646                                     | -   |
| <b>Comprehensive income (loss)</b>  |              | <u>\$ (2,685,998)</u>                           | <u>\$ (848,424)</u>                             | <u>\$ 1,668,969</u>                           | <u>\$ (3,678,961)</u>                         |
| <b>Basic and diluted net loss per share</b>                                 | 11           | <u>\$ (0.00)</u>                                | <u>\$ (0.00)</u>                                | <u>\$ (0.00)</u>                              | <u>\$ (0.01)</u>                              |
| Weighted average shares outstanding   | 11           | 511,985,731                                     | 419,100,189                                     | 503,157,270                                   | 312,196,777                                   |

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

**Talon Metals Corp.**

**Condensed Interim Consolidated Statements of Changes in Equity**

*(Expressed in Canadian dollars)*

*(Unaudited)*

|  | Notes    | Common shares      |                       | Warrants            | Contributed surplus  | Deficit                | Accumulated other comprehensive income | Shareholders' equity |
|--|----------|--------------------|-----------------------|---------------------|----------------------|------------------------|--|----------------------|
|  |          | Number             | Amount                |                     |                      |                        |  |                      |
| Balance at January 1, 2020                                       |          | 494,328,808        | \$ 129,971,715        | \$ 1,188,498        | \$ 20,051,418        | \$ (94,727,512)        | \$ (637,575)                           | \$ 55,846,544        |
| May common share private placement                               | 9a       | 40,169,500         | 3,755,338             | 46,480              | -                    | -                      | -                                      | 3,801,818            |
| Stock option compensation payments                               | 10       | -                  | -                     | -                   | 132,946              | -                      | -                                      | 132,946              |
| Net loss and comprehensive loss                                  |          | -                  | -                     | -                   | -                    | (850,677)              | 2,519,646                              | 1,668,969            |
| <b>Balance at June 30, 2020</b>                                  |          | <b>534,498,308</b> | <b>\$ 133,727,053</b> | <b>\$ 1,234,978</b> | <b>\$ 20,184,364</b> | <b>\$ (95,578,189)</b> | <b>\$ 1,882,071</b>                    | <b>\$ 61,450,277</b> |
| Balance at January 1, 2019                                       |          | 129,645,201        | \$ 80,182,410         | \$ 465,163          | \$ 16,679,917        | \$ (90,749,166)        | -                                      | \$ 6,578,324         |
| Conversion of convertible loan                                   | 5 and 9a | 196,776,515        | 32,038,260            | -                   | -                    | -                      | -                                      | 32,038,260           |
| Repayment of promissory note                                     | 6 and 9a | 18,043,542         | 1,441,075             | -                   | -                    | -                      | -                                      | 1,441,075            |
| March common share private placement                             | 9a       | 39,375,000         | 2,881,073             | 58,463              | -                    | -                      | -                                      | 2,939,536            |
| Common shares to joint venture partner                           | 9a       | 25,031,250         | 2,002,500             | -                   | -                    | -                      | -                                      | 2,002,500            |
| Warrants issued as part of royalty transaction - Triple Flag     | 9b       | -                  | -                     | 171,589             | -                    | -                      | -                                      | 171,589              |
| Warrants issued as part of royalty transaction - broker warrants | 9b       | -                  | -                     | 192,707             | -                    | -                      | -                                      | 192,707              |
| May common share private placement                               | 9a       | 20,235,000         | 1,623,634             | 23,610              | -                    | -                      | -                                      | 1,647,244            |
| Deferred expenditures on resource properties                     | 9b       | -                  | -                     | 52,244              | -                    | -                      | -                                      | 52,244               |
| Stock option compensation payments                               | 10       | -                  | -                     | -                   | 2,436,783            | -                      | -                                      | 2,436,783            |
| Net loss and comprehensive loss                                  |          | -                  | -                     | -                   | -                    | (3,678,961)            | -                                      | (3,678,961)          |
| <b>Balance at June 30, 2019</b>                                  |          | <b>429,106,508</b> | <b>\$ 120,168,952</b> | <b>\$ 963,776</b>   | <b>\$ 19,116,700</b> | <b>\$ (94,428,127)</b> | <b>\$ -</b>                            | <b>\$ 45,821,301</b> |

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

**Talon Metals Corp.**  
**Condensed Interim Consolidated Statements of Cash Flows**

(Expressed in Canadian dollars)

(Unaudited)

|  | <b>Six months<br/>ended<br/>June 30, 2020</b> | <b>Six months<br/>ended<br/>June 30, 2019</b> |
|--|---|---|
| <b>Cash flows from operating activities</b>  |   |   |
| Net loss   | \$ (850,677)                                  | \$ (3,678,961)                                |
| <b>Non-cash adjustments:</b>   |   |   |
| Stock option compensation  | (41,304)                                      | 2,436,783                                     |
| Impairment loss on resource properties   | -   | 2,330   |
| Loss on sale of subsidiary   | 736   |   |
| Loss on revaluation of royalty put option  | 149,762                                       | (27,793)                                      |
| Loss on revaluation of unsecured convertible loan  | -   | 514,768                                       |
| Interest expense and accretion on unsecured non-convertible promissory note              | -   | 31,403  |
| Foreign exchange gain on unsecured promissory note                                       | -   | (13,793)                                      |
| Gain on repayment of unsecured non-convertible promissory note                           | -   | (54,728)                                      |
| Financing expenses - royalty put option  | -   | 131,707                                       |
| Foreign exchange gain on contingencies   | -   | (6,468)                                       |
| Accretion on asset retirement obligation   | 3,825   | 3,999   |
| Depreciation and write-down of equipment and software                                    | -   | 2,176   |
|  | <u>(737,658)</u>                              | <u>(658,577)</u>                              |
| <b>Working capital adjustments:</b>  |   |   |
| Increase in prepayments  | (25,112)                                      | (35,506)                                      |
| (Increase) decrease in deferred financing costs  | (320,232)                                     | 5,330   |
| (Increase) decrease in accounts and other receivables                                    | (15,492)                                      | 24  |
| Increase in accounts payables, accrued liabilities and deferred payments                 | 357,108                                       | 56,049  |
| (Decrease) increase in contingencies   | (30,349)                                      | 583,333                                       |
| <b>Net cash flows (used in) provided by operating activities</b>                         | <u>(771,735)</u>                              | <u>(49,347)</u>                               |
| <b>Cash flows from investing activities</b>  |   |   |
| Disposition (acquisition) of equipment and software                                      | -   | -   |
| Acquisition of resource properties and deferred expenditures                             | (5,063,498)                                   | (8,828,618)                                   |
| <b>Net cash flows used in investing activities</b>                                       | <u>(5,063,498)</u>                            | <u>(8,828,618)</u>                            |
| <b>Cash flows from financing activities</b>  |   |   |
| Proceeds from issuance of common shares and warrants - March 2020 common share financing | 3,801,818                                     | -   |
| Proceeds from issuance of common shares and warrants - March 2019 common share financing | -   | 3,150,000                                     |
| Proceeds from sale of royalty and issuance of warrants                                   | -   | 6,727,500                                     |
| Financing costs - March common share financing and royalty                               | -   | (875,614)                                     |
| Financing costs - Conversion of RCF Loan and RCF Promissory Note                         | -   | -   |
| Proceeds from issuance of common shares and warrants - May common share financing        | -   | 1,756,363                                     |
| Financing costs - May 2019 common share financing  | -   | (109,119)                                     |
| <b>Net cash flows provided by financing activities</b>                                   | <u>3,801,818</u>                              | <u>10,649,130</u>                             |
| <b>Net increase (decrease) in cash and cash equivalents</b>                              | (2,033,415)                                   | 1,771,165                                     |
| Effect of foreign exchange on consolidation  | 42,873  | -   |
| Cash and cash equivalents, beginning of the year   | 7,270,711                                     | 222,630                                       |
| <b>Cash and cash equivalents, end of the period or year</b>                              | <u>\$ 5,280,169</u>                           | <u>\$ 1,993,795</u>                           |
| Issuance of shares for acquisition of resource properties                                | \$ -  | \$ 2,002,500                                  |
| Stock based compensation included in deferred expenditures                               | 174,250                                       | -   |
| Issuance of warrants for resource properties   | -   | 52,244  |
| Increase in asset retirement obligation related to resource properties                   | 17,248  | 1,025,025                                     |
| Cash equivalents (GIC's and T-bills), end of the period                                  | 10,030  | 10,000  |

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Talon Metals Corp. (“Talon” or the “Company”) is a mineral exploration company focused on the exploration and development of the Tamarack nickel-copper-cobalt project (the “Tamarack Project”) in Minnesota, USA (which comprises the Tamarack North Project and the Tamarack South Project). The Company’s interest in the Tamarack Project is held through its indirect 100% owned Delaware, USA subsidiary, Talon Nickel (USA) LLC (“Talon Nickel”). As of June 30, 2020 and December 31, 2019, Talon Nickel held a 17.56% interest in the Tamarack Project, which was earned pursuant to an Exploration and Option Agreement (the “Tamarack Earn-in Agreement”) (as amended) that Talon Nickel was a party to with Kennecott Exploration Company (“Kennecott”), a subsidiary of the Rio Tinto Group. On January 11, 2018, Talon Nickel and Kennecott entered into the mining venture agreement in respect of the Tamarack Project (the “Mining Venture Agreement”). On March 13, 2019, the Company entered into an option agreement (the “2018 Option Agreement”) with Kennecott, pursuant to which Talon has the right to acquire up to a 60% interest in the Tamarack Project on the satisfaction of certain terms and conditions while the Mining Venture Agreement is held in abeyance. See Note 4(a) for further information.

Up until about February 18, 2020, the Company held a 100% interest in the Trairão iron project (the “Trairão Project”) in Brazil which was held through its indirect 100% owned Brazilian subsidiary, Talon Ferrous Mineração Ltda.

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

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

As at June 30, 2020, the Company had working capital of \$4.1 million (December 31, 2019 – \$6.1 million) and shareholders’ equity of \$61.5 million (December 31, 2019 – \$55.8 million). Working capital is defined as current assets less current liabilities. Excluding deferred board fees and contingencies, working capital was \$4.6 million (December 31, 2019 - \$6.6 million). See Note 20 “Subsequent Event” in regard to the closing of a common share financing on August 13, 2020.

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

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

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

These Condensed Interim Consolidated Financial Statements do not give effect to any adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

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

These Condensed Interim Consolidated Financial Statements were approved by the Audit Committee of the Board of Directors of the Company on August 14, 2020.

#### Basis of preparation

These Condensed Interim Consolidated Financial Statements are presented in Canadian dollars. The Condensed Interim Consolidated Financial Statements are prepared on the historical cost basis, except for portfolio investments and financial instruments that are measured at fair value.

#### Basis of consolidation

These Condensed Interim Consolidated Financial Statements include the accounts of Talon and its wholly-owned subsidiaries Talon Metals Services Inc, Talon Nickel (USA) LLC, and Talon Ferrous Mineracao Ltda. All intercompany balances and transactions have been eliminated on consolidation. Talon Ferrous Mineracao Ltda. was sold in February 2020.

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

#### Functional and presentation currency

These Condensed Interim Consolidated Financial Statements are presented in Canadian dollars, which is the presentation and functional currency of the Company and its subsidiaries with the exception of Talon Nickel. During the year ended December 31, 2019, the Company reassessed the functional currency of its subsidiary Talon Nickel and determined that given the increase in deferred expenditures denominated in US dollars, the functional currency was changed from the Canadian dollar to the US dollar. The change in the functional currency of Talon Nickel (USA) LLC was applied prospectively from February 1, 2019, the date of the change in functional currency. All items on the statement of financial position were translated into US dollars at the exchange rate on that date.

Transactions in currencies other than the entity’s functional currency are recognized at the rates of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at the Statement of Financial Position date. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated at rates at the date of the initial transaction.

On consolidation, for entities with a functional currency that differs from the functional currency of the Company, assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position. Income and expenses are translated at the average rate for the applicable period. All resulting exchange differences are recognized in other comprehensive loss and accumulated as a separate component of equity.

The Canadian dollar/United States dollar exchange rate used as of June 30, 2020 was 1.3628 (December 31, 2019 – 1.2988).

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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### Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit, money market funds and short-term investments with remaining maturities of three months or less at the time of acquisition. At December 31, 2019 and June 30, 2020, the Company held both cash and cash equivalents.

### Deferred financing costs

The Company capitalizes direct costs such as legal, audit and regulatory, related to in-progress and currently contemplated financings. These costs are then recognized as a deduction from the gross proceeds of financings in the future period during which the financing may take place. In addition, management assesses the carrying value of such costs at each reporting period and will expense any portion during the period made known to management that will not be utilized..

### Equipment

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

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

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

### Resource properties and deferred exploration and evaluation costs

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

The cost of mineral properties includes the cash consideration paid and the fair value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the Company, are recorded in the Condensed Interim Consolidated Financial Statements at the time payments are made. The proceeds from options granted or royalties sold on properties are credited to the cost of the related property.

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

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



# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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### Impairment of non-financial assets

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

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

### Asset retirement obligations

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

### Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

### Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### Uncertainty over Income Tax Treatments ("IFRIC 23")

The Company is required to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. The Company also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. There is no material uncertain tax treatment the Company has taken.

## **Financial instruments**

### Financial assets

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

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

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

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

#### ii. Amortized cost

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

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

### Financial liabilities

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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### i. Amortized cost

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

The Company's accounts payable and accrued liabilities, accounts payable – board fees and contingencies do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

### ii. Financial liabilities recorded at FVTPL

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

The Company's Royalty Put Option (defined below) are classified as FVTPL.

### Transaction costs

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

### Subsequent measurement

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

### Derecognition

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

### Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The adoption of the expected credit loss impairment model had no impact on the Company's Condensed Interim Consolidated Financial Statements.

### **Unsecured convertible loan**

In December 2015, the Company issued an unsecured convertible loan (Note 5) which was subsequently increased in January 2017 and repaid in full (through the issuance of common shares) in March 2019. The Company has designated the unsecured convertible loan at fair value through profit and loss. The Company has used estimates in determining the fair value of the unsecured convertible loan. Inputs used in the models employed in the valuation of the convertible loan as a hybrid financial instrument require subjective assumptions, including the expected price volatility, the price of the Company's shares and credit yield-to-maturity of the Company. Changes in these assumptions and the selected valuation model can materially affect the fair value estimate. The valuation methods and the underlying assumptions used in the re-measurement of the unsecured convertible loan are disclosed in Note 5.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

*(Expressed in Canadian dollars)*

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### Unsecured non-convertible promissory note

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

### Stock option compensation

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

### Loss per share

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

### Comprehensive income

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

### Segment reporting

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

### New accounting standards adopted

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

*(Expressed in Canadian dollars)*

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### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of each reporting period and for the periods then ended, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the valuation of resource properties, the valuation of the unsecured convertible loan, the estimation of contingencies, the valuation of the asset retirement obligation and the valuation of the Royalty Put Option (defined below).

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

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

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

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

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

### 4. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration activities or hold an interest in an exploration project are located in the USA (the Tamarack Project) and Brazil (the Trairão Project which was sold in February 2020). Details of the change for the year ended December 31, 2019 and period ended June 30, 2020 are as follows:

|                      | December 31,<br>2019 | Additions    | Foreign<br>exchange | June 30, 2020 |
|----------------------|----------------------|--------------|---------------------|---------------|
| Tamarack Project (a) | \$ 51,843,427        | \$ 5,254,996 | \$ 2,586,481        | \$ 59,684,904 |
| Trairão Project (b)  | -                    | -            | -                   | -             |
| Total                | \$ 51,843,427        | \$ 5,254,996 | \$ 2,586,481        | \$ 59,684,904 |

  

|                      | December 31,<br>2018 | Additions     | Foreign<br>exchange | Write-downs | Recovery from<br>sale of royalty | December 31,<br>2019 |
|----------------------|----------------------|---------------|---------------------|-------------|----------------------------------|----------------------|
| Tamarack Project (a) | \$ 39,988,532        | \$ 17,302,751 | \$ (643,542)        | \$ -        | \$ (4,804,314)                   | \$ 51,843,427        |
| Trairão Project (b)  | -                    | 4,876         | -                   | (4,876)     | -                                | -                    |
| Total                | \$ 39,988,532        | \$ 17,307,627 | \$ (643,542)        | \$ (4,876)  | \$ (4,804,314)                   | \$ 51,843,427        |

Although the Company believes it has taken reasonable measures to ensure proper title to its mineral properties and those which it has an interest in, there is no guarantee that title to any of these mineral properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Company or Kennecott (in respect of the Tamarack Project) may be unable to operate their properties as permitted or to enforce their rights with respect to its properties.

#### (a) Tamarack Project

On June 25, 2014, Talon's wholly owned indirect subsidiary, Talon Nickel, entered into the Tamarack Earn-in Agreement with Kennecott, pursuant to which Talon Nickel received the right to acquire an interest in the Tamarack Project. On January 4, 2016, pursuant to the Tamarack Earn-in Agreement, as amended, Talon Nickel earned an 18.45% interest in the Tamarack Project by making payments totalling US\$25.52 million.

On December 16, 2016, Talon Nickel and Kennecott entered into an agreement to amend the Tamarack Earn-in Agreement pursuant to which Talon Nickel and Kennecott agreed to co-fund a 2016/2017 winter exploration program at the Tamarack Project in the approximate amount of US\$3,500,000, with Talon Nickel funding its proportionate share of 18.45% thereof. In addition, Talon Nickel and Kennecott agreed that Kennecott may elect at any time up to and including September 25, 2017 to grant Talon Nickel the option to purchase the Tamarack Project for a total purchase price of US\$114 million (the "Purchase Option") or proceed with a joint venture (the "Tamarack Joint Venture") in respect of the Tamarack Project. On the same date, Talon entered into an amendment to the RCF Loan (defined below) as explained in Note 5. Throughout 2017, Talon Nickel paid an additional US\$717,347 to Kennecott pursuant to the Tamarack Earn-in Agreement (as amended).

On September 25, 2017, Talon Nickel received notification from Kennecott that it had decided to grant Talon Nickel the Tamarack Purchase Option on the terms of the Tamarack Earn-in Agreement (as amended). On November 16, 2017, Talon Nickel elected not to exercise the Tamarack Purchase Option. On January 11, 2018, Talon Nickel and Kennecott entered into the Mining Venture Agreement.

Talon elected to not participate in the 2018 exploration program. Consequently, Talon Nickel's interest in the Tamarack Project was diluted from 18.45% to 17.56%.

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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Project. Pursuant to the terms of the 2018 Option Agreement, Talon Nickel has taken over operatorship of the Tamarack Project and has the right to acquire a 51% interest in the Tamarack Project (for clarity which is an additional 33.46% to its current ownership interest of 17.56%) upon (i) the payment of US\$6 million in cash to Kennecott (paid on March 13, 2019) (the “Initial Payment”); (ii) the issuance of US\$1.5 million worth of common shares of the Company to Kennecott (issued on March 7, 2019); (iii) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel either spending US\$10 million or completing a prefeasibility study on the Tamarack Project; and (iv) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel paying Kennecott an additional US\$5 million in cash. Provided Talon Nickel has earned the 51% interest in the Tamarack Project, Talon Nickel shall then have the right to increase its interest in the Tamarack Project to 60% by (i) 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 2018 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 or be diluted.

On March 7, 2019, the Company issued US\$1,500,000 worth of common shares of the Company to Kennecott. The 2018 Option Agreement became effective on March 13, 2019 when the Company made the Initial Payment to Kennecott. During the term of the 2018 Option Agreement, the Mining Venture Agreement is held in abeyance and the terms of the 2018 Option Agreement govern the relationship between Talon Nickel and Kennecott in respect of the Tamarack Project.

On March 7, 2019, Talon Nickel sold a royalty and issued warrants for gross proceeds of US\$5 million or \$6.7 million (see Note 7), of which the majority (\$5.4 million gross of financing costs) was allocated to the royalty component which was accounted for as a reduction to resource properties and deferred expenditures. Financing expenses of \$0.6 million associated with the royalty component of the transaction were also capitalized to resource properties and deferred expenditures. The remaining expenses of \$0.2 million were allocated to the Royalty Warrants and Royalty Put Option, both defined in Note 7.

### (b) Trairão Project

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

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

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

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

On January 16, 2020, the Company, along with its wholly-owned subsidiary, Rancover Holdings Inc. (“Rancover”) entered into a share purchase agreement (“Share Purchase Agreement”) with MINERAÇÃO TARAUCÁ INDÚSTRIA E COMÉRCIO S.A. and MINERAÇÃO SANTA ELINA INDÚSTRIA E COMÉRCIO

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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S.A. (collectively, the "Brazil Purchaser"). Pursuant to the Share Purchase Agreement, on or about February 18, 2020, the Company and Rancover transferred 100% ownership of the Brazilian subsidiary, Talon Ferrous Mineração Ltda, to the Brazil Purchaser. By transferring ownership of Talon Ferrous Mineração Ltda, the Company and Rancover have, in effect, transferred 100% of its ownership interest in the Trairao Iron Project to the Brazil Purchaser. The Share Purchase Agreement provides that the Company will be paid US\$1 million by the Brazil Purchaser if and when the Trairao Iron Project goes into production ("Purchase Consideration"). The Brazil Purchaser has also agreed to pay all costs associated with maintaining the Trairao Iron Project in good standing. The Company remains responsible for any liabilities pursuant to existing litigation in Brazil. The Company wrote off the net assets of Talon Ferrous Mineração Ltda resulting in a loss of \$3,620. The fair value of the Purchase Consideration was assessed and management determined that the value was between nil and nominal and so proceeds of disposition were considered nil and no asset or receivable was recognized. The liabilities pursuant to existing litigation in Brazil continue to be recognized on the Statement of Financial Position as "Contingencies" (Note 16).

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

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

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

- RCF provided the Company with US\$15 million, as follows: (a) US\$1 million via a private placement subscription for 11,540,833 common shares in the capital of the Company at a subscription price of \$0.12 per common share (the "RCF Private Placement"), and (b) US\$14 million via an unsecured convertible loan (the "Unsecured Convertible Loan" or "RCF Loan", and the agreement governing the RCF Loan, the "RCF Loan Agreement"). The RCF Loan would have matured on the maturity date (the "Maturity Date") being the earlier of: (i) November 25, 2018; and (ii) the date upon which RCF elects to accelerate the due date upon the occurrence of certain events, including an event of default.
- The RCF Loan had an interest rate of 12% per annum. All interest accrued, compounded quarterly and would have become payable on the Maturity Date. The Company had the right to prepay the RCF Loan (including accrued interest), in full or in part, only with the prior approval of RCF.
- Under the terms of the RCF Loan, RCF could elect to convert all or part of the principal amount of the RCF Loan (including all capitalized interest) into common shares of the Company at any time at a conversion price of \$0.156 per common share (the "Conversion Price"), representing a 30% premium to the RCF Subscription Price. Interest that had not been capitalized was to be converted at a price equal to the volume weighted average trading price for the five trading days prior to the conversion. Any amount converted pursuant to RCF's conversion right would have been converted from United States dollars into Canadian dollars based on the currency exchange rate as reported by Bloomberg as of 5:00 p.m. (EST) on the first business day preceding the conversion date.



# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

**For the three and six months ended June 30, 2020 and 2019**

***(Expressed in Canadian dollars)***

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

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

### **Increase to RCF Loan**

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

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

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

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

### **Extension of the Maturity Date**

On June 25, 2018, Talon entered into an amending agreement (the "RCF Loan Second Amending Agreement") with RCF to amend the RCF Loan Agreement, as amended. Pursuant to the terms of the RCF Loan Second Amending Agreement, RCF agreed to extend the maturity date of the RCF Loan to April 2, 2019. All other terms and conditions of the RCF Loan remained in full force and effect. This extension was accounted for as a modification of the existing loan.

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

### Fair value determination

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

|  | Mar 6, 2019 | Dec 31, 2018 |
|--|-------------|--------------|
| Risk-free interest rate                            | 1.63%       | 1.64%        |
| Expected volatility                                | 60%         | 60%          |
| Talon share price                                  | \$ 0.090    | \$ 0.075     |
| Expected dividend yield                            | 0%          | 0%           |
| Effective interest rate on bifurcated loan portion | 24.01%      | 24.01%       |
| Actual interest rate                               | 12.00%      | 12.00%       |
| Period end foreign CAD/USD foreign exchange rate   | 1.3420      | 1.3642       |

### Repayment by Issuing Common Shares

On November 7, 2018, the Company announced that it had entered into amending agreements in connection with its existing debt facilities with RCF. Pursuant to the terms of the amending agreements, the Company agreed to reduce the conversion price under the RCF Loan to \$0.10 per share (from \$0.156 per share) in respect of the principal component of the RCF Loan and maintain the conversion price at \$0.156 in respect of the interest component, with interest calculated to November 7, 2018, of the RCF Loan (the "Amended Convertible Loan"). The Amended Convertible Loan and the conversion thereof was to become effective immediately following the Initial Payment by Talon Nickel in accordance with the terms of the 2018 Option Agreement, evidence of US\$1.5 million in working capital to advance the Tamarack Project and shareholder approval at a meeting that was to occur in Q1 2019. Up until March 6, 2019 and including December 31, 2018, RCF retained its option to convert the RCF Loan into common shares at the Conversion Price.

On March 7, 2019, the above agreements were amended, and the Company completed a private placement common share offering and a royalty financing. See Notes 7 and 9 for further information. RCF agreed to convert the outstanding principal and interest of the RCF Loan at the conversion price of \$0.156. In connection therewith, RCF was issued 196,776,515 common shares (which used an agreed exchange rate of C\$1.3350 = US\$1 and accrued interest to March 6, 2019). The RCF Loan and the conversion of principal and interest at the conversion price of \$0.156 was previously approved by shareholders in December 2015 and then again, as amended, in January 2017. Shareholder approval of the conversion was not required given that the conversion of the RCF Loan occurred at the previously shareholder approved Conversion Price of \$0.156.

A continuity schedule reconciling the change in fair value of the Unsecured Convertible Loan from January 1, 2018 to the final quarter it was outstanding follows:

|   | Period ended<br>March 31, 2019 |               | Year ended<br>December 31, 2018 |               |
|---|--------------------------------|---------------|---------------------------------|---------------|
|   | USD                            | CAD           | USD                             | CAD           |
| Fair value - beginning of year              | \$ 23,145,476                  | \$ 31,575,058 | \$ 18,456,720                   | \$ 23,153,956 |
| Interest expense                            | 480,667                        | 637,556       | 2,508,233                       | 3,250,879     |
| Fair value adjustment                       | 285,800                        | (122,786)     | 2,180,523                       | 5,170,223     |
| Increase                                    | 766,467                        | 514,770       | 4,688,756                       | 8,421,102     |
| Fair value as of March 6, 2019              | 23,911,943                     | 32,089,828    |                                 |               |
| Repayment in shares and residual fair value | (23,911,943)                   | (32,089,828)  |                                 |               |
| Fair value - end of year or period          | \$ -                           | \$ -          | \$ 23,145,476                   | \$ 31,575,058 |

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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

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

As of March 7, 2019, the Company no longer had any debt outstanding to RCF.

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

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

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

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

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

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

#### **Repayment by issuing common shares**

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

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

### 7. ROYALTY

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

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

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

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

The royalty was valued using a discounted cash flow analysis and an estimated discount rate of approximately 15% that took into account the risks and pricing of the royalty at the time of issuance. The Royalty Put Option was valued using a probability-adjusted discounted cash flow analysis with the following estimates: a risk-free discount rate of 1.63% and a probability that the option will be exercised of 10%. The Royalty Warrants were valued using the Black-Scholes model using the following estimates: risk-free interest rate – 1.48%, expected life – 3 years, expected volatility – 75% and dividend yield – 0%.

In conjunction with the sale of the royalty, the Company incurred financing and legal costs of \$803,882 which included \$192,707 related to the issuance of the Royalty Broker Warrants. The Royalty Broker Warrants were valued using the Black-Scholes model using the following estimates: risk-free interest rate – 1.48%, expected life – 3 years, expected volatility – 75% and dividend yield – 0%. The financing costs were allocated pro-rata to the components of the royalty financing with the portion related to the royalty capitalized to Resource properties and deferred expenditures, the portion related to the Royalty Put Option expensed in profit and loss and the portion related to the Royalty Warrants netted against the issuance of the Royalty Warrants in the Statement of Changes in Equity.

The Company has designated the Royalty Put Option as a financial instrument at fair value through profit

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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or loss. The Royalty Put Option was initially recorded at fair value and revalued at period end with changes in fair value being recorded through profit and loss. Transaction costs allocated to the Royalty Put Option have been expensed.

As at June 30, 2020, the Royalty Put Option was valued using the methodology discussed above with the following estimates: a risk-free discount rate of 0.16% and a probability that the option will be exercised of 10%. As at December 31, 2019, the Royalty Put Option was valued using the methodology discussed above with the following estimates: a risk-free discount rate of 1.59% and a probability that the option will be exercised of 9%. The change on the income statement reflect the change excluding foreign exchange as the foreign exchange gain/loss component is included in

### 8. ASSET RETIREMENT OBLIGATION

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

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

As of June 30, 2020, the Company estimated the asset retirement obligation to be \$1,198,415 (December 31, 2019 – \$1,122,648). Key assumptions include total undiscounted pre-inflation estimated costs of \$1,161,865, inflation of 1% and a discount rate of 0.60% based on the yield on U.S. government bonds with a similar term to maturity of the total expected costs. For the six months ended June 30, 2020, interest rate accretion of \$3,825 was recognized (Six months ended June 30, 2019 – \$3,999). The obligation is expected to be paid primarily over the years 2020 to 2028.

### 9. SHARE CAPITAL AND OTHER EQUITY

#### (a) Authorized, issued and outstanding common shares

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

Issued and outstanding – 534,498,308 at June 30, 2020 and December 31, 2019.

#### Common share financings

On March 7, 2019, the Company completed a private placement of 39,375,000 common shares at a price of \$0.08 per share for aggregate gross proceeds of \$3,150,000. In connection with the private placement, the Company issued 1,500,000 broker warrants (“March 2019 Broker Warrants”) with an exercise price of \$0.0826 and expiration date of March 7, 2022. Issuance costs were \$210,464 for items such as legal and commissions and \$58,463 for the March 2019 Broker Warrants which were valued based on the estimates provided in note 9(b).

On May 15, 2019, the Company completed a private placement of 20,235,000 common shares at a price of \$0.0868 per share for aggregate gross proceeds of \$1,756,398. In connection with the private placement, the Company issued 645,660 broker warrants (“May 2019 Broker Warrants”) with an exercise price of \$0.116 and an expiration date of May 15, 2022. Issuance costs were \$109,154 for items such as legal and commissions and \$23,610 for the May 2019 Broker Warrants which were valued based on the estimates provided in note 9(b).

On August 29, 2019, the Company completed a prospectus offering of 65,222,300 common shares at a price of \$0.17 per share for aggregate gross proceeds of \$11,087,791 (“2019 Prospectus Offering”). In

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

connection with the 2019 Prospectus Offering, the Company issued 3,207,450 broker warrants (“August 2019 Broker Warrants”) with an exercise price of \$0.17 and an expiration date of August 29, 2021. Issuance costs were \$1,060,306 for items such as legal, assurance and commissions and \$224,722 for the August 2019 Broker Warrants which were valued based on the estimates provided in note 9(b).

On May 21, 2020, the Company completed a private placement of 40,169,500 common shares at a price of \$0.10 per share for aggregate gross proceeds of \$4,016,950. In connection with the private placement, the Company issued 1,145,000 broker warrants (“May 2020 Broker Warrants”) with an exercise price of \$0.10 and an expiration date of May 15, 2022. Issuance costs were \$215,132 for items such as legal and commissions and \$46,480 for the May 2020 Broker Warrants which were valued based on the estimates provided in note 9(b).

### Shares issued to RCF

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

### Shares issued to Kennecott

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

### (b) Warrants

Warrant transactions for the six months ended June 30, 2020 and the year ended December 31, 2019 are as follows:

|   | Period ended June 30, 2020 |                |                         | Year ended December 31, 2019 |                |                         |
|---|----------------------------|----------------|-------------------------|------------------------------|----------------|-------------------------|
|   | Number of warrants         | Exercise price | Fair value net of costs | Number of warrants           | Exercise price | Fair value net of costs |
| Outstanding – beginning of the year     | 32,047,485                 | \$ 0.108       | \$ 1,188,498            | 16,000,000                   | \$ 0.11        | \$ 465,163              |
| Issued                                  | 1,145,000                  | 0.10           | 46,480                  | 1,500,000                    | 0.0826         | 58,463                  |
| Issued                                  | -                          | -              | -                       | 4,944,375                    | 0.0826         | 192,707                 |
| Issued                                  | -                          | -              | -                       | 5,000,000                    | 0.0826         | 171,589                 |
| Issued                                  | -                          | -              | -                       | 645,660                      | 0.116          | 23,610                  |
| Issued                                  | -                          | -              | -                       | 750,000                      | 0.116          | 52,244                  |
| Issued                                  | -                          | -              | -                       | 3,207,450                    | 0.17           | 224,722                 |
| Expired                                 | -                          | -              | -                       | -                            | -              | -                       |
| Outstanding – end of the year or period | 33,192,485                 | \$ 0.108       | \$ 1,234,978            | 32,047,485                   | \$ 0.108       | \$ 1,188,498            |

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

As discussed in Note 9(a), the Company issued the March 2019 Broker Warrants (1,500,000), the May 2019 Broker Warrants (645,660), the August 2019 Broker Warrants (3,207,450) and the May 2020 Broker Warrants (1,145,000) as part of the common share financings completed on March 7, 2019, May 15, 2019, August 29, 2019 and May 21, 2022, respectively.

The March 2019 Broker Warrants have a contractual life of 3 years and an exercise price of \$0.0826. The May 2019 Broker Warrants have a contractual life of 3 years and an exercise price of \$0.116. The August 2019 Broker Warrants have a contractual life of 2 years and an exercise price of \$0.17. The May 2020

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

Broker Warrants have a contractual life of 2 years and an exercise price of \$0.10.

The March 2019 Broker Warrants, the Royalty Warrants and the Royalty Broker Warrants were valued using the Black-Scholes model using the following estimates: risk-free interest rate – 1.48%, expected life – 3 years, expected volatility – 75% and dividend yield – 0%. The May 2019 Broker Warrants were valued using the following estimates: risk-free interest rate – 1.57%, expected life – 3 years, expected volatility – 75% and dividend yield – 0%. The August 2019 Broker Warrants were valued using the following estimates: risk-free interest rate – 1.35%, expected life – 2 years, expected volatility – 75% and dividend yield – 0%. The May 2020 Broker Warrants were valued using the following estimates: risk-free interest rate – 0.31%, expected life – 2 years, expected volatility – 75% and dividend yield – 0%.

In connection with assisting the Company with procuring offtake, the Company issued 750,000 warrants to Harp Capital Inc. ("Harp") with an exercise price of \$0.116 and an expiration date of May 15, 2021 (the "Harp Warrants"). The Harp Warrants were valued using the following estimates: risk-free interest rate – 1.57%, expected life – 2 years, expected volatility – 75% and dividend yield – 0% and were capitalized to Resource properties and deferred expenditures.

As at June 30, 2020 and December 31, 2019, warrants outstanding were as follows:

| June 30, 2020 |                |                   |  | December 31, 2019 |                |                   |  |
|---------------|----------------|-------------------|--|-------------------|----------------|-------------------|--|
| Outstanding   | Exercise price | Expiration date   |  | Outstanding       | Exercise price | Expiration date   |  |
| 1,000,000     | \$ 0.156       | November 25, 2020 |  | 1,000,000         | \$ 0.156       | November 25, 2020 |  |
| 15,000,000    | 0.11           | January 18, 2021  |  | 15,000,000        | 0.11           | January 18, 2021  |  |
| 750,000       | 0.116          | May 15, 2021      |  | 750,000           | 0.116          | May 15, 2021      |  |
| 3,207,450     | 0.17           | August 29, 2021   |  | 3,207,450         | 0.17           | August 29, 2021   |  |
| 11,444,375    | 0.0826         | March 7, 2022     |  | 11,444,375        | 0.0826         | March 7, 2022     |  |
| 645,660       | 0.116          | May 15, 2022      |  | 645,660           | 0.116          | May 15, 2022      |  |
| 1,145,000     | 0.100          | May 21, 2022      |  |                   |                |                   |  |
| 33,192,485    | \$ 0.108       |                   |  | 32,047,485        | \$ 0.108       |                   |  |

### 10. STOCK OPTION COMPENSATION – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company. The exercise price of each option is determined by the Board of Directors of Talon but, in any event, is not lower than the closing market price on the TSX on the trading day immediately preceding the date the option is granted. The terms and conditions of the options are determined by the Board of Directors of the Company pursuant to the rules of the Plan. All options are granted for a term not exceeding ten years from the grant date. The total number of options that can be granted is limited to 15% of the issued and outstanding share capital of the Company.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

A summary of the change in options outstanding during the six months ended June 30, 2020 and the year ended December 31, 2019 is as follows:

|   | Six months ended<br>June 30, 2020 |                   | Year ended<br>December 31, 2019 |                   |
|---|-----------------------------------|-------------------|---------------------------------|-------------------|
|   | Number<br>of stock<br>options     | Exercise<br>price | Number<br>of stock<br>options   | Exercise<br>price |
| Outstanding – beginning of the year     | 56,399,188                        | \$ 0.124          | 10,119,350                      | \$ 0.156          |
| Issued                                  | 5,780,000                         | 0.10              | 32,467,103                      | 0.095             |
| Issued                                  | -                                 | -                 | 4,962,735                       | 0.18              |
| Issued                                  | -                                 | -                 | 1,750,000                       | 0.180             |
| Issued                                  | -                                 | -                 | 6,000,000                       | 0.165             |
| Issued                                  | -                                 | -                 | 1,500,000                       | 0.145             |
| Expired                                 | (64,350)                          | 0.20              | (400,000)                       | 0.156             |
| Cancelled                               | (750,000)                         | 0.18              | -                               | -                 |
| Outstanding – end of the year or period | 61,364,838                        | \$ 0.121          | 56,399,188                      | \$ 0.124          |

1,233,733 of the 61,364,838 options outstanding have been issued outside of the Plan. No options were exercised during the six months ended June 30, 2020 and the year ended December 31, 2019.

On March 13, 2020, the Company issued 5,780,000 stock options with an exercise price of \$0.10 to employees, exercisable until March 13, 2025, of which 3,000,000 stock options vest over 2.5 years.

As at June 30, 2020, the Company had the following stock options outstanding:

| Outstanding | Exercise price | Exercisable | Exercise price | Expiration Date   |
|-------------|----------------|-------------|----------------|-------------------|
| 9,355,000   | \$ 0.156       | 9,355,000   | \$ 0.156       | November 25, 2020 |
| 300,000     | 0.156          | 300,000     | 0.156          | April 12, 2021    |
| 32,467,103  | 0.10           | 32,467,103  | 0.095          | March 22, 2024    |
| 4,962,735   | 0.18           | 4,962,735   | 0.18           | June 6, 2024      |
| 1,000,000   | 0.18           | 1,000,000   | 0.18           | October 2, 2024   |
| 6,000,000   | 0.165          | 1,000,000   | 0.165          | October 28, 2024  |
| 1,500,000   | 0.145          | 1,500,000   | 0.145          | December 12, 2024 |
| 5,780,000   | 0.10           | 2,780,000   | 0.100          | March 13, 2024    |
| 61,364,838  | \$ 0.121       | 53,364,838  | \$ 0.119       |                   |

The Company determined the fair value of the stock options issued during the three months ended June 30, 2020 and the year ended December 31, 2019 using the Black-Scholes option pricing model using the following assumptions:

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

A stock option compensation recovery of \$41,304 for the six months ended June 30, 2020 (six months ended June 30, 2019 – expense of \$2,436,783) was recognized in the consolidated statements of loss and comprehensive loss. In addition, \$174,250 related to stock options was capitalized to Resource properties and deferred expenditures for the six months ended June 30, 2020 (six months ended June 30, 2019 – \$nil).



# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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### 11. NET INCOME OR LOSS PER SHARE

#### (a) Basic

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

#### (b) Diluted

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

### 12. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts and other receivables excluding HST, accounts payable and accrued liabilities, accounts payable – board fees, the unsecured convertible loan, the unsecured non-convertible promissory note, contingencies and the Royalty Put Option.

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

|                           | <u>June 30, 2020</u> | <u>Dec 31, 2019</u> |
|---------------------------|----------------------|---------------------|
| Level 1                   |                      |                     |
| Cash and cash equivalents | \$ 5,280,169         | \$ 7,270,711        |
| Level 3                   |                      |                     |
| Royalty put option        | 1,168,855            | 971,234             |

### 13. FINANCIAL RISK MANAGEMENT

#### (a) Credit risk management

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

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

#### (b) Liquidity risk

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

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

On May 15, 2019, the Company completed a common share private placement.

On August 29, 2019 the Company completed a prospectus offering of common shares.

On March 26, 2020, the Company filed a final short form base shelf prospectus (the "Base Shelf Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than the

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

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province of Québec. Pursuant to the Base Shelf Prospectus, Talon may issue common shares, debt securities, subscription receipts or warrants or any combination of such securities as units, in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to \$40 million during the 25-month period that the Base Shelf Prospectus remains effective.

On May 21, 2020, the Company completed a common share private placement.

As of June 30, 2020, the Company had a cash and cash equivalents balance of \$5.3 million, (December 31, 2019 – \$7.3 million) to settle current liabilities of \$1.6 million (December 31, 2019 – \$1.3 million).

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

Beginning March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in a significant economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its subsidiaries in future periods.

COVID-19 may have a significant negative impact on the ability of the Company to raise capital and on operations.

### **(c) Market risk**

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the closing price at the end of the reporting period. As at June 30, 2020 and December 31, 2019, the Company held only cash and cash equivalents which management considers to not be materially susceptible to market risks.

### **(d) Foreign exchange risk**

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

As of June 30, 2020 and December 31, 2019, Talon is exposed to movements in the United States dollar as a result of cash on hand, the Royalty Put Option, the asset retirement obligation, certain accounts payable and the majority of costs associated with the operatorship of the Tamarack Project.

At June 30, 2020, the Company had net monetary assets in United States dollars of \$1.7 million (Canadian dollar equivalent). If foreign exchange rates had changed by 5% on the last day of the period with all other facts/assumptions held constant, there would be a change in the net income or loss of the Company for the three months ended June 30, 2020 of approximately \$87,000.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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### (e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk in regard to its interest income on cash, Treasury Bills, GICs and other short-term notes contained within money market funds.

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

The Company is deferring certain amounts owed to Kennecott amounting to \$880,434 as of June 30, 2020 at a fixed interest rate of 6% per annum and \$nil as of December 31, 2019, as detailed in Note 17.

### 14. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at June 30, 2020 was \$61.5 million (December 31, 2019 – \$55.8 million). The Company manages its capital structure and attempts to make adjustments to it, in order to have the funds available to support its exploration, development and/or operating activities.

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

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the six months ended June 30, 2020 and the year ended December 31, 2019.

For further discussion related to Capital Risk Management, see Note 13(b) "Liquidity Risk".

### 15. RELATED PARTY TRANSACTIONS AND BALANCES

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

Certain of Talon's accounting, legal and general administrative functions in Brazil (the "Brazil Services") were provided by a company owned by a director of Talon (Luis Azevedo who resigned from the board of directors of the Company in April 2020). In 2019, the Brazil Services were provided for \$31,691 (2018 - \$38,000). For 2020, no fees will be paid as the Company sold all Brazilian assets in February 2020. In addition, the spouse of the CEO provided recruiting services relating to two hires during the six months ended June 30, 2020 for a total fee of \$25,000.

Accounts payable and accrued liabilities at June 30, 2020 include \$nil payable to a company controlled by a director of the Company (Luis Azevedo who resigned from the board of directors of the Company in April 2020) (December 31, 2019 - \$2,955, for services rendered in connection with the sale of a royalty previously held by the Company).

The remuneration, including benefits, of directors and officers of the Company for the three months ended June 30, 2020 and 2019 was as follows:

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

|  | Six months ended June 30, |              | Three months ended June 30, |            |
|--|---------------------------|--------------|-----------------------------|------------|
|  | 2020                      | 2019         | 2020                        | 2019       |
| Cash compensation  | \$ 654,134                | \$ 152,167   | \$ 341,247                  | \$ 106,667 |
| Contingent compensation  | -                         | 323,333      | -                           | 137,083    |
| Board fees   | 750                       | -            | (19,875)                    | -          |
| Stock option compensation                                      | 65,225                    | 2,275,111    | 59,667                      | 546,003    |
| Total Aggregate Compensation                                   | \$ 720,109                | \$ 2,750,611 | \$ 381,039                  | \$ 789,753 |
| <b>Capitalized portion included in Aggregate Compensation:</b> |                           |              |                             |            |
| Cash and contingent compensation                               | \$ 351,964                | \$ 186,810   | \$ 193,037                  | \$ 58,650  |
| Stock option compensation                                      | 65,225                    | -            | 59,667                      | -          |
| Total  | \$ 417,189                | \$ 186,810   | \$ 252,704                  | \$ 58,650  |

From January 1, 2019 to May 31, 2019, in an effort to help the Company conserve as much cash as possible, the CEO, President and CFO of the Company deferred their entire salaries. Beginning June 1, 2019, the CEO, President and CFO of the Company began receiving approximately 80% of their salaries and during Q3 2019, all deferred salary amounts were paid. In exchange for deferring their salaries, the CEO, President and CFO received an additional grant of stock options in June 2019 as described below.

As a result of COVID-19, the CEO, President and CFO of the Company agreed to defer their April and May 2020 salaries totalling \$74,167 which as of June 30, 2020, was not paid by the Company and is included in accounts payable.

Cash compensation and stock option compensation is recorded on the consolidated statements of loss and comprehensive loss in "Salaries, benefits, consulting and Brazil administration" and on the consolidated balance sheets in "Resource properties and deferred expenditures".

From July 2015 to the present, fees to the Company's board of directors have not been paid but instead have been deferred, save for \$50,000, which was paid to the Company's board of directors in Q2 2020 as partial repayment for the deferred board fees. Initially, these fees were to be paid to the board of directors when the Company had \$3 million in its treasury. As a result of the 2019 Prospectus Offering, the Company met the condition of having \$3 million in its treasury, however, in order to maximize the amount of funds available for operational purposes, the board of directors agreed to further defer their board fees until the Company's next financing. Nevertheless, as the likelihood of payment had increased as a result of the 2019 Prospectus Offering and future potential financings, the deferred fees were recognized during Q3 2019. Prior to the 2019 Prospectus Offering, the likelihood of payment of these board fees was remote, and therefore no provision was recognized. As of June 30, 2020, \$319,221 remains outstanding owing to the board of directors.

In March 2019, 29,690,990 options were issued to officers and directors of the Company with a term of 5 years, an exercise price of \$0.095 and vesting on the date of grant.

In June 2019, 4,962,735 options were issued to the CEO, President and CFO of the Company with a term of 5 years, an exercise price of \$0.18 and vesting on the date of grant.

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and six months ended June 30, 2020 and 2019 (Expressed in Canadian dollars)

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### 16. CONTINGENCIES

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable. The total amount accrued as of June 30, 2020 was \$103,242 (December 31, 2019 - \$133,591). The change from December 31, 2019 to June 30, 2020 was the result of foreign currency translation from Brazilian Real to Canadian dollars.

The Company has been named a defendant in two legal actions in Brazil, including a labour lawsuit involving a former employee (the Company has appealed the ruling) and a lawsuit related to the termination of a mineral assignment agreement. Legal counsel is of the opinion that some amount of loss is probable and thus a liability as noted above has been recognized.

### 17. DEFERRED PAYMENTS TO JOINT VENTURE PARTNER

On June 11, 2020, the Company entered into an agreement with Kennecott to defer certain payments (the "Deferred Payments") owed, or to be owed, by the Company. Pursuant to the terms of deferral, it was agreed that the Deferred Payments would be payable by the Company to Kennecott by no later than October 31, 2020, and would bear interest at a rate of 6% per annum. As of June 30, 2020, the amount owing by Talon to Kennecott was \$880,434. The Company intends to repay the entire Deferred Payments prior to August 31, 2020.

### 18. INCOME TAXES

The British Virgin Islands statutory income tax rate of 0% (2019 - 0%) reconciles to the effective tax rate of 0% (2019 - 0%) with immaterial reconciling items.

The following table summarizes the components of deferred tax:

|                                     | June 30, 2020 | Dec 31, 2019 |
|-------------------------------------|---------------|--------------|
| Deferred tax assets                 |               |              |
| Non-capital losses carried forward  | \$ 3,920,202  | \$ 3,304,060 |
| Subtotal of assets                  | 3,920,202     | 3,304,060    |
| Deferred tax liabilities            |               |              |
| Resource pools - mineral properties | \$ 3,920,202  | \$ 3,304,060 |
| Subtotal of liabilities             | 3,920,202     | 3,304,060    |
| Net deferred tax liability          | \$ -          | \$ -         |

U.S. net operating losses are approximately \$17.1 million (December 31, 2019 - \$14.5 million) or US\$12.5 million (December 31, 2019 - US\$11.2 million).

### 19. GEOGRAPHIC INFORMATION

Interest income is earned in Canadian and United States dollars. The Company's mineral property is in the USA.

### 20. SUBSEQUENT EVENT

On August 13, 2020, the Company completed an offering of 19,821,600 common shares at a price of \$0.26 per share for aggregate gross proceeds of \$5,153,616 pursuant to a prospectus supplement to the Company's Base Shelf Prospectus ("August 2020 Prospectus Offering"). In connection with the August

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

**For the three and six months ended June 30, 2020 and 2019**

***(Expressed in Canadian dollars)***

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2020 Prospectus Offering, the Company paid a 6% cash commission and issued 1,189,296 broker warrants with an exercise price of \$0.26 and an expiration date of August 13, 2022.