



TALON METALS CORP.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

These unaudited Condensed Interim Consolidated 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	March 31, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		\$ 44,058,737	\$ 15,355,958
Accounts and other receivables		1,166	1,320
Prepayments		61,666	37,395
Deferred financing costs		77,881	77,881
		<u>44,199,450</u>	<u>15,472,554</u>
Non-current assets			
Equipment and vehicles		448,025	-
Resource properties and deferred expenditures	4, 5, 8, 13	66,373,470	60,799,398
		<u>\$ 111,020,945</u>	<u>\$ 76,271,952</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,292,305	\$ 988,864
Accounts payable - board of directors	13	115,829	283,529
Contingencies	14	91,458	101,339
		<u>1,499,592</u>	<u>1,373,732</u>
Royalty put option	5	540,372	1,093,531
Asset retirement obligation	6	760,044	659,057
		<u>\$ 2,800,008</u>	<u>\$ 3,126,320</u>
Shareholders' equity			
Share capital	7a	\$ 185,512,560	\$ 152,850,200
Warrants	7b	3,262,428	1,510,111
Contributed surplus		20,630,343	18,334,102
Accumulated other comprehensive income		(2,906,444)	(2,089,070)
Deficit		(98,277,950)	(97,459,711)
		<u>108,220,937</u>	<u>73,145,632</u>
		<u>\$ 111,020,945</u>	<u>\$ 76,271,952</u>

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 May 14, 2021

Signed:

"Gregory S. Kinross"

"John D. Kaplan"

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

		Three months ended	Three months ended
	Notes	March 31, 2021	March 31, 2020
Expenses			
Salaries, benefits, consulting and board fees	13	\$ 322,681	\$ 233,174
Professional fees		91,159	55,525
Office and general		11,993	14,082
Insurance		16,161	15,125
Travel		1,116	11,318
Marketing		64,876	52,268
Listing, filing and shareholder communications		93,439	55,571
Stock option compensation	8	701,649	-
Loss on sale of subsidiary		-	3,620
Loss (gain) on revaluation of royalty put option	5	(539,675)	154,013
Accretion on asset retirement obligation	6	3,235	1,932
Foreign currency loss (gain)		52,279	(55,088)
		<u>818,913</u>	<u>541,540</u>
Interest income		<u>674</u>	<u>13,533</u>
Net loss		(818,239)	(528,007)
Other comprehensive income (loss)			
Currency translation differences		(817,374)	4,882,974
Comprehensive income (loss)		<u>\$ (1,635,613)</u>	<u>\$ 4,354,967</u>
Basic and diluted net loss per share	9	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average shares outstanding	9	<u>627,816,147</u>	<u>494,328,808</u>

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, 2021		605,722,669	\$ 152,850,200	\$ 1,510,111	\$ 18,334,102	\$ (97,459,711)	\$ (2,089,070)	\$ 73,145,632
March 2021 prospectus offering	7a	57,500,000	29,478,791	2,506,090	-	-	-	31,984,881
Warrants exercised	7b	19,134,280	3,183,569	(753,773)	-	-	-	2,429,796
Stock options exercised	8	-	-	-	-	-	-	-
Stock option compensation payments	8	-	-	-	2,296,241	-	-	2,296,241
Net loss and comprehensive loss		-	-	-	-	(818,239)	(817,374)	(1,635,613)
Balance at March 31, 2021		682,356,949	\$ 185,512,560	\$ 3,262,428	\$ 20,630,343	\$ (98,277,950)	\$ (2,906,444)	\$ 108,220,937
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
Common share issuance		-	-	-	-	-	-	-
Stock option compensation payments	8	-	-	-	140,901	-	-	140,901
Net loss and comprehensive loss		-	-	-	-	(528,007)	4,882,974	4,354,967
Balance at March 31, 2020		494,328,808	\$ 129,971,715	\$ 1,188,498	\$ 20,192,319	\$ (95,255,519)	\$ 4,245,399	\$ 60,342,412

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)*

	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash flows used in operating activities		
Net loss	\$ (818,239)	\$ (528,007)
Non-cash adjustments:		
Stock option compensation	701,649	-
Loss on sale of subsidiary	-	736
Loss (gain) on revaluation of royalty put option	(539,675)	154,013
Foreign exchange gain on contingencies	9,881	-
Accretion on asset retirement obligation	3,235	1,932
	<u>(643,149)</u>	<u>(371,326)</u>
Working capital adjustments:		
Increase in prepayments	(24,271)	7,343
Increase in deferred financing costs	-	(320,232)
Decrease (increase) in accounts and other receivables	154	(35,083)
Increase in accounts payables and accrued liabilities	(372,163)	93,560
Decrease in contingencies	(9,881)	(20,632)
Net cash flows used in operating activities	<u>(1,049,310)</u>	<u>(646,370)</u>
Cash flows used in investing activities		
Acquisition of equipment	(463,839)	-
Acquisition of resource properties and deferred expenditures	(4,158,147)	(3,768,796)
Net cash flows used in investing activities	<u>(4,621,986)</u>	<u>(3,768,796)</u>
Cash flows provided by financing activities		
Net proceeds from issuance of common shares and warrants - March 2021 prospectus offering	31,984,881	-
Proceeds from exercise of stock options	-	-
Proceeds from exercise of warrants	2,429,796	-
Net cash flows provided by financing activities	<u>34,414,677</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	28,743,381	(4,415,166)
Effect of foreign exchange on consolidation	(40,602)	97,723
Cash and cash equivalents, beginning of the period	15,355,958	7,270,711
Cash and cash equivalents, end of the period	<u>\$ 44,058,737</u>	<u>\$ 2,953,268</u>
Stock based compensation included in resource properties	1,583,135	140,901
Equipment depreciation included in resource properties	15,824	-
Increase (decrease) in asset retirement obligation related to resource properties	97,752	121,879
Cash equivalents (GIC's and T-bills), end of the period	2,266,406	513,506

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 months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

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 March 31, 2021 and December 31, 2020, 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 for further information.

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

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

As at March 31, 2021, the Company had working capital of \$42.7 million (December 31, 2020 – \$14.1 million) and shareholders’ equity of \$108.2 million (December 31, 2020 – \$73.1 million). Working capital is defined as current assets less current liabilities.

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 as needed and/or develop the Tamarack Project into a profitable mine. There can be no assurance that the Company will be successful in raising financing, as needed, or developing the Tamarack Project into a profitable mine to meet the Company’s commitments.

Please see Note 11(b) “Liquidity Risk” for more information in this regard.

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 May 14, 2021.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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, including Talon Metals Services Inc. and Talon Nickel (USA) LLC. All intercompany balances and transactions have been eliminated on consolidation.

A subsidiary is an entity that is controlled by the Company. In assessing control, potential voting rights that are presently exercisable or convertible, are 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 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 condensed interim 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 March 31, 2021 was 1.2575 (December 31, 2020 – 1.2732).

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit, money market funds and/or short-term investments with remaining maturities of six months or less at the time of acquisition. At March 31, 2021 and December 31, 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

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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 condensed interim 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 at the following annual rates:

Equipment including machinery and vehicles	20% 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.

Impairment of non-financial assets

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

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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

Asset retirement obligations

A provision is recognized on the condensed interim 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.

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.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

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 objective 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.

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.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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 Company does not have any receivables that are subject to impairment analysis.

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

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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. Substantially all working capital and investments are held at head office and all equipment is held in the USA.

Reclassification

Amounts in the Condensed Interim Consolidated Financial Statements from the prior year have been reclassified to conform to the current year's presentation.

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 judgement on the determination of functional currency, 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 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 months ended March 31, 2021 and 2020 (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). Details of the change for the three months ended March 31, 2021 and the year ended December 31, 2020 are as follows:

Balance at December 31, 2019	\$ 51,843,327
Additions	10,443,749
Foreign exchange	<u>(1,487,678)</u>
Balance at December 31, 2020	\$ 60,799,398
Additions	6,362,762
Foreign exchange	<u>(788,690)</u>
Balance at March 31, 2021	\$ 66,373,470

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 may be unable to operate their properties as permitted or to enforce their rights with respect to its properties.

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. 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 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

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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 5), 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 5.

5. 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.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

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 condensed interim consolidated statement of changes in equity.

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

As at March 31, 2021, the Royalty Put Option was valued using the methodology discussed above with the following estimates: a risk-free discount rate of 0.07% and a probability that the option will be exercised of 5%. As at December 31, 2020, the Royalty Put Option was valued using the methodology discussed above with the following estimates: a risk-free discount rate of 0.11% and a probability that the option will be exercised of 10%. The change on the condensed interim consolidated statement of loss and comprehensive loss reflects the change excluding foreign exchange translation.

6. 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). Accretion is included on the condensed interim consolidated statement of loss and comprehensive loss.

As of December 31, 2020, the Company estimated the asset retirement obligation to be \$760,044 (December 31, 2020 – \$659,057). Key assumptions include total undiscounted pre-inflation estimated costs of \$730,356 (December 31, 2020 – \$595,858), inflation of 2.25% (December 31, 2020 – 2.0%) and a discount rate of 1.86% (December 31, 2020 – 1.07%) based on the yield on U.S. government bonds with a

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

similar term to maturity of the total expected costs. For the three months ended March 31, 2021, interest rate accretion of \$3,235 was recognized (Year ended December 31, 2020 – \$8,957). The obligation is expected to be paid primarily over the years 2022 to 2032. The estimate change during the period was added to Resource properties and deferred expenditures. The decrease in the estimate of during the year ended December 31, 2020 was the result of the Company gaining the capability to do certain environmental remediation work in-house, as opposed to using external contractors.

	Three months ended March 31, 2021	Year ended December 31, 2020
Beginning of the year	659,057	1,122,648
Amounts incurred	(15,199)	(144,850)
Change in estimate of obligation	112,951	(327,698)
Interest rate accretion	3,235	8,957
End of the year or period	760,044	659,057

7. 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 – 605,722,669 at December 31, 2020 and 682,356,949 at March 31, 2021.

Common share financings

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 21, 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 7(b).

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 2020 Prospectus Offering, the Company paid a 6% cash commission and issued 1,189,296 broker warrants (“August 2020 Broker Warrants”) with an exercise price of \$0.26 and an expiration date of August 13, 2022. Issuance costs were \$583,017 for items such as legal and commissions and \$125,510 for the August 2020 Broker Warrants which were valued based on the estimates provided in Note 7(b).

On December 11, 2020, the Company completed an offering of 38,334,100 common shares at a price of \$0.30 per Common Share for aggregate gross proceeds of \$11,500,230 pursuant to a prospectus supplement to the Company’s Base Shelf Prospectus (“December 2020 Prospectus Offering”). In connection with the December 2020 Prospectus Offering, the Company paid a 6% cash commission and issued 2,300,046 broker warrants (“December 2020 Broker Warrants”) with an exercise price of \$0.30 and an expiration date of December 11, 2022. Issuance costs were \$1,002,206 for items such as legal and commissions and \$296,594 for the December 2020 Broker Warrants which were valued based on the estimates provided in Note 7(b).

On March 18, 2021, the Company completed an offering of 57,500,000 units at a price of \$0.60 per unit for aggregate gross proceeds of \$34,500,000 pursuant to a short form prospectus (“March 2021 Prospectus Offering”). Each unit consisted of one common share and one-half of a share purchase warrant of the Company resulting in the issuance of 57,500,000 common shares and 28,750,000 warrants (“March 2021 Warrants”). Each whole warrant entitles the holder to acquire one common share at a price of \$0.80 for a period of 12 months following closing of the offering. Issuance costs were \$2,515,119 for items such as legal and commissions and \$2,506,090 for the March 2021 Warrants which were valued based on the

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

estimates provided in Note 7(b).

During the year ended December 31, 2020, 3,313,661 shares were issued as a result of the exercise of 3,313,661 warrants resulting in gross proceeds of \$380,843. The warrants had a fair value at the time of issuance of the warrants of \$146,971.

During the three months ended March 31, 2021, 19,134,280 shares were issued as a result of the exercise of 19,134,280 warrants resulting in gross proceeds of \$2,429,795. The warrants had a fair value at the time of issuance of the warrants of \$753,773.

During the year ended December 31, 2020, 9,755,000 shares were issued as a result of the exercise of 9,755,000 options resulting in gross proceeds of \$1,515,680. The warrants had a fair value at the time of issuance of the options of \$2,433,134.

(b) Warrants

Warrant transactions for the three months ended March 31, 2021 and the year ended December 31, 2020 are as follows:

	Period ended March 31, 2021				Year ended December 31, 2020			
	Number of warrants	Exercise price	Fair value net of costs	Proceeds from exercise	Number of warrants	Exercise price	Fair value net of costs	Proceeds from exercise
Outstanding – beginning of the year	33,368,166	\$ 0.126	\$ 1,510,111	\$ -	32,047,485	\$ 0.108	\$ 1,188,498	\$ -
Issued	28,750,000	0.80	2,506,090	-	1,145,000	0.10	46,480	-
Issued	-	-	-	-	1,189,296	0.26	125,510	-
Issued	-	-	-	-	2,300,046	0.30	296,594	-
Exercised	(466,000)	\$ 0.0826	(17,214)	38,492	(1,000,000)	0.156	(38,340)	156,000
Exercised	(118,930)	\$ 0.2600	(12,547)	30,922	(1,200,000)	0.0826	(40,634)	99,120
Exercised	(15,000,000)	\$ 0.1100	(426,823)	1,650,000	(330,000)	0.10	(13,395)	33,000
Exercised	(2,726,332)	\$ 0.1700	(191,020)	463,476	(33,661)	0.17	(2,358)	5,722
Exercised	(823,018)	\$ 0.3000	(106,169)	246,905	(750,000)	0.1160	(52,244)	87,000
Outstanding – end of the year or period	42,983,886	\$ 0.576	\$ 3,262,428	\$ 2,429,795	33,368,166	\$ 0.126	\$ 1,510,111	\$ 380,842

The May 2020 Broker Warrants have a contractual life of 2 years and an exercise price of \$0.10. The May 2020 Broker Warrants were valued using the following estimates: share price of \$0.10, risk-free interest rate – 0.31%, expected life – 2 years, expected volatility – 75% and dividend yield – 0%.

The August 2020 Broker Warrants have a contractual life of 2 years and an exercise price of \$0.26. The August 2020 Broker Warrants were valued using the following estimates: share price of \$0.26, risk-free interest rate – 0.30%, expected life – 2 years, expected volatility – 75% and dividend yield – 0%.

The December 2020 Broker Warrants have a contractual life of 2 years and an exercise price of \$0.30. The December 2020 Broker Warrants were valued using the following estimates: share price of \$0.30, risk-free interest rate – 0.25%, expected life – 2 years, expected volatility – 80% and dividend yield – 0%.

The March 2021 Warrants have a contractual life of 1 year and an exercise price of \$0.80. The March 2021 Warrants were valued using the following estimates: share price of \$0.5564, risk-free interest rate – 0.15%, expected life – 1 year, expected volatility – 70% and dividend yield – 0%.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

As at March 31, 2021 and December 31, 2020, warrants outstanding were as follows:

March 31, 2021			December 31, 2020		
Outstanding	Exercise price	Expiration date	Outstanding	Exercise price	Expiration date
447,457	0.17	August 29, 2021	15,000,000	0.11	January 18, 2021
9,778,375	0.0826	March 7, 2022	3,173,789	0.17	August 29, 2021
645,660	0.116	May 15, 2022	10,244,375	0.0826	March 7, 2022
815,000	0.100	May 21, 2022	645,660	0.116	May 15, 2022
1,070,366	0.260	August 13, 2022	815,000	0.100	May 21, 2022
1,477,028	0.300	December 11, 2022	1,189,296	0.260	August 13, 2022
28,750,000	0.800	March 18, 2022	2,300,046	0.300	December 11, 2022
42,983,886	\$ 0.576		33,368,166	\$ 0.126	

8. 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.

A summary of the change in options outstanding during the three months ended March 31, 2021 and the year ended December 31, 2020 is as follows:

	Period ended March 31, 2021		Year ended December 31, 2020	
	Number of stock options	Exercise price	Number of stock options	Exercise price
Outstanding – beginning of the year	76,964,838	\$ 0.226	56,399,188	\$ 0.124
Issued	5,307,736	0.70	5,780,000	0.100
Issued	-	-	2,050,000	0.145
Issued	-	-	700,000	0.280
Issued	-	-	1,400,000	0.260
Issued	-	-	200,000	0.250
Issued	-	-	800,000	0.300
Issued	-	-	200,000	0.310
Issued	-	-	20,405,000	0.510
Expired	-	-	(64,350)	0.200
Exercised	-	-	(9,655,000)	0.156
Exercised	-	-	(100,000)	0.095
Cancelled	-	-	(400,000)	0.300
Cancelled	-	-	(750,000)	0.180
Outstanding – end of the year or period	82,272,574	\$ 0.257	76,964,838	\$ 0.226

During the year ended December 31, 2020, 9,755,000 options were exercised for total proceeds of \$1,515,680. During the three months ended March 31, 2021, no options were exercised.

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.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

During Q3 2020, the Company issued 4,350,000 stock options with an exercise price of \$0.145 to \$0.28 to new employees and an investor relations consultant, exercisable until July 3, 2025 to August 15, 2025, of which 400,000 stock options vested immediately and the remainder vest over 1 year.

During Q4 2020, the Company issued 20,905,000 stock options with exercise prices ranging from \$0.30 to \$0.51 to new and existing employees exercisable until October 28, 2025 to December 28, 2025 that vest over 1 year. Also during Q4 2020, the Company issued 100,000 options to a consultant with an exercise price of \$0.51 exercisable until December 28, 2022 that vested immediately.

On March 19, 2021, the Company issued 5,307,736 stock options with an exercise price of \$0.70 to new and existing employees exercisable until March 9, 2026 that vest over 1 year.

As at March 31, 2021, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercise price	Exercisable	Exercise price	Expiration Date
March 22, 2019	32,367,103	0.095	32,367,103	0.095	March 22, 2024
June 6, 2019	4,962,735	0.180	4,962,735	0.180	June 6, 2024
October 2, 2019	1,000,000	0.180	1,000,000	0.180	October 2, 2024
October 28, 2019	6,000,000	0.165	6,000,000	0.165	October 28, 2024
December 12, 2019	1,500,000	0.145	1,500,000	0.145	December 12, 2024
March 13, 2020	5,780,000	0.100	3,980,000	0.100	March 13, 2025
July 3, 2020	400,000	0.145	400,000	0.145	July 3, 2025
July 22, 2020	1,050,000	0.145	525,000	0.145	July 22, 2025
July 23, 2020	600,000	0.145	300,000	0.145	July 23, 2025
August 7, 2020	700,000	0.280	350,000	0.280	August 7, 2025
August 14, 2020	1,400,000	0.260	700,000	0.260	August 14, 2025
August 15, 2020	200,000	0.250	100,000	0.250	August 15, 2025
October 28, 2020	400,000	0.300	100,000	0.300	October 28, 2025
November 8, 2020	200,000	0.310	50,000	0.310	November 8, 2025
December 28, 2020	20,305,000	0.510	5,026,250	0.510	December 28, 2025
December 28, 2020	100,000	0.510	100,000	0.510	December 28, 2022
March 19, 2021	5,307,736	0.700	-	0.700	March 19, 2026
Total / weighted average	82,272,574	\$ 0.257	57,461,088	\$ 0.155	

The Company determined the fair value of the stock options issued during the three months ended March 31, 2021 and the year ended December 31, 2020 using the Black-Scholes option pricing model using the following assumptions:

	3 months ended March 31	
	2021	2020
Share price	Closing price on the day prior to the date of grant	
Risk-free interest rate	0.94%	0.74%
Expected life	5 years	5 years
Expected volatility	70%	75%
Dividend yield	0%	0%

A stock option compensation expense of \$701,649 for the three months ended March 31, 2021 (\$nil for the three months ended March 31, 2020) was recognized in the condensed interim consolidated statements of loss and comprehensive loss. In addition, \$1,583,135 related to stock options was capitalized to Resource properties and deferred expenditures for the three months ended March 31, 2021 (Three months ended March 31, 2020 – \$140,901) relating to stock option compensation cost attributable to work carried out on the Tamarack Project.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

9. 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.

10. 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 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>Mar 31, 2021</u>	<u>Dec 31, 2020</u>
Level 1		
Cash and cash equivalents	\$ 44,058,737	\$ 15,355,958
Level 3		
Royalty put option	1,080,743	1,093,531

11. 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 26, 2020, the Company filed a final short form base shelf prospectus (the "Base Shelf Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than the province of Québec. Pursuant to the Base Shelf Prospectus, Talon may issue common shares, debt securities, subscription receipts or warrants or any combination of such securities as units, in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to \$40 million during the 25-month period that the Base Shelf Prospectus remains effective.

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

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

On August 13, 2020, the Company completed a prospectus offering of common shares pursuant to a prospectus supplement to the Company's Base Shelf Prospectus.

On December 11, 2020, the Company completed a prospectus offering of common shares pursuant to a prospectus supplement to the Company's Base Shelf Prospectus.

On March 18, 2021, the Company completed a short form prospectus offering of units.

Net proceeds from the issuance of common shares and warrants for the three months ended March 31, 2021 totalled \$32.0 million (year ended December 31, 2020 – \$20.8 million from the issuance of common shares and warrants). Proceeds from the exercise of options for the three months ended March 31, 2021 totalled \$nil (year ended December 31, 2020 – \$1.5 million) and the exercise of warrants for the three months ended March 31, 2021 totalled \$2.4 million (year ended December 31, 2020 – \$0.4 million).

As of March 31, 2021, the Company had a cash and cash equivalents balance of \$44.1 million, (December 31, 2020 – \$15.4 million) to settle current liabilities of \$1.5 million (December 31, 2020 – \$1.4 million).

In order to meet future working capital requirements, the Company will need to raise financing as needed and/or develop the Tamarack Project into a profitable mine. There can be no assurance that the Company will be successful in raising financing as needed or developing the Tamarack Project into a profitable mine 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.

Cumulatively, there has not been a significant impact to the Company's operations although the Company has had to adapt and implement new safety protocols. COVID-19 may have a significant negative impact on the ability of the Company to raise capital and on operations and therefore poses liquidity risk.

(c) Market risk

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the closing price at the end of the reporting period. As at March 31, 2021 and December 31, 2020, the Company held only cash and cash equivalents which management considers not to 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 head office salaries, certain consulting costs and administrative costs are denominated in Canadian dollars. The Company provides loans to the US subsidiary to fund continuing operations. Foreign currency gains and losses on loans to the US subsidiary are recorded in other comprehensive income as the loans are part of a net investment in a foreign operation and repayment of the loans is not expected in the foreseeable future. Talon's financing activities have been in both United States dollars and Canadian dollars.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

As of March 31, 2021 and December 31, 2020, 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 March 31, 2021, the Company had net monetary assets in United States dollars of \$14.0 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 year ended December 31, 2020 of approximately \$702,000.

(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 180 days.

12. CAPITAL RISK MANAGEMENT

Capital is comprised of equity which at March 31, 2021 was \$108.2 million (December 31, 2020 – \$73.1 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 three months ended March 31, 2021 and the year ended December 31, 2020.

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

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

The spouse of the CEO provided recruiting services relating to new hires during the three months ended March 31, 2021 for fees of \$25,935 (three months ended March 31, 2020 – \$18,651).

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Expressed in Canadian dollars)

The remuneration, including benefits, of directors and officers of the Company for the three months ended March 31, 2021 and 2020 was as follows:

	Three months ended March 31,	
	2021	2020
Cash compensation	\$ 614,594	\$ 312,887
Board fees	15,625	20,625
Stock option compensation	1,083,661	5,558
Total Aggregate Compensation	<u>\$ 1,713,879</u>	<u>\$ 339,070</u>
Capitalized portion included in Total Aggregate Compensation (capitalized to Resource properties and deferred expenditures):		
Cash compensation	\$ 509,889	\$ 158,927
Stock option compensation	441,999	5,558
Total	<u>\$ 951,888</u>	<u>\$ 164,485</u>

As a result of COVID-19, the CEO, President and CFO of the Company agreed to defer a portion of their April and May 2020 salaries totalling \$74,167 which was subsequently paid by the Company as of December 31, 2020.

Cash compensation and stock option compensation is recorded on the condensed interim consolidated statements of loss and comprehensive loss in "Salaries, benefits, consulting and board fees" and on the condensed interim consolidated statements of financial position in "Resource properties and deferred expenditures".

From July 2015 to December 2020, fees to the Company's board of directors were not paid but rather were 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, the total deferred fees were to be paid to the board of directors when the Company had \$3 million in its treasury. As a result of various financings in 2019, 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 financings in 2019 and future potential financings, the deferred fees were recognized during Q3 2019. Prior to the 2019 financings, the likelihood of payment of these board fees was remote, and therefore no provision was recognized. In addition, during Q4 2020, the Corporate Governance and Compensation Committee approved the payment of certain deferred consulting fees to the Company's Executive Chairman. These deferred consulting fees amounted to the sum of \$483,000 and related to the years 2015 to 2020. Pursuant to a consulting agreement dated December 1, 2015 between the Company and the Executive Chairman, such consulting fees were initially to be paid out to the Executive Chairman upon the earlier of a termination of the Executive Chairman's consulting agreement or a change of control. As of March 31, 2021, \$115,829 of consulting fees remains outstanding and the intention is for such amount to once again be deferred until the earlier of a termination of the Executive Chairman's consulting agreement or a change of control.

As of March 31, 2021, \$115,829 (December 31, 2020 - \$283,529) remains payable to the board of directors.

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.

In December 2020, 10,115,000 options were issued to senior management and the board of directors of the Company with a term of 5 years, an exercise price of \$0.51 and vesting over 1 year.

In March 2021, 607,736 options were issued to a member of the senior management team with a term of 5 years, an exercise price of \$0.70 and vesting over 1 year.

Talon Metals Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020

(Expressed in Canadian dollars)

14. 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 March 31, 2021 was \$91,458 (December 31, 2020 - \$101,339). The change from December 31, 2020 to March 31, 2021 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.

15. INCOME TAXES

The British Virgin Islands statutory income tax rate of 0% (2020 - 0%) reconciles to the effective tax rate of 0% (2020 - 0%) with immaterial reconciling items.

The following table summarizes the components of deferred tax:

	Mar 31, 2021	Dec 31, 2020
Deferred tax assets		
Non-capital losses carried forward	\$ 4,627,787	\$ 4,389,072
Subtotal of assets	<u>4,627,787</u>	<u>4,389,072</u>
Deferred tax liabilities		
Resource pools - mineral properties	\$ 4,627,787	\$ 4,389,072
Subtotal of liabilities	<u>4,627,787</u>	<u>4,389,072</u>
Net deferred tax liability	<u>\$ -</u>	<u>\$ -</u>

U.S. net operating losses are approximately \$20.2 million (December 31, 2020 - \$19.1 million) or US\$16.0 million (December 31, 2020 - US\$15.0 million).

16. GEOGRAPHIC INFORMATION

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