



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

For the three months ended March 31, 2023

Dated: May 12, 2023

## **TABLE OF CONTENTS**

FORWARD-LOOKING INFORMATION.....	3
GOING CONCERN.....	5
COVID-19 .....	5
SUMMARY OF QUARTERLY RESULTS .....	6
REVIEW OF QUARTERLY RESULTS .....	6
COMPANY OVERVIEW .....	9
CAPITAL EXPENDITURES ON EXPLORATION PROJECTS.....	19
FINANCIAL INSTRUMENTS .....	20
FINANCIAL CONDITION, CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES.....	23
RISKS AND UNCERTAINTIES.....	27
RELATED PARTY TRANSACTIONS AND BALANCES .....	36
UPX OPTION AGREEMENT - MICHIGAN.....	37
CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES .....	38
INTERNAL CONTROL OVER FINANCIAL REPORTING .....	40
OUTLOOK .....	40

*This Management's Discussion and Analysis ("MD&A") of financial condition and results of operations for the three months ended March 31, 2023 should be read in conjunction with the consolidated financial statements of Talon Metals Corp. ("Talon" or the "Company") and notes thereto for the three months ended March 31, 2023. The MD&A enables readers to assess material changes in financial condition and results of operations in comparison to the corresponding prior-year periods.*

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

## **FORWARD-LOOKING INFORMATION**

This MD&A contains certain "forward-looking information". All information, other than information pertaining to historical fact, which addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future, including, among other things, the completion and timing of the Company's objectives, including exploration plans, drilling plans, geophysical work, mine plans, metallurgical and processing work, environmental studies, permitting, social/community impact and government relations work, engineering and feasibility study work, mine planning studies, metallurgy studies and engineering studies and the costs and timing thereof; the preparation and timing of the Draft EAW (defined below) and the subsequent environmental review process, including the preparation of the EIS (defined below); payments to Kennecott (defined below) pursuant to the 2018 Option Agreement (defined below); the supply of nickel concentrate to Tesla Inc. and a copper concentrate to one or more smelters pursuant to the Tesla Supply Agreement (defined below); the estimates in respect of mineral resource quantities, mineral resource qualities; US government support for building a domestic battery supply chain, including the grant for the Battery Minerals Processing Facility (defined below); the timing and finalization of the selection of a processing location at a brownfields industrial site in North Dakota; the Company's targets, goals, objectives and plans, the Company's business plans, priorities, milestones and budget, projections in respect of capital expenditures and the Company's liquidity and capital resources (including, the Company's expected uses of working capital) and the earn-in under the UPX Option Agreement (defined below), is forward-looking information.

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

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

COVID-19; the war in Ukraine; increased global uncertainty; increasing interest rates; delays in obtaining or failures to obtain necessary regulatory permits and approvals from government authorities, including approval of applications for licences/permits required to conduct field based programs; uncertainties involved in interpreting drilling results, and the beneficiation process and other geological and product related data; changes in the anticipated demand for nickel, copper, cobalt and/or gold and PGEs; changes in equity and debt markets; inflation; changes in exchange rates; declines in U.S., Canadian and/or global economies; US government funding changes; uncertainties relating to the availability and costs of financing needed to complete exploration activities and demonstrate the feasibility of the Company's projects; exploration costs varying significantly from estimates; delays in the exploration, mineral processing and development of, and/or commercial production from the properties Talon has an interest in; equipment failure; unexpected geological or hydrological conditions; political risks; imprecision in preliminary resource estimates; success of future exploration and development initiatives; the existence of undetected or unregistered interests or claims, whether in contract or in tort, over the property of Talon or the Tamarack Project; changes in government regulations and policies; risks relating to labour; other exploration, development and operating risks; liability and other claims asserted against Talon; volatility in prices of publicly traded securities; and other risks involved in the mineral exploration and development industry and risks specific to the Company, including the risks discussed in this MD&A under "*Risks and Uncertainties*".

Forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this MD&A are estimates, and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results, beneficiation tests and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates included in this MD&A are well established, by their nature, resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company.

***Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.***

*Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2022, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **GOING CONCERN**

The consolidated financial statements of the Company have been prepared on a going concern basis which contemplates that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on its ability to 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.

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

As of March 31, 2023, the Company had working capital of \$28.7 million (December 31, 2022 – \$39.6 million) and shareholders' equity of \$213.6 million (December 31, 2022 – \$212.8 million). Working capital is defined as current assets less current liabilities.

## **COVID-19**

The COVID-19 pandemic had minimal effect on the Tamarack Project during Q1 2023.

On May 5, 2023, the World Health Organization declared that COVID was no longer a global health emergency.

Please see "*Financial Condition, Cash Flow, Liquidity and Capital Resources – Liquidity and Capital Resources*" and "*Financial Instruments – Liquidity Risk*" for further important information regarding the potential impact of COVID-19. Please also see "*Risks and Uncertainties – COVID-19 Coronavirus Outbreak*".

## **SUMMARY OF QUARTERLY RESULTS**

The following table provides selected quarterly consolidated financial information for the periods ending as indicated. It is derived from the unaudited interim consolidated financial statements and the audited annual consolidated financial statements of the Company. All numbers below are unaudited.

	2023	2022				2021		
	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30
Interest Income	342,487	159,846	94,447	4,693	7,292	6,112	4,918	3,638
Net income (loss)	(561,897)	(618,685)	460,325	(109,931)	(1,229,742)	(1,094,946)	(1,479,437)	(2,153,190)
Basic and diluted net income (loss) per share*	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Comprehensive income (loss)	(733,110)	(2,563,424)	9,872,521	3,541,582	(2,910,492)	(1,544,400)	728,478	(3,102,115)

\*Total of quarterly amounts may not reconcile to annual amount due to rounding

Quarterly trends in interest income reflect for the most part interest received on cash balances. Trends in quarterly expenses are driven primarily by administration expenses (defined above) and stock option compensation. Generally, the most variable component of total expenses over the past eight quarters has been fair value adjustments, foreign currency translation and stock option compensation.

## **REVIEW OF QUARTERLY RESULTS**

Certain amounts in the consolidated statements of loss and comprehensive loss have been reclassified to conform to the current year's presentation and, as such, the discussion that follows below considers such reclassification.

### **Interest income**

Interest income is earned on the Company's cash and cash equivalents balance. Interest income for the year ended March 31, 2023 was \$342,487 compared to interest income of \$7,292 earned during the same period in the prior year. The increase in interest income for the current year compared to the prior year was the result of higher cash balances and higher interest rates.

### **Expenses**

Salaries, benefits, consulting and board fees were \$349,488 for the three months ended March 31, 2023 compared to \$397,533 for the three months ended March 31, 2022. The decrease was primarily due to the recognition of consulting fees in Q1 2022 to the Executive Chairman of the

Company (see section below entitled "Related party transactions and balances" for further information).

Professional fees increased to \$112,252 for the three months ended March 31, 2023 compared to \$11,575 for the three months ended March 31, 2022. The increase was the result of an increase in audit fees and higher spending on external legal fees related to corporate development matters.

Office and general expenses increased to \$25,526 for the three months ended March 31, 2023 compared to \$14,173 for the three months ended March 31, 2022. The increase for the three months ended March 31, 2023 compared to the same period in the prior year was primarily related to an increase in I/T costs, telecommunications and dues and memberships.

Marketing and travel expenses and insurance remained relatively constant for the three months ended March 31, 2023 compared to the same period in the prior year.

Listing, filing and shareholder communications expenses remained relatively constant for the three months ended March 31, 2023 compared to the same period in the prior year.

Stock option compensation expense decreased from \$645,794 during the three months ended March 31, 2022 to \$130,558 for the three months ended March 31, 2023. The decrease was the result of fewer options being issued during the 12-month period prior to the reporting date, the exact timing of the option issuances (some being late in the quarter) and the mix between options where the cost is capitalized to Resource properties and deferred expenditures compared to expensed on the income statement. Note that stock option expense is amortized over the vesting period, most commonly 12 months.

## Royalty

On March 7, 2019, Talon Nickel (defined below) granted a net smelter returns royalty to TF R&S Canada Ltd. (formerly 10782343 Canada Limited) (the "**Royalty Holder**"), a subsidiary of Triple Flag Precious Metals Corp, in consideration of the payment of US\$5.0 million. The Company, together with its subsidiaries, Cloudmine Holdings Limited and Talon Metals (USA) Inc., agreed to guarantee the payment and performance obligations under the royalty agreement (the "**Royalty Agreement**"). The royalty granted was 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 51%, in which case it will be paid assuming Talon Nickel's interest is unchanged at 51%; or (ii) 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 contained a one-time put right pursuant to which the Royalty Holder had 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 ("**Royalty Put Option**"). In the event the Royalty Holder did not exercise the one-time put right, Talon Nickel had 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. On February 15, 2022, Talon Nickel entered into an amending agreement with the Royalty Holder pursuant to which the Royalty Holder waived the put right and completed the early exercise of Talon Nickel's right to reduce the royalty on Talon Nickel's interest in the Tamarack Project from 3.5% to 1.85% in exchange for the payment by Talon Nickel of US\$4.5 million to the Royalty Holder.

Talon and its related entities 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 issued the Royalty Holder 5,000,000 warrants ("**Royalty Warrants**") exercisable to acquire one common share until March 7, 2022 at an exercise price of C\$0.0826 per share (which were exercised in December 2021). 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 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 were expensed.

On February 15, 2022, the Company paid US\$4.5 million to reduce the royalty and extinguished the Royalty Put Option.

### **Foreign Currency Translation**

Foreign currency translation resulted in gains of \$12,042 for the three months ended March 31, 2023 compared to a loss of \$413,424 for the three months ended March 31, 2022. This balance is highly variable due to the volatility of exchange rates and the changing and relatively high level of the Company's cash and cash equivalents balance.

### **Net Loss**

Net loss for the three months ended March 31, 2023 was \$0.6 million or \$nil per share (basic and diluted) primarily the result of administration expenses<sup>1</sup> and stock option compensation offset by interest income. This compares to a net loss of \$1.2 million or \$nil per share (basic and diluted) for the three months ended March 31, 2022, which was primarily the result of administration expenses and stock option compensation.

### **Comprehensive Gain/Loss**

During the three months ended March 31, 2023, the Company recognized a comprehensive loss of \$0.7 million. During the three months ended March 31, 2022, the Company recognized a comprehensive loss of \$2.9 million. Both losses were related to the foreign exchange conversion from United States dollars to Canadian dollars of the assets and liabilities of Talon Nickel, a U.S. subsidiary of the Company. This IFRS accounting requirement manifests itself on the statements of financial position as a change in the value of Resource properties and deferred expenditures where the Talon Nickel US-denominated balance at the end of the reporting period is converted to Canadian dollars at the foreign exchange rate at the end of the reporting period. The foreign exchange rate can vary significantly from period to period so at times this loss (or gain) may be very volatile.

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



## **COMPANY OVERVIEW**

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

### **Tamarack Project**

#### **Tamarack Earn-in Agreement**

On June 25, 2014, Talon's wholly owned indirect subsidiary, Talon Nickel (USA) LLC (“**Talon Nickel**”), entered into an exploration and option agreement (the “**Tamarack Earn-in Agreement**”) with Kennecott, part of the Rio Tinto Group, pursuant to which Talon Nickel received the right to acquire an interest in the Tamarack Project.

On January 4, 2016, pursuant to the terms of the Tamarack Earn-in Agreement, as amended, Talon Nickel earned an 18.45% interest in the Tamarack Project by making payments totalling US\$25,520,800 broken down as follows:

Option payments	\$ 1,000,000
Exploration	21,200,000
Land purchases	3,320,800
	<u>\$ 25,520,800</u>

On December 16, 2016, Talon Nickel entered into an amending agreement with Kennecott (the “**Tamarack Earn-in Third Amending Agreement**”) in respect of the Tamarack Earn-in Agreement (as amended). The Tamarack Earn-in Third Amending Agreement provided, among other things, 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 “**Tamarack Purchase Option**”) or proceed with a joint venture (the “**Tamarack Joint Venture**”) in respect of the Tamarack Project (the “**Kennecott Decision Deadline**”).

On the Kennecott Decision Deadline, Talon Nickel received notification from Kennecott that it had decided to grant Talon Nickel the Tamarack Purchase Option on the terms of the Tamarack Earn-in Agreement (as amended).

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

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

exploration program so that the 2018 winter exploration program was approved with immediate effect.

Following the Tamarack Earn-in Fifth Amending Agreement, Talon Nickel elected to not financially participate in any further funding made in respect of the Tamarack Project while Kennecott was the operator/manager of the Tamarack Project. This resulted in dilution of its interest from 18.45% to 17.56% (which was later increased to 51% and may increase further to 60%). Going forward, Talon Nickel is required to fund the Tamarack Project in accordance with the 2018 Option Agreement (defined below).

### **Tamarack Joint Venture**

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

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

### **2018 Option Agreement**

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

Pursuant to the terms of the 2018 Option Agreement, Talon Nickel has taken over operatorship of the Tamarack Project and Talon had the right to acquire a 51% interest in the Tamarack Project upon:

- (1) the payment of US\$6 million in cash to Kennecott (the **"Initial Cash Payment"**);
- (2) the issuance of US\$1.5 million worth of common shares of Talon to Kennecott (the **"Share Payment"**);
- (3) within 3 years of the effective date of the 2018 Option Agreement (March 13, 2022), Talon Nickel either spending US\$10 million or completing a pre-feasibility study on the Tamarack Project; and
- (4) within 3 years of the effective date of the 2018 Option Agreement (March 13, 2022), Talon Nickel paying Kennecott an additional US\$5 million in cash.

In late September 2021, approximately 6 months ahead of schedule, Talon completed all of the requirements and earned a 51% interest in the Tamarack Project. Rather than receiving US\$5 million in cash, Kennecott agreed to accept 10,543,333 units of Talon (each a **"KEX Earn-in Unit"**) at a deemed issuance price of C\$0.60 per KEX Earn-in Unit in full satisfaction of the US\$5 million cash obligation. Each KEX Earn-in Unit was comprised of one common share of Talon and one-half of one purchase warrant. Each whole warrant is exercisable to acquire a Talon common share until September 29, 2022 at an exercise price of \$0.80 per share.

Talon Nickel has the right to increase its interest in the Tamarack Project by 9% to a total of 60% by:

- (1) completing a feasibility study on the Tamarack Project within 7 years of the effective date of the 2018 Option Agreement (March 13, 2026); and
- (2) paying Kennecott US\$10 million in cash on or before the seventh anniversary of the effective date of the 2018 Option Agreement (March 13, 2026).

Upon Talon Nickel vesting with its applicable joint venture interest in the Tamarack Project, the parties have agreed to 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 have agreed to fund the Tamarack Project in accordance with their respective ownership interests or be subject to dilution.

### **Tamarack North Project**

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

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

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

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

On October 19, 2022, Talon released an updated mineral resource estimate prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Minerals Projects* ("**NI 43-101**") (the "**Resource Estimate**"). In support of the Resource Estimate, on November 2, 2022, Talon released an independent technical report prepared in accordance with NI 43-101 in respect of the Tamarack North Project (the "**November 2022 Technical Report**"). The November 2022 Technical Report is entitled "November 2022 National Instrument 43-101 Technical Report of the Tamarack North Project – Tamarack, Minnesota" with an effective date of November 2, 2022.

The Resource Estimate has an effective date of October 10, 2022 and was prepared by independent "Qualified Persons" (as that term is defined in NI 43-101) Mr. Brian Thomas and Mr. Roger Jackson of WSP Golder ("**Golder**") and is summarized below.

TALON METALS CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three months ended March 31, 2023

Domain	Classification	%Ni Cut-off	Tonnes (000)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Au (g/t)	Fe in Sulphides (%)	NiEq (%)
CGO East MMS/MSU	Indicated Resource	0.5	228	2.84	1.19	0.09	0.31	0.20	0.21	21	3.66
CGO East Disseminated	Indicated Resource	0.5	1,083	0.64	0.44	0.02	0.21	0.11	0.13	2	0.94
CGO West MMS/MSU	Indicated Resource	0.5	330	4.11	1.68	0.11	0.37	0.28	0.19	27	5.22
CGO West Disseminated	Indicated Resource	0.5	586	0.67	0.46	0.02	0.11	0.07	0.07	2	0.96
MSU	Indicated Resource	0.5	490	5.60	2.44	0.12	0.68	0.46	0.26	26	7.10
USMSU	Indicated Resource	0.5	3,338	1.24	0.74	0.03	0.20	0.12	0.12	5	1.70
LSMSU	Indicated Resource	0.5	2,506	1.94	1.05	0.05	0.57	0.34	0.26	8	2.68
<b>Total Indicated</b>	<b>Indicated Resource</b>	<b>0.5</b>	<b>8,564</b>	<b>1.73</b>	<b>0.92</b>	<b>0.05</b>	<b>0.34</b>	<b>0.21</b>	<b>0.17</b>	<b>8</b>	<b>2.34</b>
CGO East MMS/MSU	Inferred Resource	0.5	158	2.53	1.09	0.08	0.28	0.18	0.19	19	3.29
CGO East Disseminated	Inferred Resource	0.5	823	0.62	0.42	0.02	0.20	0.11	0.12	2	0.91
CGO West MMS/MSU	Inferred Resource	0.5	107	3.51	1.45	0.10	0.31	0.22	0.17	25	4.48
CGO West Disseminated	Inferred Resource	0.5	320	0.66	0.44	0.02	0.10	0.06	0.07	2	0.92
MSU	Inferred Resource	0.5	39	5.94	2.53	0.11	0.54	0.45	0.23	25	7.45
LSMSU	Inferred Resource	0.5	121	0.84	0.60	0.02	0.50	0.28	0.23	2	1.31
USMSU	Inferred Resource	0.5	2,932	0.67	0.41	0.02	0.25	0.14	0.12	2	0.96
138 - MZNO	Inferred Resource	0.5	3,957	0.82	0.63	0.02	0.21	0.12	0.14	2	1.21
<b>Total Inferred</b>	<b>Inferred Resource</b>	<b>0.5</b>	<b>8,461</b>	<b>0.83</b>	<b>0.55</b>	<b>0.02</b>	<b>0.23</b>	<b>0.13</b>	<b>0.13</b>	<b>3</b>	<b>1.19</b>

Mineral Resources are in situ and reported at a 0.50% Ni cut-off.

Tonnage estimates are rounded down to the nearest 1,000 tonnes.

Fe in Sulphides % is based on sulphur concentration associated with sulphide minerals and a calculation of stoichiometric Fe concentration in Pentlandite and Pyrrhotite.

Mining recovery and dilution factors have not been applied to the estimates.

NiEq grade based on metal prices in U.S. dollars of \$9.50/lb Ni, \$3.75/lb Cu, \$25.00/lb Co, \$1,000/oz Pt, \$1,000/oz Pd and \$1,400/oz Au using the following formula:  $NiEq\% = Ni\% + Cu\% \times \$3.75/\$9.50 + Co\% \times \$25.00/\$9.50 + Pt[g/t]/31.103 \times \$1,000/\$9.50/22.04 + Pd[g/t]/31.103 \times \$1,000/\$9.50/22.04 + Au[g/t]/31.103 \times \$1,400/\$9.50/22.04$ . Fe is not included in the NiEq calculation.

No adjustments were made for recovery or payability.

The Resource Estimate did not apply mining recovery factors, however, there would be no material change to the nickel-equivalent grades reported in the Resource Estimate if reasonable assumptions for those factors were applied.

Please refer to the November 2022 Technical Report for further information, including the QA/QC, analytical and testing procedures employed at the Tamarack North Project. The November 2022 Technical Report is available under Talon's SEDAR profile at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.talonmetals.com](http://www.talonmetals.com).

### **Tesla Supply Agreement**

In January 2022, Talon Nickel entered into an agreement with Tesla for the supply and purchase of 75,000 metric tonnes (165 million lbs) of nickel in concentrate (the “**Tesla Supply Agreement**”). Talon Nickel has agreed to use commercially reasonable efforts to achieve commercial production on or before January 1, 2026, which may be extended by the parties for up to 12 months following which Tesla has the right to terminate the agreement and Talon Nickel may elect to sell to other parties. Given the agreement with Tesla, during 2022, the Company focused its metallurgical testing with the objectives of producing a nickel concentrate for Tesla and a copper concentrate for selling to one or more smelters. The Company intends to continue such objectives in 2023.

### **Battery Minerals Processing Facility – North Dakota**

On October 19, 2022 Talon Nickel was selected as a recipient of the first set of projects funded by President Biden’s *Bipartisan Infrastructure Law*. The purpose of the *Bipartisan Infrastructure Law* is to expand domestic manufacturing of batteries for electric vehicles and the electrical grid, with a focus on domestic processing of materials and components currently imported from other countries. Responsible and sustainable domestic sourcing and processing of the critical materials used to make lithium-ion batteries will strengthen American supply chains, accelerate battery production to meet increased demand, and secure the nation’s economic competitiveness, energy independence, and national security.

Under its application for funding, Talon Nickel proposed an ore processing and tailings management facility (the “**Battery Minerals Processing Facility**”) located at an existing industrial brownfields site in Mercer County, North Dakota, receiving feedstock from the future underground Tamarack Nickel Project mine and other potential sources in North America. The acquisition of the site in North Dakota is actively under negotiations. Removing the processing facilities from the Tamarack mine site in Minnesota significantly reduces land disturbance and the scope of environmental review and permitting. Both facilities will undergo the science based permitting process in both states that include an opportunity for public comment and government-to-government consultations with tribal sovereign governments.

On a cost-share basis and subject to final negotiations, the US Department of Energy has agreed to provide a \$114 million grant towards project construction and execution costs for the Battery Minerals Processing Facility in North Dakota.

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

During the three months ended March 31, 2023, the Company incurred \$11.7 million of expenditures, on resource properties, substantially all on the Tamarack North Project, as detailed in the following table:

Category	Amount (C\$)
Exploration, drilling and assays	\$3,837,374
Geophysics	561,513
Mining, engineering and geotechnical studies	2,439,561
Metallurgical testing	399,723
Environmental, permitting, community and government relations	3,022,590
Economic studies	36,731
Mineral leases, property tax and land purchases	274,413
Professional fees	527,607
Site costs, travel and general	506,792
Site remediation	115,900
<b>Total*</b>	<b>\$11,722,204</b>

\*May not total due to rounding

The above spending was in the connection with the following: (i) continuous drilling to expand the current resource and make new discoveries; (ii) geophysical work to identify new prospective drilling targets at the Tamarack Project; (iii) work towards a feasibility study; (iv) additional metallurgical test work and downstream processing options; and (v) studies and models to estimate potential environmental impacts and work towards reports that will provide the information needed for development of the Environmental Impact Statement.

In July 2020, the Company entered into a cost-effective lease-to-own agreement in respect of a drill rig. Following this, the Company hired a full-time dedicated team of drillers, some with specific drilling experience at the Tamarack Project, with the primary objective of materially increasing the number of meters drilled at the Tamarack Project at a substantially reduced cost while maintaining first-in-class health and safety standards. Given the Company's positive experience with running its own drill rig and a full-time dedicated drill team, in October 2020, the Company entered into a second cost-effective lease-to-own agreement in respect of a second drill rig, which arrived at the Tamarack Project site in November 2020. The Company also retained a full-time dedicated team of drillers to run this second drill rig. In February 2021, the Company purchased outright the two drill rigs. In early 2022, the Company purchased an additional three new drill rigs. These new drill rigs were received in July, September and November of 2022. They have been deployed to Talon's exploration of the Tamarack Intrusive Complex for additional high-grade nickel deposits.

### Upcoming Work – Tamarack North Project

The Company is focused on the advancement of the Tamarack North Project. The Company intends to achieve the following business objectives during 2023. As of March 31, 2023 and May 12, 2023, the Company had working capital of \$28.7 million and approximately \$25 million, respectively.

### *Exploration, Drilling, Geophysics and Mineral Resource*

The Company intends to continue exploration along the Tamarack North Project portion of the Tamarack Intrusive Complex while focusing on the following areas that show high-grade nickel potential:

- Determine if the CGO East mineral resources connect to the high-grade massive nickel sulphides identified within the Company's mineral resource area and if connected, drill the resource into the indicated mineral resource category. This program is expected to require 3,000 to 5,000 meters of drilling;
- The initial Raptor Zone drilling has resulted in 6 of 9 drill holes intersecting high-grade massive nickel sulphides. Additional drilling is required within the Raptor Zone to determine if the 1-2 meters of high-grade massive nickel sulphide mineralization thickens to economically viable intervals. This program is expected to require 20,000 meters of drilling; and
- Evaluate the 164 Zone, which lies approximately 1km south of the Company's mineral resource area. This area has historic high-grade massive nickel sulphide intersections and remains highly prospective. This program is expected to require 3,000 to 5,000 meters of drilling.

The primary objective of the additional exploration along the Tamarack North Project is to enable the Company to identify future mineral resources to support the onshoring of US critical mineral production during the transition from fossil fuels to green energy storage.

### *Metallurgy and Processing*

In connection with mineral processing and metallurgical testing, the Company intends to:

- Complete the process development of Talon's high recovery nickel, iron, copper and cobalt flowsheet to maximize metal and sulphur recoveries to concentrates, while reducing sulphur in the tailings;
- Continue flowsheet development with other downstream partners to produce high purity nickel and iron;
- Investigate the commercialization of sulphur, produced from the Tamarack North Project's nickel concentrates;
- Continue to explore carbon sequestration and/or the production of supplementary cementitious material; and
- Identify commercial equipment solutions that could further improve the metallurgical response of the Tamarack mineralization during full-scale operation.

If the above activities are successful, Talon may target the valorizing of up to 100% of each tonne of rock, which means added environmental protection, while deriving significantly higher economic benefits compared to the present nickel supply chain.

### *Environmental Studies, Permitting, Social or Community Impact*

In connection with environmental studies, permitting, and social or community impact, the Company intends to progress studies and models to estimate potential environmental impacts,

as well as progress reports that will provide the information needed for development of the Environmental Impact Statement ("EIS"). In particular, the Company plans to continue:

- The collection of baseline data for groundwater (level and quality), surface water (flow and quality), wetlands (water levels and water quality), vegetation, materials characterization (static and kinetic testing), noise, and biological studies;
- An archaeological reconnaissance survey and a historic architectural survey and assessment;

The Company also plans to progress the following:

- Modelling of potential impacts to the environment from the Tamarack North Project including air modeling, water quantity and quality impact modeling, as well as noise impact modelling;
- Visual impact analysis to establish the visibility of the Tamarack North Project features;
- Completion of a traffic study;
- Preparation of a wetland delineation study; and
- Reports and plans to support the development of the EIS. These documents would be in five categories: the Scoping Environmental Assessment Worksheet, baseline data reports, modelling reports, resource reports, and management plans. These reports would also support preparation of the future permit applications.

In partnership with the community, the Company intends to build upon current community engagement and plans to:

- Identify potential community impacts and opportunities connected to project operations;
- Develop community investment plans that align with the community's long-term development goals;
- Ensure best in class community engagement and understanding of project operations; and
- Promote equal opportunities for good-paying, high quality jobs with involvement of organized labor in the design and establishment of operations.

#### *Engineering and Feasibility Study*

The Company has completed significant engineering work for the underground mine and the surface facilities at the underground mine in order to inform the initial stages of state-level environmental review in Minnesota. The Company also intends to complete a similar package of initial engineering work for the Battery Minerals Processing Facility in North Dakota in order to support a Federal Environmental Assessment.

The Company believes that there is sufficient resource knowledge, geotechnical data, and environmental baseline data for Talon to continue to advance engineering work towards a feasibility study for the development of a mine and rail loadout facility at the Tamarack North Project and the Battery Minerals Processing Facility. The engineering work for the feasibility study will consist of three main scope areas:

- Underground mine;



- Surface facilities and rail loadout facility at the underground mine; and
- Battery Minerals Processing Facility.

Environmental and regulatory considerations will be contemplated during every step of the engineering design, as well as opportunities for innovation and cost savings. Models for capital costs, operating costs, and revenue will be created to develop a definitive economic analysis of the Tamarack North Project.

### **Anticipated Timing and Costs to take the Tamarack North Project to the Next Milestone**

The next "milestone" for the Tamarack North Project is the submission of the Draft Environmental Assessment Worksheet ("**Draft EAW**") with the Minnesota Department of Natural Resources ("**MDNR**"). The Draft EAW is the first step in the state environmental review process and is a document that provides a description of the proposed project and a brief analysis and overview of the potential environmental effects, and identifies the permits and approvals required for the proposed project.

The Company expects to submit the Draft EAW in June, 2023. The direct costs for completing the Draft EAW are minimal and is comprised primarily of staff time and review by consultants related to drafting the Draft EAW. In addition to the direct EAW costs from April 2023 to June 2023, the Company will be spending approximately \$4.0 million on work relating to (1) mining, engineering and geotechnical studies, (2) metallurgical testing, and (3) environmental, permitting, community and government relations will be completed, which supports engineering and other future requirements of the environmental review process.

The Company has been working on the Draft EAW since approximately April 2022. During the three months ended March 31, 2023, the Company spent \$5.9 million on studies and other work in the areas of (1) mining, engineering and geotechnical studies, (2) metallurgical testing, and (3) environmental, permitting, community and government relations (see table of expenses in section above titled "Work Completed/Expenditures – Tamarack North Project and Tamarack South Project") of which the majority of the spending supports information required for the Draft EAW (but also supports engineering and other future requirements of the environmental review process).

The overall budget of the Company between April 2023 and June 2023, which includes numerous additional activities being conducted beyond the preparation of the Draft EAW (including on-going exploration, data collection, modelling, engineering, cost estimating, other environmental costs, along with community and other costs such as mineral leases, overhead and corporate costs), is approximately \$11 million, which compares to working capital of \$28.7 million as of March 31, 2023.

Following the Company's submission of the Draft EAW, the Company plans to further progress its work towards developing information for the EIS.

Extensive modelling and engineering work is in the process of being conducted by the Company to support the preparation of the EIS, as well as for the Federal Environmental Assessment in respect of the Battery Minerals Processing Facility.

The above-noted modelling and engineering work will also be integrated into the Company's

feasibility study, which work is ongoing.

The Company will continue to deploy its geophysical and drilling capabilities to both support the preparation of the EIS and work towards a feasibility study in tandem with its exploration efforts as described above.

There is no assurance the various business objectives, plans or milestone above will be completed on the timelines outlined (or at all). The exploration, development and construction of mineral projects are subject to a number of risks and uncertainties. See section below entitled *"Risks and Uncertainties"*.

### November 2022 Prospectus Offering

On November 9, 2022, the Company completed the November 2022 Prospectus Offering (defined below). The Company has been using the net proceeds from the November 2022 Prospectus Offering, together with pre-existing available funds, as disclosed in the section titled "Use of Net Proceeds" in the Company's prospectus supplement dated November 9, 2022 to the 2021 Base Shelf Prospectus (the **"November 2022 Prospectus"**) that has been filed on SEDAR for advancing its planned exploration and development program at the Tamarack North Project and for general corporate and working capital purposes. The table below is a comparison of the "Use of Net Proceeds" from the November 2022 Prospectus with the amount spent from November 1, 2022 to March 31, 2023. The "Use of Net Proceeds" budget was for the period commencing November 1, 2022.

Category	Budget or "Use of Net Proceeds" from November 2022 Prospectus	Approximate Expenditures as of March 31, 2023	Approximate Expenditures Remaining as of March 31, 2023
Exploration, drilling, geophysics and mineral resource	\$8,000,000	\$7,134,369	\$865,631
Metallurgical and processing	2,900,000	497,339	2,402,661
Environmental, studies, permitting, social or community impact and government relations	9,000,000	4,490,033	4,509,967
Engineering and feasibility study	16,400,000	4,622,507	11,777,493
Tamarack land package	1,400,000	949,878	450,122
Local site costs, legal support, data management and other	3,200,000	1,971,588	1,228,412
Michigan Properties exploration and contiguous title expenses	1,400,000	269,030	1,130,970
Public company costs and investor relations	2,200,000	762,743	1,437,257
General corporate and working capital	733,840	2,282	731,559
<b>Total</b>	<b>\$45,233,840</b>	<b>\$20,699,769</b>	<b>\$24,534,072</b>

To March 31, 2023, \$20.7 million of the budgeted \$45.2 million "Use of Net Proceeds" has been expended. Of the \$20.7 million expended, \$7.1 million has been incurred on exploration, which includes exploration drilling, geophysics, and infill drilling. The budget is focused on exploration, environmental/permitting and engineering which are all necessary in order to move forward with the project to start construction. The spending on exploration drilling, geophysics, and infill drilling is higher than planned due to the positive exploration results in the new Raptor Zone which resulted in more drilling and a reallocation of the budget from the other categories.

Overall, spending is on track and working capital of \$28.7 million as of March 31, 2023 was

sufficient to cover the approximate expenditures remaining of \$24.5 million as of March 31, 2023.

### **Qualified Persons**

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

The Qualified Persons who are responsible for the Resource Estimate in this MD&A are Mr. Brian Thomas and Mr. Roger Jackson, both independent of Talon. Mr. Thomas and Mr. Jackson have reviewed, approved and verified the data disclosed in this MD&A relating to the Resource Estimate including, sampling, analytical and test data underlying the Resource Estimate and have visited the site and reviewed and verified the QA/QC procedures used at the Tamarack North Project and found them to be consistent with industry standards.

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

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

	<b>Dec 31, 2022</b>	<b>2023 Additions</b>	<b>Foreign Exchange</b>	<b>Mar 31, 2023</b>
<i>Mineral properties - Resource properties and deferred expenditures (presented in Canadian dollars)</i>				
Tamarack Project	\$160,470,343	\$11,722,204	\$ (116,051)	\$172,076,496
Michigan Properties	9,394,861	89,576	(7,462)	9,476,975
Total	\$169,865,204	\$11,811,780	\$ (123,513)	\$181,553,471

Total deferred exploration and development expenditures for the three months ended March 31, 2023 were \$11.8 million, with substantially all spent on the Tamarack Project. The spending on the Michigan Properties for the three months ended March 31, 2023 was \$0.1 million.

As detailed in the table above under "*Tamarack Project - Work Completed/Expenditures – Tamarack North Project and Tamarack South Project*" amounts incurred on the exploration of mineral properties for the three months ended March 31, 2023 amounted to \$11.7 million in respect of the Tamarack Project.

The foreign exchange loss of \$0.1 million is a non-cash item that is the result of fluctuations in the Canadian dollar denominated carrying value of the project which has been converted from United States dollars, as a result of the change in the Canadian dollar/United States dollar exchange rate from 1.3544 at December 31, 2022 to 1.3533 at March 31, 2023. IFRS requires that the year-end or period-end United States dollar balance of Resource properties and deferred expenditures be converted to Canadian dollars at the year-end or period-end exchange rate.

Amounts incurred on the exploration of mineral properties for the three months ended March 31, 2022 amounted to \$10.5 million and was the result of amounts incurred by Talon in respect of the Tamarack Project in accordance with the 2018 Option Agreement, primarily for exploration, drilling, geophysics and payments required pursuant to mineral leases.

## **FINANCIAL INSTRUMENTS**

	<b>Mar 31, 2023</b>	<b>Dec 31, 2022</b>
<i>Held for trading, measured at fair value:</i>		
Cash and cash equivalents	\$ 9,335,692	\$ 14,986,420
Treasury bills and term deposits	21,686,967	28,265,218

Talon is exposed to various risks related to its financial assets and liabilities. The most significant of these risks are discussed below and are managed on an ongoing basis.

### **Credit Risk Management**

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

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

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at reasonable cost. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures.

As of March 31, 2023, the Company had a cash, cash equivalents, treasury bills and term deposits balance of \$31.0 million, (December 31, 2022 – \$43.3 million) to settle current liabilities of \$2.8 million (December 31, 2022 – \$4.2 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.

On January 31, 2022, the Company closed the January 2022 Prospectus Offering and January 2022 Concurrent Private Placement.

On November 16, 2022, the Company closed the November 2022 Prospectus Offering.

The outbreak of the novel strain of coronavirus, specifically identified as COVID-19 resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which have included the implementation of travel bans, self-imposed quarantine periods and social distancing, caused material disruption to business globally. During this time, global equity markets have experienced significant volatility and periods of weakness. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The ultimate duration and impact of COVID-19 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. However, on May 5, 2023, the World Health Organization declared that COVID was no longer a global health emergency.

World events, including the war in Ukraine, increases in interest rates, high inflation, bank insolvencies and declining capital markets have resulted in increased volatility and may also have a significant negative impact on the Company's ability to raise capital and on operations.

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

### **Market Risk**

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

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

As of March 31, 2023 and December 31, 2022, the Company held no investments other than cash and cash equivalents, treasury bills and term deposits which management considers to not be materially susceptible to market risks.

### **Foreign Exchange Risk**

The Company is exposed to movements in the United States dollar. Payments made to Kennecott and substantially all of the costs associated with the operatorship of the Tamarack Project are denominated in United States dollars. Talon's head-office salaries, administrative costs and fees to Canadian-based consultants are denominated in Canadian dollars. Talon's financing activities have been primarily in Canadian dollars.

Given the above, the Company maintains funds in both Canadian and U.S. dollars taking into account cash needs over the medium term.

As of March 31, 2023, Talon was exposed to movements in the United States dollar as a result of cash on hand, certain accounts payable and the majority of costs associated with the development of the Tamarack Project.

At March 31, 2023, the Company had net monetary assets in United States dollars of \$19.5 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 March 31, 2023 of approximately \$1.0 million.

COVID-19 and other world events, including the war in Ukraine, increasing interest rates, high inflation and declining capital markets have resulted in increased volatility of the Canadian/U.S. dollar exchange rate which, may increase the Canadian dollar denominated cost of the Company's operations since a majority of costs associated with the development of the Tamarack Project are denominated in United States dollars.

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent of its interest income on holding of cash equivalents, government treasury bills, money market funds and term deposits.

The cash equivalents, government treasury bills, money market funds and term deposits typically have a term to maturity of three to nine months. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from the cash equivalents, government treasury bills, money market funds and term deposits due to their short maturities and high credit ratings of the counterparty. The Company mitigates its risk by holding investments that are low in risk and have a relatively short term to maturity.

The carrying values of the Company's financial instruments approximate their fair values unless otherwise noted.

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

### **Fair Value Hierarchy**

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

The Company has classified its financial assets and liabilities as follows at March 31, 2023:

Level 1	
Cash and cash equivalents	\$ 9,335,692
Treasury bills and term deposits	21,686,967

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

### **Cash Flow Highlights**

	<b>Three months ended March 31, 2023</b>	<b>Three months ended March 31, 2022</b>
Operating activities	\$(884,512)	\$(1,317,444)
Investing activities	(4,746,156)	(15,063,283)
Financing activities	28,500	33,013,057
Increase (decrease) in cash & cash equivalents	(5,602,168)	16,632,330
Effect of foreign exchange on consolidation	(48,560)	(50,672)
Beginning cash & cash equivalents	14,986,420	25,065,775
Ending cash & cash equivalents	\$9,335,692	\$41,647,433

### ***Operating Activities***

Operating activities for the three months ended March 31, 2023 consumed \$0.9 million of cash primarily due to net operating expenses and a reduction in working capital. This compares to \$1.3 million consumed during the three months ended March 31, 2022. The decrease was primarily due to significantly higher interest income earned during the three months ended March 31, 2023 compared to same period in the prior year.

### ***Investing Activities***

Investing activities for the three months ended March 31, 2023 consumed \$4.7 million compared to \$15.1 million in the same period in the prior year. The decrease was the result of net investments in treasury bills and term deposits of \$6.8 million. Excluding the investments in treasury bills and term deposits, investing activities for the three months ended March 31, 2023 consumed \$11.6 million primarily relating to capitalized exploration costs. For details on the spending during the three months ended March 31, 2023, see the section titled “*Work Completed/Expenditures – Tamarack North Project and Tamarack South Project*”, with the difference due to non-cash expenditures, working capital adjustments, and capitalized fixed assets that are being depreciated to Resource properties and deferred expenditures.

### ***Financing Activities***

On December 7, 2021, the Company filed a final short form base shelf prospectus (the “**2021 Base Shelf Prospectus**”) with the securities regulatory authorities in each of the provinces of Canada. Pursuant to the 2021 Base Shelf Prospectus, Talon was able to 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 \$90 million during the 25-month period that the 2021 Base Shelf Prospectus remains effective. Talon filed the 2021 Base Shelf Prospectus to give it flexibility to take advantage of financing opportunities as they may arise and as the Company deems appropriate, subject to market conditions and other relevant factors. The 2021 Base Shelf Prospectus was withdrawn effective February 17, 2023, the date that the 2023 Base Shelf Prospectus (defined below) became effective.

On January 31, 2022, the Company closed a bought deal public offering of common shares of the Company pursuant to a prospectus supplement to the 2021 Base Shelf Prospectus (the **"January 2022 Prospectus Offering"**). Pursuant to the January 2022 Prospectus Offering, Talon issued 38,200,000 common shares at a price of \$0.72 per common share for aggregate gross proceeds of \$27,504,000. Concurrently with the closing of the January 2022 Prospectus Offering, the Company closed a non-brokered private placement of 8,953,013 common shares at a price of \$0.72 per common share for aggregate gross proceeds of \$6,446,169 (**"January 2022 Concurrent Private Placement"**).

On November 16, 2022, the Company closed a bought deal public offering of common shares of the Company pursuant to a prospectus supplement to the 2021 Base Shelf Prospectus (the **"November 2022 Prospectus Offering"**). Pursuant to the November 2022 Prospectus Offering, Talon issued an aggregate of 75,231,237 common shares, including 8,831,237 common shares issued upon the partial exercise of the over-allotment option, at a price of \$0.49 per Share (the for aggregate gross proceeds of \$36,863,306).

On February 17, 2023, the Company filed a final short form base shelf prospectus (the **"2023 Base Shelf Prospectus"**) with the securities regulatory authorities in each of the provinces of Canada. Pursuant to the 2023 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 \$150 million during the 25-month period that the 2023 Base Shelf Prospectus remains effective. Talon filed the 2023 Base Shelf Prospectus to give it flexibility to take advantage of financing opportunities as they may arise and as the Company deems appropriate, subject to market conditions and other relevant factors.

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

### **Liquidity and Capital Resources**

As of March 31, 2023, the Company had a cash, cash equivalents, treasury bills and term deposits balance of \$31.0 million, (December 31, 2022 – \$43.3 million) to settle current liabilities of \$2.8 million (December 31, 2022 – \$4.2 million).

Working capital is expected to be sufficient to meet the planned spending discussed in the section above *"Upcoming Work – Tamarack North Project"*.

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.

The Company's monthly cash outflows are dependent on whether and to what extent the Company is pursuing an active exploration program. The Company's monthly cash outflows are also dependent on the outlook for raising additional capital and the current amount of working capital. As such, the Company can reduce operating and investing spending to adjust for periods when access to financing is constrained.



TALON METALS CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three months ended March 31, 2023

Pursuant to an investment agreement dated November 7, 2018 between the Company and Resource Capital Fund VI L.P. ("**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.

See "*Financial Instruments – Liquidity Risk*" (including in respect of the potential impact of the COVID-19) and "*Risks and Uncertainties*" for further important information.

**A summary of Contributed Surplus for the period from January 1, 2022 to March 31, 2023 is as follows:**

Balance	December 31, 2021	\$30,308,448
Stock options	Stock option compensation	7,006,825
Stock options	Stock options exercised	(595,282)
Warrants	Warrants expired	3,023,498
Balance	December 31, 2022	39,743,489
Stock options	Stock option compensation	1,448,549
Stock options	Stock options exercised	(17,472)
Balance	March 31, 2023	\$41,174,566

**DISCLOSURE OF OUTSTANDING SHARE DATA**

As of May 12, 2023, the Company had 851,141,418 common shares issued and outstanding.

The following table details the common shares and convertible securities of the Company which are outstanding as of May 12, 2023:

	Expiry Date	Exercise Price	Total
Common Shares			851,141,418
Stock Options	Mar 22, 2024	\$0.095	30,142,536
Stock Options	Jun 6, 2024	\$0.18	4,962,735
Stock Options	Oct 2, 2024	\$0.18	1,000,000
Stock Options	Oct 28, 2024	\$0.165	6,000,000
Stock Options	Dec 12, 2024	\$0.145	1,325,000
Stock Options	Mar 13, 2025	\$0.10	5,380,000
Stock Options	Jul 22, 2025	\$0.145	350,000
Stock Options	Jul 23, 2025	\$0.145	500,000
Stock Options	Aug 7, 2025	\$0.28	350,000
Stock Options	Aug 14, 2025	\$0.26	775,000
Stock Options	Aug 15, 2025	\$0.25	200,000
Stock Options	Oct 28, 2025	\$0.30	200,000
Stock Options	Dec 28, 2025	\$0.51	19,055,000
Stock Options	Mar 19, 2026	\$0.70	5,307,736
Stock Options	May 28, 2026	\$0.59	4,600,000
Stock Options	Jun 25, 2026	\$0.52	12,050,000
Stock Options	Oct 22, 2026	\$0.65	1,800,000
Stock Options	Jan 13, 2027	\$0.72	1,600,000
Stock Options	Feb 3, 2027	\$0.66	6,200,000
Stock Options	Feb 18, 2027	\$0.67	1,500,000

TALON METALS CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three months ended March 31, 2023

	Expiry Date	Exercise Price	Total
Stock Options	Mar 9, 2027	\$0.78	1,550,000
Stock Options	Apr 14, 2027	\$0.74	1,000,000
Stock Options	May 16, 2027	\$0.54	200,000
Stock Options	Jun 29, 2027	\$0.51	1,500,000
Stock Options	Jul 15, 2027	\$0.39	600,000
Stock Options	Aug 15, 2027	\$0.59	200,000
Stock Options	Sept 15, 2027	\$0.52	200,000
Stock Options	Sept 29, 2027	\$0.485	100,000
Stock Options	Dec 20, 2027	\$0.445	8,100,000
Stock Options	Jan 16, 2028	\$0.475	1,500,000
Stock Options	Feb 15, 2028	\$0.425	500,000
Stock Options	Mar 15, 2028	\$0.41	200,000
Total number of shares issuable on exercise of convertible securities (i.e., fully-diluted shares outstanding):			970,089,425

As the Company and Talon Nickel continue to expand, stock options were issued by the Company during 2023 and 2022 primarily to new employees and consultants.

The following details the change in stock options outstanding of the Company during the three months ended March 31, 2023:

	Options	Exercise Price
Outstanding – beginning of year	118,448,007	\$0.37
Granted	1,700,000	0.48
Granted	500,000	0.43
Granted	400,000	0.41
Exercised	(300,000)	0.095
Cancelled	(200,000)	0.52
Cancelled	(100,000)	0.78
Cancelled	(100,000)	0.74
Cancelled	( 50,000)	0.51
Cancelled	(262,500)	0.52
Cancelled	(200,000)	0.445
Cancelled	(200,000)	0.475
Outstanding – at the end of period	119,635,507	\$0.37

All of the stock options outstanding have been issued pursuant to the Company's stock option plan.

### Estimated fair value of stock options

The Company determined the fair value of the stock options issued during the year ended December 31, 2022 and 2021 using the Black-Scholes option pricing model using the following assumptions:

	Three months ended March 31,	
	2023	2022
Share price	Closing price on the day prior to the date of grant	
Risk-free interest rate	2.93% - 3.45%	1.52% -1.74%
Expected life	5 years	5 years
Expected volatility	60%	60%
Dividend yield	0%	0%
Forfeiture rate	0%	0%

Stock option compensation expense for the three months ended March 31, 2023 and 2022,

presented in the table below, was recognized in the consolidated statements of loss and comprehensive loss. In addition, amounts related to stock option compensation attributable to work carried out on the Tamarack Project were capitalized to Resource properties and deferred expenditures for the three months ended March 31, 2023 and 2022, also presented in the table below.

	Three months ended March 31, 2023	Three months ended March 31, 2022
Stock option compensation - expensed	\$ 130,558	\$ 645,794
Stock option compensation - capitalized	1,317,991	1,680,200
Stock option compensation - total	<u>\$ 1,448,549</u>	<u>\$ 2,325,994</u>

## **RISKS AND UNCERTAINTIES**

Talon is subject to a number of risk factors due to the nature of the mineral business in which it is engaged, the limited extent of its assets and its stage of development.

The exploration operations of the Company are speculative due to the high-risk nature of its business which is primarily focused on the acquisition, exploration and development of mineral projects. The Company's activities in pursuit of its objectives are subject to a number of risks and uncertainties.

The following is a summary of the most significant of those risks and uncertainties affecting or that could affect the financial condition or results of operations of the Company. For a further discussion of the risks and uncertainties facing the Company, please refer to the Company's Annual Information Form for the year ended December 31, 2022 under the heading "Risk Factors" available on SEDAR at [www.sedar.com](http://www.sedar.com). These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. The Company may face additional risks and uncertainties, including, risks and uncertainties that are unknown to the Company or risks and uncertainties that the Company now believes to be unimportant, which could have a material adverse effect on the business of the Company. If any of the risks actually occur, the business, financial condition or results of operations of the Company could be negatively affected.

### ***2018 Option Agreement***

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

In order for Talon Nickel to earn a 60% interest in accordance with the 2018 Option Agreement, the Company will be required to raise additional capital and there can be no assurance that the Company will be successful in raising such capital. If the Company is successful in raising capital, it could result in substantial dilution to existing shareholders of the Company.

### *Working Capital Requirements*

In order to meet future working capital requirements, the Company will need to raise additional capital. If the Company seeks to raise additional capital, it may not be available when needed, or if available, the terms of such capital might not be favourable to the Company. Global securities markets continue to experience volatility (and extreme volatility since the outbreak of COVID-19 and other world events, including the war in Ukraine, high inflation, increasing interest rates and fears of recession), which may result in difficulty raising equity capital and market forces may render it difficult or impossible for the Company to secure investors to purchase any new share issuances at prices which will not lead to severe dilution to existing shareholders, or at all. There can be no assurance that the Company will be successful in raising additional capital, when needed, to meet the Company's future working capital requirements. If the Company is not successful in doing so (or in doing so sufficiently), it may have a material adverse effect on the Company's business, financial condition and results of operations (including, in certain circumstances, the ability of the Company to continue to operate as a going concern).

### *Ability to Continue as a Going Concern*

The Company believes that it has or will have sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. In assessing whether the going concern assumption contained in the Company's financial statements for the three months ended March 31, 2023 is appropriate, the Company takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue future operations beyond March 31, 2024 may be dependent on the Company's ability to secure additional financing.

### *North Dakota Battery Minerals Processing Facility and US Government Funding*

On July 1, 2022, Talon Nickel submitted an application for US government funding under the United States *Bipartisan Infrastructure Law*. On October 19, 2022, Talon Nickel was selected as a recipient of the first set of projects funded by the United States *Bipartisan Infrastructure Law* (the "**Funding Award**"). The application proposed an ore processing and tailings management facility located at an existing industrial brownfields site in Mercer County, North Dakota, receiving feedstock from the Tamarack North Project and other potential sources in North America. The acquisition of the site in North Dakota is actively under negotiations and the Company has not entered into any agreements in respect thereof. The Company may not be able to reach any such agreements on favourable terms or at all. If the Company is unable to reach any such agreements, subject to the approval of the Department of Energy in the United States, the Company will need to identify and acquire another site in North Dakota or elsewhere in order to meet its obligations under the Funding Award and the Tesla Supply Agreement. In addition, the Funding Award is subject to final negotiations with the Department of Energy. Any failure or delay in respect thereof may have a material adverse effect on the Company and its business and operations (including the market price of the common shares of the Company).

### *Governmental Regulation; Environmental Risks and Hazards*

The mineral exploration activities of the Company and Kennecott (in respect of the Tamarack Project) are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining, beneficiation and exploration activities are also subject to various laws and regulations

relating to the protection of the environment. Although the Company believes that its and Kennecott's (in respect of the Tamarack Project) exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted, including any limitation, or prohibition, on sulphide mining, or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Company's properties. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a material adverse effect on the Company's business, financial condition and results of operations and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of the Company's existing and/or new properties.

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

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

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

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

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in

mining and beneficiation operations, including the Company, may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations, which may adversely affect the Company.

### *Exploration, Development and Operating Risks*

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Actual exploration, development and/or other costs and economic returns may differ significantly from those the Company has anticipated. It is impossible to ensure that the exploration programs planned by Talon or Kennecott will result in a profitable commercial mining operation. Talon cannot give any assurance that its and Kennecott's (in respect of the Tamarack Project) current and future exploration activities and/or metallurgical testing will be consistent with the Company's expectations or result in any additional mineralization and/or a mineral deposit containing mineral reserves. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; commodity prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Talon not receiving an adequate return on invested capital.

Although Talon's present activities are directed towards the financing, exploration and development of mineral projects, its activities may also ultimately include mining operations. Mining and exploration operations generally involve a high degree of risk. Talon's operations (and Kennecott's as they may relate to the Tamarack Project) are subject to all the hazards and risks normally encountered in the exploration, development, production and beneficiation of nickel, copper and platinum, including unusual and unexpected geologic formations, seismic activity, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, mining and exploration operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequential liability.

The economic viability of mineral projects, including projects such as the Tamarack Project, may be affected, in part, by the ability of the operator to mine, beneficiate and, to the extent the Company has not already done so, enter into off-take agreements with potential end users. No assurance can be made that Talon (or, if applicable, Kennecott as it relates to the Tamarack Project) will be successful in entering into off-take agreements in respect of local and/or export sales or, if necessary, in accessing local smelting facilities.

### *Community Relations and Non-Governmental Organizations*

The Company's relationships with the community in which it operates are critical to the success of the Company's operations and the exploration, construction and development of the Tamarack

Project. At any given time, there may be ongoing and potentially increasing public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. Certain non-governmental organizations (“NGOs”), some of which oppose resource development generally, are often vocal critics of the mining industry and its practices, including processing activities. Adverse publicity generated by such NGOs or others related to extractive industries generally, or Talon’s operations specifically, could have an adverse effect on the Company’s reputation or financial condition and may impact its relationship with the communities in which it operates. While Talon is committed to operating in a socially responsible and environmentally friendly manner, there is no guarantee that the Company’s efforts in this respect will mitigate this potential risk.

#### *Conditions Relating to the Tesla Supply Agreement*

The Tesla Supply Agreement is conditional upon: (i) Talon earning a 60% interest in the Tamarack North Project; (ii) Talon commencing commercial production at the Tamarack North Project; and (iii) the parties completing negotiations and executing detailed supply terms and conditions. Additionally, Talon will use commercially reasonable efforts to achieve commercial production on or before January 1, 2026 at the Tamarack North Project, which may be extended by the agreement of the parties for up to 12 months following which Tesla has a right to terminate the agreement and Talon may elect to sell to other parties. There is no assurance that any such conditions will be met or that Talon will achieve commercial production at the Tamarack North Project. If such conditions are not met or if the Tesla Supply Agreement is terminated in accordance with its terms, it may have a material adverse effect on the Company and its business and operations (including the market price of the common shares of the Company).

#### *Recent and Future Global Financial Developments*

Global financial markets have experienced increased volatility in the last several years. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities in 2022 and 2023. This, in turn, has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the companies who borrow from them. While central banks as well as global governments have worked to restore much needed liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world. No assurance can be given that efforts to respond to the crisis will continue or that, if continued, they will be successful or these economies will not be adversely affected by the inflationary pressures resulting from such efforts or central banks’ efforts to slow inflation. Further, continued market concerns about the European sovereign debt crisis, developments in the Middle East, the Ukraine and North Korea, matters related to the United Kingdom’s withdrawal from the EU, matters related to the U.S. government debt limits and the impact of the coronavirus outbreak (COVID-19), may adversely impact global equity markets. Some of these economies have experienced significantly diminished growth and some are experiencing or have experienced a recession. These market conditions and further volatility or illiquidity in capital markets may also adversely affect the prospects of the Company and the value of its shares.

#### *Market Price of Common Shares; Impact of Volatility; Litigation resulting from Volatility*

Securities of small-cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These

factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. In the past several years and more recently with the outbreak of COVID-19, the war in Ukraine and an overall economic downturn, worldwide securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies.

The price of Talon's common shares may also be affected by short-term changes in nickel or other relevant mineral prices or in its financial condition or results of operations. Other factors unrelated to the Company's performance that may have an effect on the price of Talon's common shares include the following: COVID-19, the war in Ukraine, the economy, the fact that RCF and Pallinghurst Nickel International Ltd. own or may sell a large number of common shares of the Company; the extent of analytical coverage available to investors concerning the Company's business may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of Talon's common shares; the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; and a substantial decline in the price of Talon's common shares that persists for a significant period of time could cause the Company's securities to be delisted, further reducing market liquidity.

As a result of any of these factors, the market price of Talon's common shares at any given point in time may not accurately reflect the Company's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

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

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

#### *Changes in the Price of Nickel*

The ability to develop the Tamarack Project is directly related to the market price of nickel. Nickel is sold in an active global market and traded on commodity exchanges, such as the LME and the New York Mercantile Exchange. Nickel prices are subject to significant fluctuations (as was seen in March 2022 when the price of nickel spiked and the LME ceased trading of Nickel for a period of time as a consequence of the war in Ukraine) and are affected by many factors, including actual and expected macroeconomic and political conditions, levels of supply and demand, the availability and costs of substitutes, input costs, foreign exchange rates, inventory levels,



investments by commodity funds and other actions of participants in the commodity markets. Nickel prices have fluctuated widely, particularly in recent years. Consequently, the economic viability of the Tamarack Project cannot be accurately predicted and may be adversely affected by fluctuations in nickel prices.

#### *COVID-19 Coronavirus Outbreak*

The current and ongoing global uncertainty with respect to the spread of COVID-19, the rapidly evolving nature of the pandemic and local and international developments related thereto and its effect on the broader global economy and capital markets may have a negative effect on the Company and the advancement of the Tamarack Project. While the ultimate impact of the COVID-19 outbreak on the Company remains unknown, rapid spread of COVID-19 and declaration of the outbreak as a global pandemic has resulted in and may in the future result in travel advisories and restrictions, certain restrictions on business operations, social distancing precautions and restrictions on group gatherings which are having and may have direct impacts on businesses in the United States, Canada and around the world and could result in travel bans, closure of assay labs or delays in obtaining results from assay labs, work delays, restrictions on or shutting down of drilling operations, difficulties for contractors and employees getting to site, restrictions related to other mining related business and operations and the diversion of management attention all of which in turn could have a negative impact on development of the Tamarack Project and the Company generally. The spread of COVID-19 may also have a material adverse effect on global economic activity and could result in volatility and disruption to global supply chains and the financial and capital markets, which could affect the business, financial condition, results of operations, prospects and other factors relevant to the Company, including its ability to raise additional financing. There can be no assurance that COVID-19 or any other public health crises will not have a material adverse effect on the Company and its business and operations.

#### *War in Ukraine*

The military conflict in Ukraine has led to heightened volatility in the global markets, increased inflation, and turbulence in commodities markets, including nickel. More recently, in response to Russian military actions in Ukraine, several countries (including Canada, the United States and certain allies) have imposed economic sanctions and export control measures, and may impose additional sanctions or export control measures in the future, which have and could in the future result in, among other things, severe or complete restrictions on exports and other commerce and business dealings involving Russia, certain regions of Ukraine, and/or particular entities and individuals. While the Company does not have any direct exposure or connection to Russia or Ukraine, as the military conflict is a rapidly developing situation, it is uncertain as to how such events and any related economic sanctions will continue to impact the global economy and commodities markets. Any negative developments in respect thereof could have a material adverse effect on the Company's business, operations or financial condition.

#### *Litigation*

The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely against the Company or may delay the Company from proceeding with the Tamarack Project in a timely manner. Specifically, current litigation proceedings in Brazil, even in cases which the Company's legal counsel believes have a possible chance of success by the counterparty, may be determined, in whole or in part, against the Company. One or more of such determinations against the Company may adversely affect the

Company's financial condition and may have a material adverse impact on the ability of the Company to carry on operations.

#### *Uncertainty Relating to Inferred and Indicated Mineral Resources*

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

#### *Key Executives and Consultants*

The Company is dependent on the services of key executives, including the directors of the Company and a small number of highly skilled and experienced employees and consultants. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business and future operations.

#### *Exchange Rate Fluctuations*

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

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

#### *Land Title*

With respect to the Tamarack Project, the mineral and surface interests are held in Kennecott's name through various Minnesota state leases, private agreements and fee ownership. Maintenance of all of such rights are subject to ongoing compliance with the terms of such licenses, agreements and contracts. While the Company intends to take all reasonable steps to maintain title to its mineral properties, there can be no assurance that it will be successful in extending or renewing mineral rights on or prior to the expiration of their term. The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties (including, the Tamarack Project), there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of the Company's interests, including prior unregistered

liens, agreements, transfers or claims (including, native land claims) and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

#### *Insurance and Uninsured Risks*

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

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

#### *Political, Judicial, Administrative, Taxation or Other Regulatory Factors*

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

#### *Possible Conflicts of Interest*

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors and officers to be in a position of conflict. The Company expects that any decision made by any of such directors and officers involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders, but there can be no assurance in this regard.

#### *Triple Flag Royalty Financing*

Pursuant to the Royalty Agreement, Talon and its related entities have provided security to the Royalty Holder to support the payment and performance obligations related to the royalty and the guarantees. In the event Talon Nickel fails to meet such obligations, the Royalty Holder has the

right to exercise its security and may, among other things, acquire Talon Nickel's entire interest in the Tamarack Project.

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

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

## **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 for the three months ended March 31, 2022 and the year ended December 31, 2022 for total fees of \$10,209. No services were provided by the spouse of the CEO during 2023.

The remuneration, including benefits, of directors and officers of the Company for the three months ended March 31, 2023 and 2022 was as follows:

	<b>Three months ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Salaries and benefits of officers	\$ 1,127,194	\$ 944,376
Board fees	20,625	19,938
Stock-based compensation	845,772	1,573,381
Total Aggregate Compensation	<u>\$ 1,993,591</u>	<u>\$ 2,537,695</u>
Capitalized portion included in Total Aggregate Compensation (capitalized to Resource properties and deferred expenditures):		
Salaries and benefits of officers	\$ 857,755	\$ 692,687
Stock-based compensation	718,174	948,226
Total	<u>\$ 1,575,929</u>	<u>\$ 1,640,913</u>

Cash compensation and stock option compensation are recorded on the consolidated statements of loss and comprehensive loss in "Salaries, benefits, consulting and board fees" and on the consolidated statements of financial position in "Resource properties and deferred expenditures". 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 December 31, 2021, \$115,829 of consulting fees remained outstanding. In March 2022, the Corporate Governance and Compensation Committee approved an amendment to the Executive Chairman's consulting agreement which provided that all outstanding consulting fees be paid immediately and going forward his consulting fees would no longer be deferred but rather paid in the normal course.

Except as otherwise noted herein, all options issued in 2022 and 2023 vest over one year and have an expiration date that is five years from the date of grant.

In January 2022, 1,600,000 options were issued to two new members of the board of directors with an exercise price of \$0.72.

In February 2022, 5,000,000 options were issued to officers with an exercise price of \$0.66 of which 2,500,000 options vest over one year and 2,500,000 options vest over two years.

In June 2022, 1,000,000 options were issued to an officer with an exercise price of \$0.51.

In December 2022, 5,750,000 options were issued to officers with an exercise price of \$0.445.

#### **UPX OPTION AGREEMENT - MICHIGAN**

On August 9, 2022, Talon entered into an option and earn-in agreement (the "**UPX Option Agreement**") with UPX Minerals Inc. (a wholly-owned subsidiary of Sweetwater Royalties) ("**UPX**") to acquire up to an 80% ownership interest in the mineral rights over a land package comprised of approximately 400,000 acres located in the Upper Peninsula of the State of Michigan (the "**Michigan UPX Properties**"). Pursuant to the terms of the UPX Option Agreement, Talon has agreed to a minimum spending obligation of US\$5 million in exploration expenditures or drilling of at least 7,500 meters, with any minimum spending deficiency payable to UPX. Talon has five years (until August 2027) to complete these minimum requirements. Talon will earn a 51% undivided interest in the Michigan UPX Properties upon the completion of 25,000 meters of drilling (the "**Stage One Requirement**"). Talon will have five years (until August 2027) to complete the Stage One Requirement, which may be extended in certain circumstances.

Talon will then have the option to earn an additional 29% interest in the Michigan UPX Properties (resulting in an 80% ownership interest) upon delivering a feasibility study prepared in accordance with NI 43-101 over a portion of the Michigan UPX Properties (the "**Stage Two Requirement**"). In the event that Talon does not complete the Stage Two Requirement within eight-years (which may be extended in certain circumstances) of determining a "mineral resource" as specifically

defined in the UPX Option Agreement at the Michigan UPX Properties, Talon's interest in the Michigan UPX Properties will be reduced to 49%.

As partial consideration for entering into the UPX Option Agreement, Talon issued Kennecott 15,321,933 common shares of Talon at a deemed price of \$0.51 per share (based on the 5-day VWAP of the Talon shares on the TSX) in satisfaction of US\$6 million in payment obligations of UPX to KEX as a previous owner of the Michigan UPX Properties. Upon Talon completing the Stage Two Requirement, UPX will be granted a 2% NSR royalty on the Michigan UPX Properties and have the right to participate in proportion to its participating 20% joint venture interest. In the event UPX does not participate in proportion to its participating 20% joint venture interest, its interest in the joint venture will be subject to dilution, and in the event UPX's joint venture interest ultimately dilutes below 10%, UPX's interest in the joint venture will be reduced to 0% and UPX will be entitled to an additional 1% NSR royalty on the Michigan UPX Properties.

In addition to the Michigan UPX properties, Talon has made application for additional properties and has obtained a right to explore certain other properties in Michigan that are not subject to the UPX Option Agreement (the "**Michigan Talon Properties**"). To the extent these additional properties are within an area of interest defined in the UPX Option Agreement, a royalty of 0.25% is payable to UPX. Collectively, the Michigan UPX Properties and the Michigan Talon Properties are referred to as the "**Michigan Properties**".

### **CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES**

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

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

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 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 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.

Talon considers the following accounting policies to be critical in the preparation of its financial statements:

*Resource properties and deferred exploration and evaluation costs*

Interests in mineral exploration properties are recorded at cost. Exploration expenditures 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 deferred exploration expenditures are written off.

The cost of mineral properties includes the cash consideration paid and the negotiated value of shares issued on the acquisition of properties. Properties acquired under option agreements, whereby option payments are made at the discretion of the company, are recorded in the financial statements at the time payments are made. The proceeds from options granted or royalties sold on properties are credited to the cost of the related property.

Deferred exploration costs are amortized over the estimated useful life of the related mineral property as commercial production commences. If the net carrying amount of the deferred exploration expenses is not recoverable, these costs are written down to net recoverable amount of the deferred exploration expense.

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

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

*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.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

No changes were made to the Company's internal control over financial reporting during the three months ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **OUTLOOK**

Please see the section titled "*Upcoming Work – Tamarack North Project*".