



## **TALON METALS CORP.**

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

**For the three and nine months ended September 30, 2023 and 2022**

*(Expressed in Canadian dollars)*

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

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

*(Expressed in Canadian dollars)*

*(Unaudited)*

	<b>Notes</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 5,254,394	\$ 14,986,420
Treasury bills and term deposits	4	5,273,207	28,265,218
Accounts and other receivables		5,634	628
Prepayments		459,076	573,639
Deferred financing costs		104,587	20,440
		<u>11,096,898</u>	<u>43,846,345</u>
<b>Non-current assets</b>			
Property, plant and equipment	5	4,091,091	4,483,424
Resource properties and deferred expenditures	6, 7, 10, 15	203,785,382	169,865,204
Total assets		<u>\$ 218,973,371</u>	<u>\$ 218,194,973</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 3,362,376	\$ 4,167,970
Contingencies	16	29,937	28,438
		<u>3,392,313</u>	<u>4,196,408</u>
Asset retirement obligation	8	1,277,377	1,178,985
Total liabilities		<u>\$ 4,669,690</u>	<u>\$ 5,375,393</u>
<b>Shareholders' equity</b>			
Share capital	9a	\$ 270,301,857	\$ 270,238,335
Warrants	9b	-	-
Contributed surplus		42,983,000	39,743,489
Accumulated other comprehensive income		7,175,258	7,341,312
Deficit		(106,156,434)	(104,503,556)
		<u>214,303,681</u>	<u>212,819,580</u>
		<u>\$ 218,973,371</u>	<u>\$ 218,194,973</u>

**Subsequent Events - Note 18**

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

Approved by the audit committee of the board of directors on November 13, 2023

Signed:

"Gregory S. Kinross"

"David E. Singer"

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

			Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	Notes					
<b>Expenses</b>						
Salaries, benefits, consulting and board fees	15	\$	345,453	\$ 254,359	\$ 966,043	\$ 878,894
Professional fees			176,502	45,631	360,101	166,338
Office and general			13,696	25,991	53,768	57,372
Insurance			23,375	22,385	70,131	63,187
Marketing and travel			52,948	100,224	320,189	332,010
Listing, filing and shareholder communications			21,358	136,103	221,958	351,341
Stock option compensation	10		43,122	165,659	239,960	1,223,168
Gain on revaluation of royalty put option	7		-	-	-	(545,105)
Accretion on asset retirement obligation	8		15,183	10,380	38,074	25,363
Foreign currency (gain) loss			(69,918)	(1,126,610)	70,597	(1,566,788)
			621,719	(365,878)	2,340,821	985,780
Interest income			166,393	94,447	687,943	106,432
<b>Net income (loss)</b>			(455,326)	460,325	(1,652,878)	(879,348)
Other comprehensive income (loss)						
Currency translation differences			4,103,422	9,412,196	(166,054)	11,382,959
<b>Comprehensive income (loss)</b>		\$	3,648,096	\$ 9,872,521	\$ (1,818,932)	\$ 10,503,611
<b>Basic and diluted net income (loss) per share</b>	11	\$	(0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
Weighted average shares outstanding	11		851,176,472	764,289,616	851,103,781	753,246,561

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

**Talon Metals Corp.**

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

(Expressed in Canadian dollars)

(Unaudited)

	Notes	Common shares		Warrants	Contributed surplus	Deficit	Accumulated other comprehensive income	Shareholders' equity
		Number	Amount					
Balance at January 1, 2023		850,841,418	\$ 270,238,335	\$ -	\$ 39,743,489	\$ (104,503,556)	\$ 7,341,312	\$ 212,819,580
Stock options exercised	10	375,000	63,522	-	(24,147)	-	-	39,375
Stock option compensation payments	10	-	-	-	3,263,658	-	-	3,263,658
Net loss and comprehensive loss		-	-	-	-	(1,652,878)	166,054	(1,818,932)
<b>Balance at September 30, 2023</b>		<b>851,216,418</b>	<b>\$ 270,301,857</b>	<b>\$ -</b>	<b>\$ 42,983,000</b>	<b>\$ (106,156,434)</b>	<b>\$ 7,175,258</b>	<b>\$ 214,303,681</b>
Balance at January 1, 2022		702,458,651	\$ 193,343,955	\$ 3,466,583	\$ 30,308,448	\$ (103,005,523)	\$ (2,096,908)	\$ 122,016,555
January 2022 prospectus offering	8a	38,200,000	25,449,358	-	-	-	-	25,449,358
January 2022 private placement	8a	8,953,013	6,206,932	-	-	-	-	6,206,932
Shares issued for resources properties	9a	15,321,933	7,814,186	-	-	-	-	7,814,186
Warrants exercised	9b	5,536,500	1,295,197	(337,028)	-	-	-	958,169
Warrants expired	9b	-	-	(3,023,498)	3,023,498	-	-	-
Stock options exercised	10	4,242,067	1,594,716	-	(588,608)	-	-	1,006,108
Stock option compensation payments	10	-	-	-	6,116,089	-	-	6,116,089
Net loss and comprehensive loss		-	-	-	-	(879,348)	11,382,959	10,503,611
<b>Balance at September 30, 2022</b>		<b>774,712,164</b>	<b>\$ 235,704,344</b>	<b>\$ 106,057</b>	<b>\$ 38,859,427</b>	<b>\$ (103,884,871)</b>	<b>\$ 9,286,051</b>	<b>\$ 180,071,008</b>

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

**Talon Metals Corp.**
**Condensed Interim Consolidated Statements of Cash Flows**
*(Expressed in Canadian dollars)*
*(Unaudited)*

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
<b>Cash flows used in operating activities</b>		
Net loss	\$ (1,652,878)	\$ (879,348)
<b>Non-cash adjustments:</b>		
Stock option compensation	239,960	1,223,168
Gain on revaluation of royalty put option	-	(545,105)
Accretion on asset retirement obligation	38,074	25,363
Interest income	(81,252)	(65,279)
Foreign exchange gain on treasury bills and term deposits	(16,966)	(965,124)
Foreign exchange loss on contingencies	1,499	2,930
	\$ (1,471,563)	\$ (1,203,395)
<b>Working capital adjustments:</b>		
Increase in prepayments	(23,364)	(77,926)
Decrease in deferred financing costs	(84,147)	14,021
(Increase) decrease in accounts and other receivables	(5,006)	(32,344)
Increase in accounts payables and accrued liabilities	93,123	(19,821)
<b>Net cash flows used in operating activities</b>	\$ (1,490,957)	\$ (1,319,465)
<b>Cash flows used in investing activities</b>		
Acquisition of property, plant and equipment	(540,742)	(3,224,667)
Acquisition of resource properties and deferred expenditures	(30,828,530)	(33,195,503)
Cash flows used in investing activities excluding purchases of and proceeds from treasury bills and term deposits	\$ (31,369,272)	\$ (36,420,170)
Purchases of treasury bills and term deposits	(14,682,689)	(62,256,655)
Proceeds from sale of treasury bills and term deposits	37,772,917	52,856,240
<b>Net cash flows used in investing activities</b>	\$ (8,279,044)	\$ (45,820,585)
<b>Cash flows provided by (used in) financing activities</b>		
Net proceeds from issuance of common shares - January 2022 prospectus offering	-	25,449,358
Net proceeds from issuance of common shares - January 2022 private placement	-	6,206,932
Proceeds from exercise of stock options	39,375	1,006,108
Proceeds from exercise of warrants	-	958,169
<b>Net cash flows provided by financing activities</b>	\$ 39,375	\$ 33,620,567
<b>Net increase (decrease) in cash and cash equivalents</b>	(9,730,626)	(13,519,483)
Effect of foreign exchange on consolidation	(1,400)	(59,573)
Cash and cash equivalents, beginning of the period	14,986,420	21,049,265
<b>Cash and cash equivalents, end of the period</b>	\$ 5,254,394	\$ 7,470,209
<b>Supplemental cash flow information</b>		
Stock based compensation included in resource properties	\$ 3,023,698	\$ 4,892,921
Plant and equipment depreciation included in resource properties	922,646	198,063
Increase (decrease) in asset retirement obligation related to resource properties	60,318	(140,178)
Cash equivalents, end of the period	2,691,648	6,284,606

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

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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### **1. NATURE OF OPERATIONS**

Talon Metals Corp. ("Talon" or the "Company") is a mineral exploration company focused on the exploration and development of the Tamarack nickel-copper-cobalt project (the "Tamarack Project") in Minnesota, USA (which comprises the Tamarack North Project and the Tamarack South Project). The Company's interest in the Tamarack Project is held through its indirect 100% owned Delaware, USA subsidiary, Talon Nickel (USA) LLC ("Talon Nickel").

On January 11, 2018, Talon Nickel and Kennecott entered into the mining venture agreement in respect of the Tamarack Project (the "Mining Venture Agreement"). On November 7, 2018, the Company entered into an option agreement (the "2018 Option Agreement") with Kennecott Exploration Company ("Kennecott"), a subsidiary of the Rio Tinto Group, pursuant to which Talon has the right to acquire up to a 60% interest in the Tamarack Project on the satisfaction of certain terms and conditions while the Mining Venture Agreement is held in abeyance.

On August 9, 2022, Talon entered into an option and earn-in agreement with UPX Minerals Inc. to acquire an interest in mineral rights in the State of Michigan. The Company's interest in these mineral rights is held through its indirect 100% owned Delaware, USA subsidiary, Houghton Battery Minerals LLC ("Houghton").

Talon Nickel currently owns a 51% interest in the Tamarack Project. See Note 6 for further information.

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

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

As of September 30, 2023, the Company had working capital of \$7.7 million (December 31, 2022 – \$39.6 million) and shareholders' equity of \$214.3 million (December 31, 2022 – \$212.8 million). Working capital is defined as current assets less current liabilities.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

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

These Condensed Interim Consolidated Financial Statements were approved by the Audit Committee of the Board of Directors of the Company on November 13, 2023.

#### **Basis of preparation**

The Condensed Interim Consolidated Financial Statements are prepared on the historical cost basis, except for financial instruments that are measured at fair value.

These Condensed Interim Consolidated Financial Statements have been prepared on a going concern

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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basis which contemplates that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on its ability to raise financing as needed and/or develop the Tamarack Project into a profitable mine. There can be no assurance that the Company will be successful in raising financing, as needed, or developing the Tamarack Project into a profitable mine to meet the Company's commitments.

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

### **Basis of consolidation**

These Condensed Interim Consolidated Financial Statements include the accounts of Talon and its wholly-owned operational subsidiaries, including Talon Metals Services Inc., Talon Nickel, Talon Michigan LLC ("Talon Michigan"), and Houghton. All intercompany balances and transactions have been eliminated on consolidation.

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

### **Functional and presentation currency**

These Condensed Interim Consolidated Financial Statements are presented in Canadian dollars, which is the presentation and functional currency of the Company and its subsidiaries with the exception of Talon Nickel, Talon Michigan and Houghton. The functional currency of Talon Nickel, Talon Michigan and Houghton is United States dollars.

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

On consolidation, for entities with a functional currency that differs from the presentation currency of the Company, assets and liabilities are translated at the closing rate at the date of the Condensed Interim Consolidated Statements of Financial Position. Income and expenses are translated at the average rate for the applicable period. All resulting exchange differences are recognized in other comprehensive loss and accumulated as a separate component of equity. The Company has recorded the foreign exchange gains and losses associated with the net investment in the U.S. subsidiaries in other comprehensive income (loss) because the intercompany loans are not expected to be repaid in the foreseeable future.

The Canadian dollar/United States dollar exchange rate used as of September 30, 2023 was 1.3520 (December 31, 2022 – 1.3544).

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit, money market funds and/or short-term investments with initial maturities of less than three months at the time of acquisition. At September 30, 2023, and at December 31, 2022, the Company held both cash and cash equivalents.

### **Deferred financing costs**

The Company capitalizes direct costs such as legal, audit and regulatory, related to in-progress and currently contemplated financings. These costs are then recognized as a deduction from the gross proceeds of financings in the future period during which the financing may take place. In addition,

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

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management assesses the carrying value of such costs at each reporting period and will expense any portion during the period made known to management that will not be utilized.

### Property, plant and equipment

Property, plant, and equipment are carried at cost, less accumulated depreciation, and accumulated impairment losses. The cost of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the property, plant and equipment to the location and condition necessary for its intended use. Property, plant, and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the property, plant and equipment. Any gain or loss arising on disposal of property, plant, and equipment, determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment, is recognized in the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss. Where plant and equipment comprise major components with different useful lives, the components are accounted for as separate assets. Expenditures incurred to replace a component of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

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

Equipment including machinery and vehicles	20% to 33% straight-line basis
Core storage building	10% straight-line basis

### Resource properties and deferred exploration and evaluation costs

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

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

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

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

### Impairment of non-financial assets

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



# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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of the asset is reduced to its recoverable amount and the impairment loss is recognized in the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss for the year.

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

### **Asset retirement obligations**

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

### **Income taxes**

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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treatment the Company has taken.

### **Financial instruments**

#### Financial assets

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

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

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

The Company's cash and cash equivalents, treasury bills and term deposits are classified as financial assets measured at FVTPL.

##### **ii. Amortized cost**

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

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

#### Financial liabilities

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

##### **i. Amortized cost**

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

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

##### **ii. Financial liabilities recorded at FVTPL**

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

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

#### Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

### Subsequent measurement

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

### Derecognition

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

### Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The Company does not have any receivables that are subject to impairment analysis.

### **Stock option compensation**

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

### **Loss per share**

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

### **Comprehensive income**

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

### **Segment reporting**

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

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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### **New standards and interpretations adopted January 1, 2023**

In May 2021, the IASB issued amendments to IAS 12, Income Taxes. The amendments to IAS 12 narrow the scope of the initial recognition exemption so that it no longer applies to transactions which give rise to equal amounts of taxable and deductible temporary differences. The Company is to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition for certain transactions, including leases and reclamation provisions. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The Company adopted the amendments effective January 1, 2023, with no material impact expected to the Condensed Interim Consolidated Financial Statements for 2023.

### **Reclassification**

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

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

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

The uncertainty regarding the valuation of resource properties arises because 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 because 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 because 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.

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### 4. TREASURY BILLS AND TERM DEPOSITS

As of September 30, 2023 and December 31, 2022, the Company held U.S. government treasury bills and term deposits of Canadian Schedule I banks with weighted average terms and yields to maturity at acquisition and at the reporting date as follows:

	At the date of acquisition		At the reporting date	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Weighted average term to maturity in months	7.1	5.4	2.0	4.4
Weighted average yield to maturity	4.79%	4.35%	5.26%	4.21%

### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment are comprised of land, buildings, and equipment such as drill rigs and vehicles. All depreciation is capitalized to Resource Properties and Deferred Expenditures.

Cost	Nine months ended		Year ended	
	September 30, 2023		December 31, 2022	
Beginning of the year	\$	5,277,753	\$	1,520,866
Additions		540,742		3,523,363
Disposals and transfers		-		-
Effects of foreign exchange		(6,652)		233,524
End of the year	\$	5,811,843	\$	5,277,753

  

Accumulated Depreciation	Nine months ended		Year ended	
	September 30, 2023		December 31, 2022	
Beginning of the year	\$	794,329	\$	198,063
Depreciation		922,646		581,444
Disposals and transfers		-		-
Effects of foreign exchange		3,777		14,822
End of the year	\$	1,720,752	\$	794,329

  

Net book value - beginning of the year		4,483,424		1,322,803
Net book value - end of the year		4,091,091		4,483,424

As of September 30, 2023 the total cost of the Company's five drill rigs was \$3.1 million (December 31, 2022 – \$3.1 million) and the net book value was \$2.3 million (December 31, 2022 – \$2.8 million).

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

### 6. RESOURCE PROPERTIES AND DEFERRED EXPENDITURES

The properties on which the Company's subsidiaries carry out exploration activities or hold an interest in an exploration project are in the USA (the Tamarack Project and the Michigan Properties, defined below). Details of the change for the year ended December 31, 2022 and the nine months ended September 30, 2023 are as follows:

	<b>Tamarack Project</b>	<b>Michigan Properties</b>	<b>Total</b>
<b>Balance at December 31, 2021</b>	<b>\$ 98,753,932</b>	<b>\$ -</b>	<b>\$ 98,753,932</b>
Additions	47,161,362	8,976,486	56,137,848
Purchase of royalty interest	5,733,450	-	5,733,450
Foreign exchange	8,821,599	418,375	9,239,974
<b>Balance at December 31, 2022</b>	<b>\$ 160,470,343</b>	<b>\$ 9,394,861</b>	<b>\$ 169,865,204</b>
Additions	\$ 33,785,276	\$ 287,107	\$ 34,072,383
Foreign exchange	(137,049)	(15,156)	(152,205)
<b>Balance at September 30, 2023</b>	<b>\$ 194,118,570</b>	<b>\$ 9,666,812</b>	<b>\$ 203,785,382</b>

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

#### (a) Tamarack Project

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

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

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

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

On November 7, 2018, Talon Nickel entered into the 2018 Option Agreement with Kennecott pursuant to which Talon Nickel has the right to acquire up to a 60% interest in the Tamarack Project. Pursuant to the terms of the 2018 Option Agreement, Talon Nickel took over operatorship of the Tamarack Project and

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

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vested at a 51% interest in the Tamarack Project as a result of fulfilling the following requirements under the 2018 Option Agreement: (i) the payment of US\$6 million in cash to Kennecott (paid on March 13, 2019) (the "Initial Payment"); (ii) the issuance of US\$1.5 million worth of common shares of the Company to Kennecott (issued on March 7, 2019); (iii) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel either spending US\$10 million or completing a prefeasibility study on the Tamarack Project (completed the spending requirement of US\$10 million in early 2021); and (iv) within 3 years of the effective date of the 2018 Option Agreement, Talon Nickel paying Kennecott an additional US\$5.0 million in cash (paid by the issuance of common shares and warrants of the Company on September 29, 2021).

Given that Talon Nickel has earned the 51% interest in the Tamarack Project, Talon Nickel now has the right to increase its interest in the Tamarack Project by a further 9% to 60% by (i) completing a feasibility study on the Tamarack Project within 7 years of the effective date of the 2018 Option Agreement (i.e., March 13, 2026); and (2) paying Kennecott the additional sum of US\$10 million in cash on or before the seventh anniversary of the effective date of the 2018 Option Agreement. Upon Talon Nickel vesting with its applicable joint venture interest in the Tamarack Project, the parties will enter into a new joint venture agreement, pursuant to which, so long as Talon Nickel has a majority interest, Talon Nickel will continue to act as operator of the Tamarack Project. In the event Talon Nickel has delivered a feasibility study on the Tamarack Project, upon the completion thereof, the parties will be required to fund the Tamarack Project in accordance with their respective ownership interests or be diluted.

The 2018 Option Agreement became effective on March 13, 2019, when the Company made the Initial Payment to Kennecott. During the term of the 2018 Option Agreement, the Mining Venture Agreement is held in abeyance and the terms of the 2018 Option Agreement govern the relationship between Talon Nickel and Kennecott in respect of the Tamarack Project.

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

On September 29, 2021, the Company issued 10,543,333 common shares of the Company and 5,271,666 warrants of the Company with an exercise price of \$0.80 and expiration date of September 29, 2022 valued at \$6,763,176 or approximately US\$5.3 million to Kennecott in satisfaction of the requirement to pay Kennecott US\$5.0 million in cash pursuant to the 2018 Option Agreement to vest at a 51% interest in the Tamarack Project. On September 29, 2022, all 5,271,666 warrants issued to Kennecott expired with none having been exercised.

On January 10, 2022, Talon Nickel entered into an agreement with Tesla Inc. ("Tesla") for the supply and purchase of nickel concentrate to be produced from the Tamarack Project. Under the terms set out in the agreement, Tesla has committed to purchase 75,000 metric tonnes (165 million lbs) of nickel in concentrate. Tesla also has a preferential right under the agreement to negotiate the purchase of additional nickel concentrate over and above the initial 75,000 metric tonne commitment. The term of the agreement is six (6) years or until a total of 75,000 metric tonnes (165 million lbs) of nickel in concentrate has been produced and delivered to Tesla. The agreement is conditional upon: (i) Talon Nickel earning a 60% interest in the Tamarack Project; (ii) Talon Nickel commencing commercial production at the Tamarack Project; and (iii) the parties completing negotiations and executing detailed supply terms and conditions. Talon Nickel will use commercially reasonable efforts to achieve commercial production on or before January 1, 2026 at the Tamarack 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 Nickel may elect to sell to other parties. Talon Nickel and Tesla will work together to optimize nickel concentrate grades and metal recoveries. The purchase price to be paid by Tesla for the nickel in concentrate will be linked to the London Metals Exchange (LME) official cash settlement price for nickel. The parties have also agreed to share in any additional economics derived from by-products extracted from the nickel concentrate, such as iron and cobalt.

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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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. 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 a future underground Tamarack Project mine and other potential sources in North America. The acquisition of the preferred site in North Dakota is actively under negotiations and the Company has not entered into any agreements in respect thereof.

On November 2, 2023, Talon Nickel signed the definitive agreement with the US Department of Energy setting the terms, conditions, and performance milestones for US\$114.85 million in grant funding on a cost-share basis towards project development, construction and execution costs of the Battery Minerals Processing Facility.

### **(b) Michigan Properties**

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 price of \$0.51 per share based on closing price on the Toronto Stock Exchange on August 8, 2022 in satisfaction of US\$6 million in payment obligations of UPX to Kennecott as a previous owner of the Michigan UPX Properties. These common shares were valued at \$7,814,186.

Upon Talon completing the Stage Two Requirement, UPX will be granted a 2% NSR royalty on the Michigan Nickel 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 Nickel 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. The "Michigan Properties" are comprised of both the Michigan UPX Properties and the Michigan Talon Properties.

### **(c) US Department of Defense – Grant for Nickel Exploration**

On September 12, 2023, Talon Nickel entered into a definitive agreement with the US Department of



# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

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Defense's Office of Manufacturing Capability Expansion and Investment Prioritization to accelerate and expand the Company's efforts to discover and secure additional domestic supply of nickel for the growing US battery manufacturing base and defense related supply chains. As part of the agreement, the US Department of Defense will contribute US\$20.6 million, and Talon will contribute US\$21.8 million in matching funding on a cost-share basis over a period not to exceed 39 months.

### 7. ROYALTY

On March 7, 2019, Talon Nickel 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 exchange for a US\$5.0 million payment. The Company, together with its subsidiaries, Cloudmine Holdings Limited and Talon Metals (USA) Inc., have agreed to guarantee the payment and performance obligations under the royalty agreement. The royalty is 1.85% (previously 3.5% prior to the buy-down on February 15, 2022 – see below) 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 (the "Royalty Put Option"). The Royalty Put Option could have been accelerated in a number of circumstances, including upon an event of default as defined under the Royalty Agreement. In the event the Royalty Holder did not exercise the one-time put right, Talon Nickel would have 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. Talon and its related entities have provided security to the Royalty Holder to support the payment and performance obligations related to the royalty and the guarantees. In connection with the royalty agreement, Talon has issued the Royalty Holder 5,000,000 warrants ("Royalty Warrants") exercisable to acquire one common share until March 7, 2022 at an exercise price of \$0.0826 per share. In connection with the sale of the royalty, the Company paid a 6% commission and issued 4,944,375 warrants to a broker ("Royalty Broker Warrants") with the same terms as the Royalty Warrants.

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

On February 15, 2022, Talon Nickel entered into an amending agreement with the Royalty Holder pursuant to which the Royalty Holder waived the Royalty Put Option 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. The payment of US\$4.5 million (CAD\$5.7 million) was paid on February 15, 2022. As a result, the Royalty Put Option has been extinguished and was valued at nil as of December 31, 2022, with gain on revaluation of \$545,105 recorded in the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss during the quarter ended March 31, 2022.

### 8. ASSET RETIREMENT OBLIGATION

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

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

Any estimation change during the period or year is capitalized to resource properties and deferred expenditures (Note 6). Accretion is included on the Condensed Interim Consolidated Statement of Loss and Comprehensive Loss. As of September 30, 2023, the Company estimated the asset retirement obligation to be \$1,277,377 (December 31, 2022 – \$1,178,985). Key assumptions include total undiscounted pre-inflation estimated costs of \$1,478,818 (December 31, 2022 – \$1,287,222), inflation of 3.0% (December 31, 2022 – 3.0%) and a discount rate of 4.64% (December 31, 2022 – 3.93%) based on the yield on U.S. government bonds with a similar term to maturity of the total expected costs.

The obligation is expected to be paid primarily over the years 2024 to 2035. The estimated change during the period was included in Resource properties and deferred expenditures.

	Nine months ended September 30, 2023	Year ended December 31, 2022
Beginning of the year	\$ 1,178,985	\$ 1,158,310
Changes in the estimate	167,194	285,495
Amounts incurred	(26,951)	(78,755)
Interest rate accretion	38,161	36,114
Change in the discount rate	(78,254)	(299,028)
Foreign exchange translation	(1,758)	76,849
End of the year or period	\$ 1,277,377	\$ 1,178,985

Sensitivity analysis: The balance of the asset retirement obligation on September 30, 2023 would change as follows:

Variable changed	Result - low	Result - high
Cost - 5% decrease and increase	\$ 1,210,000	\$ 1,340,000
Inflation rate - 1% decrease and increase	\$ 1,170,000	\$ 1,390,000
Discount rate - 1% decrease and increase	\$ 1,170,000	\$ 1,390,000

## 9. SHARE CAPITAL AND OTHER EQUITY

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

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

Issued and outstanding – 850,841,418 at December 31, 2022 and 851,216,418 at September 30, 2023.

### Common share financings

On January 31, 2022, the Company completed an offering of 38,200,000 common shares of the Company at a price of \$0.72 per common share for aggregate gross proceeds of \$27,504,000 (the “January 2022 Prospectus Offering”). Issuance costs were \$2,054,642 for items such as legal fees, stock exchange fees and commissions resulting in net proceeds of \$25,449,358.

Concurrently with the closing of the January 2022 Prospectus Offering, the Company completed a non-brokered private placement of 8,953,013 common shares of the Company at a price of \$0.72 per common share for aggregate gross proceeds of \$6,446,169. Issuance costs were \$239,237 for items such as legal fees and commissions resulting in net proceeds of \$6,206,932.

On November 16, 2022, the Company completed an offering of 75,231,237 common shares of the Company at a price of \$0.49 per common share for aggregate gross proceeds of \$36,863,306 (the “November 2022 Prospectus Offering”). Issuance costs were \$2,699,828 for items such as legal fees, stock exchange fees and commissions resulting in net proceeds of \$34,163,479.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

### Issuance of shares and warrants to acquire resource properties

On August 30, 2022, the Company issued 15,321,933 common shares of the Company in conjunction with the UPX Option Agreement. The common shares were valued at \$0.51 per share based on the closing price of the shares of the Company on the grant date and were valued at \$7,814,186.

### Shares issued in connection with the exercise of warrants

During the nine months ended September 30, 2022, 5,536,500 shares were issued as a result of the exercise of 5,536,500 warrants resulting in gross proceeds of \$958,169. The fair value of the warrants on the grant date was \$337,028.

During the nine months ended September 30, 2023, no warrants were exercised.

During the year ended December 31, 2022, 6,359,517 shares were issued as a result of the exercise of 6,359,517 warrants resulting in gross proceeds of \$1,205,074. The fair value of the warrants on the grant date was \$443,085.

### Shares issued in connection with the exercise of stock options

During the three and nine months ended September 30, 2022, 200,000 and 4,242,067 shares respectively were issued as a result of the exercise of options resulting in gross proceeds of \$62,000 and \$1,006,108, respectively. The fair value of the options on the grant date was \$558,608.

During the three and nine months ended September 30, 2023, 75,000 and 375,000 shares were issued as a result of the exercise of 75,000 and 375,000 options resulting in gross proceeds of \$10,875 and \$39,375 respectively. The fair value of the options on the grant date was \$24,147.

During the year ended December 31, 2022, 4,317,067 shares were issued as a result of the exercise of 4,317,067 options resulting in gross proceeds of \$1,016,984. The fair value of the options on the grant date was \$595,282.

### (b) Warrants

As at September 30, 2023 and December 31, 2022, the Company did not have any warrants that were outstanding. There were no warrants transactions during the three and nine months ended September 30, 2023. Warrant transactions for the year ended December 31, 2022 are as follows:

	Year ended December 31, 2022			
	Number of warrants	Exercise price	Fair value net of costs	Proceeds from exercise
Outstanding – beginning of the year	40,092,183	\$ 0.70	\$ 3,466,583	\$ -
Exercised	(2,950,625)	0.0826	(112,694)	243,721
Exercised	(815,000)	0.10	(33,085)	81,500
Exercised	(1,070,366)	0.26	(112,963)	278,295
Exercised	(289,000)	0.80	(25,201)	231,200
Exercised	(1,234,526)	0.30	(159,142)	370,358
Expired	(33,732,666)	0.80	(3,023,498)	-
Outstanding – end of the year	\$ -	\$ -	\$ -	\$ 1,205,074

The weighted average share price on the date of exercise of the warrants for the year ended December 31, 2022 was \$0.63.

# Talon Metals Corp.

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During nine months ended September 30, 2022, 5,536,500 warrants were exercised with an average strike price of \$0.17 and a weighted average share price on the date of exercise of \$0.64. In addition, 33,732,666 warrants with a strike price of \$0.80 expired during the nine months ended September 30, 2022.

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

The Company has adopted a stock option plan (the “Plan”) for its directors, officers, employees, and consultants to acquire common shares of the Company. The exercise price of each option is determined by the Board of Directors of Talon but, in any event, is not lower than the closing market price on the TSX on the trading day immediately preceding the date the option is granted. The terms and conditions of the options are determined by the Board of Directors of the Company pursuant to the rules of the Plan. All options are granted for a term not exceeding ten years from the grant date. The total number of options that can be granted is limited to 15% of the issued and outstanding share capital of the Company. A summary of the change in options outstanding during the year ended December 31, 2022 and the nine months ended September 30, 2023 is as follows:

	Nine months ended September 30, 2023				Year ended December 31, 2022			
	Number of stock options	Exercise price	Exercised options	Proceeds from exercise	Number of stock options	Exercise price	Exercised options	Proceeds from exercise
Outstanding – beginning of the year	118,448,007	\$ 0.37	-	\$ -	99,515,074	\$ 0.31	-	\$ -
Issued	9,150,000	0.36	-	-	24,700,000	0.58	-	-
Exercised	(375,000)	0.11	375,000	39,375	(4,317,067)	0.24	4,317,067	1,016,984
Cancelled	(2,900,000)	0.37	-	-	(1,450,000)	0.65	-	-
Outstanding – end of the period	124,323,007	\$ 0.37	375,000	\$ 39,375	118,448,007	\$ 0.37	4,317,067	\$ 1,016,984

The weighted average share price on the date of exercise of the options for the year ended December 31, 2022 was \$0.69. The weighted average share price on the date of exercise of the options for the nine months ended September 30, 2023 was \$0.38.

All options issued in 2022 and 2023 vest over one year, except for 100,000 options issued in 2022 to a consultant that vest over three years. All options issued have an expiration date that is five years from the date of grant.

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

On September 30, 2023, the Company had the following stock options outstanding:

Date of grant	Number of options	Exercise price	Exercisable	Exercise price
March 22, 2019	30,142,536	\$ 0.095	30,142,536	\$ 0.095
June 6, 2019	4,962,735	0.18	4,962,735	0.18
October 2, 2019	1,000,000	0.18	1,000,000	0.18
October 28, 2019	6,000,000	0.165	6,000,000	0.165
December 12, 2019	1,250,000	0.145	1,250,000	0.145
March 13, 2020	5,380,000	0.10	5,380,000	0.10
July 22, 2020	350,000	0.145	350,000	0.145
July 23, 2020	500,000	0.145	500,000	0.145
August 7, 2020	350,000	0.28	350,000	0.28
August 14, 2020	775,000	0.26	775,000	0.26
August 15, 2020	200,000	0.25	200,000	0.25
October 28, 2020	200,000	0.30	200,000	0.30
December 28, 2020	19,055,000	0.51	19,055,000	0.51
March 19, 2021	5,307,736	0.70	5,307,736	0.70
May 28, 2021	4,200,000	0.59	4,200,000	0.59
June 25, 2021	12,050,000	0.52	12,050,000	0.52
October 22, 2021	1,800,000	0.65	1,800,000	0.65
January 13, 2022	1,600,000	0.72	1,600,000	0.72
February 3, 2022	6,000,000	0.66	5,375,000	0.66
February 18, 2022	1,300,000	0.67	1,300,000	0.67
March 9, 2022	1,550,000	0.78	1,550,000	0.78
April 14, 2022	1,000,000	0.74	1,000,000	0.74
May 16, 2022	200,000	0.54	200,000	0.54
June 29, 2022	1,500,000	0.51	1,500,000	0.51
July 15, 2022	600,000	0.39	600,000	0.39
August 15, 2022	200,000	0.59	200,000	0.59
September 15, 2022	200,000	0.52	200,000	0.52
September 29, 2022	100,000	0.485	33,333	0.485
December 20, 2022	8,100,000	0.445	6,075,000	0.445
January 16, 2023	1,400,000	0.475	750,000	0.475
February 15, 2023	500,000	0.425	250,000	0.425
March 15, 2023	200,000	0.41	100,000	0.410
May 23, 2023	4,650,000	0.325	1,162,500	0.325
June 15, 2023	1,450,000	0.310	362,500	0.310
August 16, 2023	250,000	0.27	-	0.41
Total / weighted average	124,323,007	\$ 0.37	115,781,340	\$ 0.36

The Company determined the fair value of the stock options issued during the three and nine months ended September 30, 2023 and 2022 using the Black-Scholes option pricing model using the following assumptions:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Share Price	Closing price on the day prior to the grant date			
Risk-free interest rate	4.12%	2.83% - 3.76%	2.94% - 4.12%	1.52% - 3.76%
Expected life	5 years	5 years	5 years	5 years
Expected volatility	60%	60%	60%	60%
Dividend yield	0%	0%	0%	0%
Forfeiture rate	0%	0%	0%	0%

# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

Stock option compensation expense for the three and nine months ended September 30, 2023 and 2022, presented in the table below, was recognized in the Condensed Interim 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 and nine months ended September 30, 2023 and 2022, also presented in the table below.

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Stock option compensation - expensed	\$ 43,122	\$ 165,659	\$ 239,960	\$ 1,223,168
Stock option compensation - capitalized	\$ 786,585	\$ 1,368,842	3,023,698	4,892,921
Stock option compensation - total	\$ 829,707	\$ 1,534,501	\$ 3,263,658	\$ 6,116,089

### 11. NET INCOME OR LOSS PER SHARE

#### (a) Basic

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

#### (b) Diluted

Diluted net income or loss per share is the same as basic net loss per share as all the convertible securities are anti-dilutive.

### 12. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, treasury bills and term deposits, accounts and other receivables excluding HST, accounts payable and accrued liabilities.

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

	September 30, 2023	December 31, 2022
Level 1		
Cash and cash equivalents	\$ 5,254,394	\$ 14,986,420
Treasury bills and term deposits	\$ 5,273,207	\$ 28,265,218

### 13. FINANCIAL RISK MANAGEMENT

#### (a) Credit risk management

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

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.

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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### **(b) Liquidity risk**

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

On January 31, 2022 the Company completed the January 2022 Prospectus Offering and on November 16, 2022, the Company completed the November 2022 Prospectus Offering.

On February 17, 2023, the Company filed a new final short form base shelf prospectus (the "2023 Base Shelf Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than the province of Québec. 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.

Net proceeds from the issuance of common shares for the nine months ended September 30, 2023 were \$nil (nine months ended September 30, 2022 – \$31.7 million; year ended December 31, 2022 – \$65.8 million).

Proceeds from the exercise of stock options for the nine months ended September 30, 2023 totaled \$39,375 (nine months ended September 30, 2022 – \$1.0 million; year ended December 31, 2022 – \$1.0 million). Proceeds from the exercise of warrants for the nine months ended September 30, 2023 were nil (nine months ended September 30, 2022 – \$1.0 million; year ended December 31, 2022 – \$1.2 million).

As of September 30, 2023, the Company had a balance of cash, cash equivalents, treasury bills and term deposits of \$10.5 million, (December 31, 2022 – \$43.3 million) to settle current liabilities of \$3.4 million (December 31, 2022 – \$4.2 million).

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.

World events, including the wars in Ukraine and Israel, 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.

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

Market risk is the risk that changes in market prices including foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The Company records its investments using the closing price at the end of the reporting period. As at September 30, 2023 and December 31, 2022, the Company held cash and cash equivalents, treasury bills, and term deposits which management considers not to be materially susceptible to market risks.

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

The Company is exposed to movements in the United States dollar. Payments made to Kennecott and the majority of costs associated with the operatorship of the Tamarack Project are denominated in United States dollars. Talon's head office salaries, certain consulting costs and administrative costs are denominated in Canadian dollars. The Company provides loans to the US subsidiary to fund continuing

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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operations. Foreign currency gains and losses on loans to the US subsidiary are recorded in other comprehensive income as the loans are part of a net investment in a foreign operation and repayment of the loans is not expected in the foreseeable future. Talon's financing activities have been primarily in Canadian dollars.

As of September 30, 2023 and December 31, 2022, Talon is exposed to movements in the United States dollar as a result of cash on hand, the asset retirement obligation, certain accounts payable and the majority of the costs associated with operating the Tamarack Project.

At September 30, 2023, the Company had net monetary assets in United States dollars of \$5.9 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 period ended September 30, 2023 of approximately \$0.3 million.

### **(e) Interest rate risk**

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

The risk of investing cash equivalents into fixed interest rate investments is mitigated by having a term to maturity that is less than one year.

## **14. CAPITAL RISK MANAGEMENT**

Capital is comprised of equity which at September 30, 2023 was \$214.3 million (December 31, 2022 – \$212.8 million). The Company manages its capital structure and attempts to make adjustments to it, in order to have the funds available to support its exploration, development and/or operating activities.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholders' returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing short-term loans or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2023 and the year ended December 31, 2022.

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

## **15. RELATED PARTY TRANSACTIONS AND BALANCES**

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

The spouse of the CEO provided recruiting services relating to new hires for the three and nine months ended September 30, 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.



# Talon Metals Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)

The remuneration, including benefits, of directors and officers of the Company for the three and nine months ended September 30, 2023 and 2022 was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2023	2022	2023	2022
Salaries and benefits of officers	\$ 3,449,462	\$ 2,709,121	\$ 1,155,225	\$ 922,645
Board fees	61,875	61,188	20,625	20,625
Stock-based compensation	1,473,432	3,525,752	218,930	778,289
Total Aggregate Compensation	\$ 4,984,769	\$ 6,296,061	\$ 1,394,780	\$ 1,721,559

Capitalized portion included in Total Aggregate Compensation (capitalized to Resource properties and deferred expenditures):

Salaries and benefits of officers	\$ 2,695,096	\$ 2,355,034	\$ 871,868	\$ 893,553
Stock-based compensation	1,253,135	2,377,227	186,780	631,235
Total	\$ 3,948,231	\$ 4,732,261	\$ 1,058,648	\$ 1,524,788

Cash compensation and stock option compensation are recorded on the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss in "Salaries, benefits, consulting and board fees" and on the Condensed Interim Consolidated Statements of Financial Position in "Resource properties and deferred expenditures".

All options issued in 2022 vest over one year and have an expiration date that is five years from the date of grant, except where noted.

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.

During the three and nine months ended September 30, 2023, there were no options issued to directors or officers.

## 16. CONTINGENCIES

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable. The total amount accrued as of September 30, 2023 was \$29,937 (December 31, 2022 - \$28,438). The change from December 31, 2022 to September 30, 2023 was the result of foreign currency translation from Brazilian Real to Canadian dollars. The Company has been named a defendant in two legal actions in Brazil, including a labour lawsuit involving a former employee (the Company has appealed the ruling) and a lawsuit related to the termination of a mineral assignment agreement. Legal counsel is of the opinion that some amount of loss is probable and thus a provision as noted above has been recognized.

## 17. GEOGRAPHIC INFORMATION

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

# **Talon Metals Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian dollars)**

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### **18. SUBSEQUENT EVENTS**

#### **(a) Private placement of common shares**

On October 17, 2023, the Company completed a non-brokered private placement of 80,350,000 common shares of the Company at a price of \$0.27 per share for aggregate gross proceeds of \$21.7 million ("October 2023 Private Placement").

The Company intends to use the proceeds of the October 2023 Private Placement for further exploration, to progress its feasibility study in respect of the Tamarack Nickel Project and the Battery Minerals Processing Facility in North Dakota and to progress the environmental review process towards permitting for the Tamarack Nickel Project and the Battery Minerals Processing Facility in North Dakota, and for general corporate and working capital purposes.

In connection with the October 2023 Private Placement, the Company entered into an investment agreement with the investor pursuant to which the Company has granted the investor a contractual participation right in respect of future equity financings by the Company to allow the investor the ability to maintain its ownership interest in the Company.

#### **(b) Shares issued for services**

On November 3, 2023, the Company issued 739,810 common shares of the Company as payment to a consultant for engineering services with an amount owing of \$184,953. The shares were valued at \$184,953 based on the closing share price of \$0.25 on the date of issuance.