Trilogy Metals Inc.
Interim Consolidated Financial Statements
May 31, 2020
(Unaudited)

(expressed in US dollars)

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Trilogy Metals Inc.
Interim Consolidated Balance Sheets
(unaudited)

in thousands of US dollars

	May 31, 2020 $	November 30, 2019 $
Assets		
Current assets		
Cash and cash equivalents	12,343	19,174
Accounts receivable (note 3)	699	264
Deposits and prepaid amounts	473	719
	13,515	20,157
Equity method investment (note 4)	175,261	-
Plant and equipment (note 5)	239	715
Mineral properties and development costs (note 6)	-	30,631
Rent deposit (note 8 (a))	-	114
Right of use asset (note 8 (a))	529	-
	189,544	**51,617**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	539	2,354
Current portion of lease liability	139	-
	678	2,354
Long-term portion of lease liability (note 8 (b))	460	-
Mineral properties purchase option	-	31,000
	1,138	33,354
Shareholders' equity		
Share capital (note 9) – *unlimited common shares authorized, no par value*		
Issued -140,922,886 (2019 – 140,427,761)	178,650	177,971
Contributed surplus	122	122
Contributed surplus – options (note 9(a))	22,661	21,123
Contributed surplus – units (note 9(b))	1,508	1,759
Deficit	(14,535)	(182,712)
	188,406	18,263
	189,544	**51,617**

Commitments (note 11)

(See accompanying notes to the interim consolidated financial statements)

/s/ Tony Giardini, President, CEO and Director

/s/ Kalidas Madhavpeddi, Director

Approved on behalf of the Board of Directors

Trilogy Metals Inc.
Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (unaudited)

in thousands of US dollars, except share and per share amounts

	For the three months ended		For the six months ended	
	May 31, 2020 $	May 31, 2019 $	May 31, 2020 $	May 31, 2019 $
Expenses				
Amortization	16	38	58	75
Feasibility study	742	-	742	-
Foreign exchange (gain) loss	(16)	5	7	(29)
General and administrative	433	436	1,084	928
Investor relations	101	175	227	292
Mineral properties expense (note 6(a))	-	2,906	1,545	4,441
Professional fees	198	153	866	244
Salaries	226	282	450	563
Salaries – stock-based compensation	770	664	1,966	2,603
Total expenses	2,470	4,659	6,945	9,117
Other items				
Gain on derecognition of assets contributed to joint venture (note 4(a))	-	-	(175,770)	-
Share of loss on equity investment (note 4(b))	561	-	739	-
Interest and other income	(29)	(150)	(91)	(272)
Comprehensive (loss) earnings for the period	**(3,002)**	**(4,509)**	**168,177**	**(8,845)**
Basic (loss) earnings per common share	**(0.02)**	**(0.04)**	**1.20**	**(0.07)**
Diluted (loss) earnings per common share	**(0.02)**	**(0.04)**	**1.13**	**(0.07)**
Basic weighted average number of common shares outstanding	**140,785,082**	**132,095,920**	**140,701,337**	**132,007,414**
Diluted weighted average number of common shares outstanding	**140,785,082**	**132,095,920**	**148,705,482**	**132,007,414**

(See accompanying notes to the interim consolidated financial statements)

Trilogy Metals Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

in thousands of US dollars, except share amounts

	Number of shares outstanding	Share capital $	Warrants $	Contributed surplus $	Contributed surplus – options $	Contributed surplus – units $	Deficit $	Total shareholders' equity $
Balance – November 30, 2018	**131,585,612**	**164,069**	**2,253**	**122**	**19,076**	**1,489**	**(154,807)**	**32,202**
Exercise of options	44,230	28	-	-	(28)	-	-	-
Restricted Share Units	412,501	424	-	-	-	(424)	-	-
Stock-based compensation	-	-	-	-	1,586	353	-	1,939
Loss for the period	-	-	-	-	-	-	(4,336)	(4,336)
Balance – February 28, 2019	**132,042,343**	**164,521**	**2,253**	**122**	**20,634**	**1,418**	**(159,143)**	**29,805**
Exercise of options	101,064	53	-	-	(53)	-	-	-
Stock-based compensation	-	-	-	-	355	309	-	664
Loss for the period	-	-	-	-	-	-	(4,509)	(4,509)
Balance – May 31, 2019	**132,143,407**	**164,574**	**2,253**	**122**	**20,936**	**1,727**	**(163,652)**	**25,960**
Balance – November 30, 2019	**140,427,761**	**177,971**	**-**	**122**	**21,123**	**1,759**	**(182,712)**	**18,263**
Exercise of options	19,514	6	-	-	(6)	-	-	-
Restricted Share Units	212,501	330	-	-	-	(330)	-	-
Stock-based compensation	-	-	-	-	1,155	41	-	1,196
Earnings for the period	-	-	-	-	-	-	171,179	171,179
Balance – February 29, 2020	**140,659,776**	**178,307**	**-**	**122**	**22,272**	**1,470**	**(11,533)**	**190,638**
Exercise of options	63,110	31	-	-	(31)	-	-	-
Restricted Share Units	200,000	312	-	-	-	(312)	-	-
Stock-based compensation	-	-	-	-	420	350	-	770
Earnings for the period	-	-	-	-	-	-	(3,002)	(3,002)
Balance – May 31, 2020	**140,922,886**	**178,650**	**-**	**122**	**22,661**	**1,508**	**(14,535)**	**188,406**

(See accompanying notes to the interim consolidated financial statements)

Trilogy Metals Inc.
Interim Consolidated Statements of Cash Flows
(unaudited)

in thousands of US dollars

	For the six months ended	
	May 31, 2020 $	May 31, 2019 $
Cash flows used in operating activities		
Earnings (loss) for the period	168,177	(8,845)
Items not affecting cash		
Amortization	58	75
Right of use asset amortization	86	-
Loss on working capital written-off upon joint venture formation	18	-
Gain on derecognition of assets (note 4(a))	(175,770)	-
Loss on equity investment in Ambler Metals LLC. (note 4(b))	739	-
Unrealized foreign exchange loss	11	8
Stock-based compensation	1,966	2,603
Operating lease payments	(97)	-
Net change in non-cash working capital		
Increase in accounts receivable	(435)	(148)
Decrease (increase) in deposits and prepaid amounts	246	(894)
Decrease in accounts payable and accrued liabilities	(1,815)	(176)
	(6,816)	**(7,377)**
Cash flows from investing activities		
Mineral properties funding	-	10,200
	-	**10,200**
(Decrease) increase in cash and cash equivalents	**(6,816)**	**2,823**
Effect of exchange rate on cash and cash equivalents	(15)	(8)
Cash and cash equivalents – beginning of period	19,174	22,991
Cash and cash equivalents – end of period	**12,343**	**25,806**

(See accompanying notes to the interim consolidated financial statements)

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

1 Nature of operations

Trilogy Metals Inc. ("Trilogy" or the "Company") was incorporated in British Columbia under the *Business Corporations Act (BC)* on April 27, 2011. The Company is engaged in the exploration and development of mineral properties, through our equity investee (see note 4), with a focus on the Upper Kobuk Mineral Projects ("UKMP"), including the Arctic and Bornite Projects located in Northwest Alaska in the United States of America ("US").

2 Summary of significant accounting policies

Basis of presentation

These interim consolidated financial statements have been prepared using accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of Trilogy and its wholly owned subsidiary, NovaCopper US Inc. (dba "Trilogy Metals US"). All significant intercompany transactions are eliminated on consolidation. For variable interest entities ("VIEs") where Trilogy is not the primary beneficiary, we use the equity method of accounting.

All figures are in United States dollars unless otherwise noted. References to CAD$ refer to amounts in Canadian dollars.

The unaudited interim consolidated financial statements include all adjustments necessary for the fair presentation of the Company's financial position as of May 31, 2020 and our results of operations and cash flows for the six months ended May 31, 2020 and May 31, 2019. The results of operations for the six months ended May 31, 2020 are not necessarily indicative of the results to be expected for the fiscal year ending November 30, 2020.

As these interim consolidated financial statements do not contain all of the disclosures required by U.S. GAAP for annual financial statements, these unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2019, filed with the U.S. Securities and Exchange Commission ("SEC") and Canadian securities regulatory authorities on February 13, 2020.

These interim consolidated financial statements were approved by the Company's Audit Committee on behalf of the Board of Directors for issue on July 7, 2020.

Accounting standards adopted

Leases

In February 2016, the FASB issued new accounting requirements for accounting for, presentation of, and classification of leases ("ASU 2016-02") which, together with subsequent amendments, is included in ASC 842, Leases. ASC 842 became effective for the Company as of December 1, 2019.

The Company adopted ASC 842 using the modified retrospective transition method by applying the transition provision and recording our cumulative adjustment to opening deficit at the beginning of the period of adoption on December 1, 2019, rather than at the beginning of the comparative period presented. Therefore, in the comparative periods, we continue to apply the legacy guidance in ASC 840, including its disclosure requirements. We elected to apply all of the transition practical expedients available, including:

- the package of three practical expedients to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification for any expired or existing leases, and (3) not reassess initial direct costs for any existing lease;
- the hindsight practical expedient to use hindsight when determining lease term and assessing impairment of right-of-use assets, if any; and
- the easements practical expedient to continue applying our current policy for accounting for any land easements expired before or existing as of December 1, 2019.

In addition, we elected to apply the short-term lease recognition exemption and elected to apply the practical expedient to not separate lease and non-lease components for all applicable leases on transition. The adoption of this new standard resulted in the recognition of right of use assets and lease liabilities of $786,000 as at December 1, 2019.

New accounting policy

Investment in affiliates

Investments in unconsolidated ventures over which the Company has the ability to exercise significant influence, but does not control, are accounted for under the equity method and include the Company's investment in the Ambler Metals project. We identified Ambler Metals LLC as a VIE as the entity is dependent on funding from its owners. All funding, ownership, voting rights and power to exercise control is shared equally on a 50/50 basis between the owners of the VIE. Therefore, the Company has determined that it is not the primary beneficiary of the VIE. The Company's maximum exposure to loss is its investment in Ambler Metals LLC.

Ambler Metals LLC is a non-publicly traded equity investee holding exploration and development projects. The Company reviews and evaluates its investment in affiliates for other than temporary impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Events that could indicate impairment of an investment in affiliates include a significant decrease in long-term expected commodity prices, a significant increase in expected operating or capital costs, unfavorable exploration results or technical studies, a significant decrease in reserves, a loss of significant mineral claims or a change in the development plan or strategy for the project. Asset impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. If the underlying assets are not recoverable, an impairment loss is measured and recorded based on the difference between the carrying amount of the investee and its estimated fair value which may be determined using a discounted cash flow model.

3 Accounts receivable

in thousands of dollars

	May 31, 2020 $	November 30, 2019 $
GST input tax credits	31	42
Recoverable payments	-	222
Ambler Metals LLC	668	-
Accounts receivable	**699**	**264**

The balance due from Ambler Metals LLC (see note 4 below) consists of services rendered by Trilogy and reimbursements for invoices paid by Trilogy on behalf of Ambler Metals LLC per a service agreement. The balance was paid in full by Ambler Metals LLC subsequent to the quarter end.

4 Equity method investment

(a) Formation of Ambler Metals LLC

On February 11, 2020, the Company completed the formation of a 50/50 joint venture named Ambler Metals LLC with South32 Limited ("South32"). As part of the formation of the joint venture, Trilogy contributed all its assets associated with the UKMP, including the Arctic and Bornite Projects, while South32 contributed US$145 million, resulting in each party's subsidiaries directly owning a 50% interest in Ambler Metals LLC.

Ambler Metals LLC is an independently operated company jointly controlled by Trilogy and South32 through a four-member board, of which two members are currently appointed by Trilogy based on its 50% equity interest. All significant decisions related to the UKMP require the approval of both companies. We determined that Ambler Metals LLC is a VIE because it is expected to need additional funding from its owners for its significant activities. However, we concluded that we are not the primary beneficiary of Ambler Metals LLC as the power to direct its activities, through its board, is shared under the Ambler Metals LLC limited liability company agreement. As we have significant influence over Ambler Metals

LLC through our representation on its board, we use the equity method of accounting for our investment in Ambler Metals LLC. Our investment in Ambler Metals LLC was initially measured at its fair value of $176 million upon recognition. Our maximum exposure to loss in this entity is limited to the carrying amount of our investment in Ambler Metals LLC, which totaled $176 million, as well as $668 thousand of amounts receivable per a service agreement. The following table summarizes the gain on recognition of the UKMP assets upon transfer to the Ambler Metals LLC joint venture on February 11, 2020.

in thousands of dollars

	$
Fair value ascribed to Ambler Metals LLC interest	176,000
Less: carrying value of contributed /eliminated assets	
Mineral properties	(30,587)
Property, plant and equipment	(618)
Elimination of Fairbanks warehouse right of use asset	(93)
Elimination of prepaid State of Alaska mining claim fees	(303)
Add:	
Demobilization costs of drills	278
Cancellation of Fairbanks warehouse lease liability	93
Fair value of mineral properties purchase option	31,000
Gain on derecognition	175,770

(b) Carrying value of equity method investment

During the six-month period ended May 31, 2020, Trilogy recognized, based on its 50% ownership interest in Ambler Metals LLC, an equity loss equivalent to its pro rata share of Ambler Metals LLC's comprehensive loss of $1.48 million for the period between February 11, 2020 (date of joint venture formation) to May 31, 2020. The carrying value of Trilogy's 50% investment in Ambler Metals LLC as at May 31, 2020 is summarized on the following table.

in thousands of dollars

	$
February 11, 2020, fair value ascribed to Ambler Metals LLC interest	176,000
Share of loss on equity investment for the six-month period ended May 31, 2020	(739)
May 31, 2020, equity method investment	175,261

(c) The following table summarizes Ambler Metals LLC's Balance Sheet as at May 31, 2020.

in thousands of dollars

	May 31, 2020 **$**
Current assets: Cash, deposits and prepaid expenses	86,490
Non - current assets: Property, equipment and mineral properties	31,359
Loan receivable from South32	57,876
Current liabilities: Accounts payable and accrued liabilities	(917)
Non - current liabilities: Lease obligation	(79)
Net assets	174,729

(d) The following table summarizes Ambler Metals LLC's comprehensive loss from the formation of the joint venture on February 11, 2020 to the end of the reporting period on May 31, 2020.

in thousands of dollars

	February 11 – May 31, 2020 $
Amortization	50
Mineral properties expense	1,080
General and administrative expense	904
Interest income	(557)
Comprehensive loss	1,477

5 Plant and equipment

in thousands of dollars

				May 31, 2020
	Cost $	Accumulated amortization $	Assets derecognized note 4(a) $	Net $
British Columbia, Canada				
Furniture and equipment	63	(36)	-	27
Leasehold improvements	253	(43)	-	210
Computer hardware and software	115	(113)	-	2
Alaska, USA				
Machinery, and equipment	3,667	(3,049)	(618)	-
Vehicles	348	(348)	-	-
Computer hardware and software	4	(4)	-	-
	4,450	**(3,593)**	**(618)**	**239**

in thousands of dollars

			November 30, 2019
	Cost $	Accumulated amortization $	Net $
British Columbia, Canada			
Furniture and equipment	63	(29)	34
Leasehold improvements	53	(17)	36
Computer hardware and software	115	(112)	3
Alaska, USA			
Machinery, and equipment	3,667	(3,026)	641
Vehicles	348	(348)	-
Computer hardware and software	4	(3)	1
	4,250	**(3,535)**	**715**

6 Mineral properties and development costs

in thousands of dollars

	November 30, 2019 $	Acquisition costs reimbursable from Ambler Metals LLC	Assets derecognized note 4(a) $	May 31, 2020 $
Alaska, USA				
Ambler (a)	26,631	(44)	(26,587)	-
Bornite (b)	4,000	-	(4,000)	-
	30,631	**(44)**	**(30,587)**	**-**

in thousands of dollars

	November 30, 2018 $	Acquisition costs $	November 30, 2019 $
Alaska, USA			
Ambler (a)	26,587	44	26,631
Bornite (b)	4,000	-	4,000
	30,587	**44**	**30,631**

(a) Mineral properties expense

The following table summarizes mineral properties expense for the noted periods.

In thousands of dollars

	Three months ended May 31, 2020 $	Three months ended May 31, 2019 $	Six months ended May 31, 2020 $	Six months ended May 31, 2019 $
Alaska, USA				
Community	-	146	137	264
Drilling	-	173	-	173
Engineering	-	303	723	624
Environmental	-	136	99	271
Geochemistry and geophysics	-	593	12	758
Land and permitting	-	174	134	360
Project support	-	778	249	1,004
Other income	-	-	-	(1)
Wages and benefits	-	603	191	988
	-	**2,906**	**1,545**	**4,441**

No additional mineral properties expenses were incurred during the three-month period ended May 31, 2020, as on February 11, 2020, upon the formation of the joint venture with South 32, all mineral properties previously held by the Company were contributed to Ambler Metals LLC. The Company continues to fund the Arctic Project feasibility study, costs for which were $0.7 million since the formation of the joint venture on February 11, 2020. The table above is for comparison purposes for the respective periods.

(b) Derecognition

As part of the formation of the joint venture with South32 on February 11, 2020, Trilogy contributed all its assets associated with the UKMP, including the Arctic and Bornite projects. As a result, $0.62 million of machinery and equipment as well as $30.6 million of mineral properties related to the UKMP were derecognized in Trilogy on February 11, 2020.

7 Accounts payable and accrued liabilities

in thousands of dollars

	May 31, 2020 $	November 30, 2019 $
Trade accounts payable	232	902
Accrued liabilities	214	721
Accrued salaries and vacation	93	731
Accounts payable and accrued liabilities	**539**	**2,354**

8 Leases

(a) Right-of-use asset

in thousands of dollars

	$
ASC 842 transition as at December 1, 2019	681
Amortization	(86)
Lease accretion	27
Derecognition of Fairbanks warehouse lease	(93)
	529

The pre-transition rent deposit of $114 thousand was transferred to the Right-of-use asset upon adoption of ASC 842 on December 1, 2019 and is included in the opening balance of $681 thousand.

(b) Lease liabilities

The Company's lease arrangements primarily consist of an operating lease for our office space ending in June 2024. There are no extension options.

Total lease expense recorded within general and administrative expenses was comprised of the following components:

in thousands of dollars

	Six months ended May 31, 2020 $
Operating lease costs	86
Variable lease costs	64
Total lease expense	150

Variable lease costs consist primarily of the Company's portion of operating costs associated with the office space lease as the Company elected to apply the practical expedient not to separate lease and non-lease components.

As of May 31, 2020, the weighted-average remaining lease term was 4.1 years and the weighted-average discount rate is 8%. Significant judgment was used in the determination of the incremental borrowing rate which included estimating the Company's credit rating.

Supplemental cash and non-cash information relating to our leases during the six months ended May 31, 2020 are as follows:

- Cash paid for amounts included in the measurement of lease liabilities was $96,842.
- No cash was paid upon termination of a lease for office and warehouse space and reassignment to Ambler Metals LLC that resulted in the derecognition of the right-of-use asset of $92,974 and the operating lease liability of $93,006.

Future minimum payments relating to the lease recognized in our balance sheet as of May 31, 2020 are as follows:

in thousands of dollars

Fiscal year	May 31, 2020 $
2020	90
2021	184
2022	173
2023	211
2024	116
Total undiscounted lease payments	774
Effect of discounting	(175)
Present value of lease payments recognized as lease liability	599

9 Share capital

Authorized:
unlimited common shares, no par value

in thousands of dollars, except share amounts

	Number of shares	Ascribed value $
November 30, 2018	**131,585,612**	**164,069**
Exercise of options	1,725,776	1,123
Restricted Share Units	412,501	424
Deferred Share Units	182,132	189
Exercise of warrants	6,521,740	12,166
November 30, 2019	**140,427,761**	**177,971**
Exercise of options	82,624	38
Restricted Share Units	412,501	642
May 31, 2020, issued and outstanding	**140,922,886**	**178,651**

On April 30, 2012, under the NovaGold Arrangement, Trilogy committed to issue common shares to satisfy holders of NovaGold deferred share units ("NovaGold DSUs") on record as of the close of business April 27, 2012. When vested, Trilogy committed to deliver one common share to the holder for every six shares of NovaGold the holder is entitled to receive, rounded down to the nearest whole number. As of May 31, 2020, 11,927 NovaGold DSUs remained outstanding representing a right to receive 1,988 common shares in Trilogy, which will settle upon certain directors retiring from NovaGold's board.

(a) Stock options

During the period ended May 31, 2020, the Company granted 2,325,000 options (2019 – 2,527,500 options) at a weighted-average exercise price of CAD$2.93 (2019 – CAD$2.96) to employees, consultants and directors exercisable for a period of five years with various vesting terms from immediate vesting to vesting over a two-year period. The weighted-average fair value attributable to options granted in the period was $0.96 (2019 - $1.08).

For the period ended May 31, 2020, Trilogy recognized a stock-based compensation charge of $1.58 million (2019 – $1.94 million) for options granted to directors, employees and service providers, net of estimated forfeitures.

The fair value of the stock options recognized in the period has been estimated using the Black-Scholes option pricing model.

Assumptions used in the pricing model for the period are as provided below.

	May 31, 2020
Risk-free interest rates	1.50%
Exercise price	CAD$3.07
Expected life	3.0 years
Expected volatility	63.3%
Expected dividends	Nil

As of May 31, 2020, there were 1,453,338 non-vested options outstanding with a weighted average exercise price of $2.15; the non-vested stock option expense not yet recognized was $0.71 million. This expense is expected to be recognized over the next two years.

A summary of the Company's stock option plan and changes during the period ended May 31, 2020 is as follows:

		May 31, 2020
	Number of options	Weighted average exercise price $
Balance – beginning of the period	9,205,600	1.05
Granted	2,325,000	2.13
Exercised	(151,667)	0.56
Forfeited	(260,000)	2.15
Balance – end of period	**11,118,933**	**1.25**

The following table summarizes information about the stock options outstanding at May 31, 2020.

			Outstanding		Exercisable	Unvested
Range of price	Number of outstanding options	Weighted average years to expiry	Weighted average exercise price $	Number of exercisable options	Weighted average exercise price $	Number of unvested options
$0.32 to $0.50	3,901,433	0.81	0.40	3,901,433	0.81	-
$0.51 to $1.00	1,845,000	2.48	0.73	1,845,000	2.48	-
$1.01 to $1.50	225,000	2.87	1.29	175,000	2.83	50,000
$1.51 to $2.00	915,000	4.41	1.72	898,333	4.43	16,667
$2.01 to $2.54	4,232,500	4.03	2.17	2,895,829	3.92	1,336,671
	11,118,933	**2.65**	**1.25**	**9,715,595**	**2.43**	**1,403,338**

The aggregate intrinsic value of vested share options (the market value less the exercise price) at May 31, 2020 was $8.3 million (2019 - $17.6 million) and the aggregate intrinsic value of exercised options for the three months ended May 31, 2020 was $0.18 million (2019 - $0.30 million).

(b) Restricted Share Units and Deferred Share Units

The Company has a Restricted Share Unit Plan ("RSU Plan") and a Non-Executive Director Deferred Share Unit Plan ("DSU Plan") to provide long-term incentives to employees, officers and directors. Awards under the RSU Plan and DSU Plan may be settled in cash and/or common shares of the Company at the Company's election with each restricted share unit ("RSU") and deferred share unit ("DSU") entitling the holder to receive one common share of the Company or equivalent value. All units are accounted for as equity-settled awards.

A summary of the Company's unit plans and changes during the period ended May 31, 2020 is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of the period	212,501	1,137,488
Granted	200,000	44,903
Vested/paid	(412,501)	-
Balance – end of period	-	**1,182,391**

For the period ended May 31, 2020, Trilogy recognized a stock-based compensation charge of $0.39 million (2019- $0.66 million), net of estimated forfeitures.

The 200,000 RSUs granted and fully vested during the period were settled on April 16, 2020 through the issuance of 200,000 common shares. The 225,000 RSUs granted for the annual incentive payout for the 2018 fiscal year vested half on the grant date and half on the first anniversary of the grant date. RSUs vesting in December 2019 were settled on December 17, 2019 through the issuance of 212,501 common shares.

10 Financial instruments

The Company is exposed to a variety of risks arising from financial instruments. These risks and management's objectives, policies and procedures for managing these risks are disclosed as follows.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. The fair value of the Company's financial instruments approximates their carrying value due to the short-term nature of their maturity. The Company's financial instruments initially measured at fair value and then held at amortized cost include cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities.

Financial risk management

The Company's activities expose it to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and price risk.

(a) Currency risk

Currency risk is the risk of a fluctuation in financial asset and liability settlement amounts due to a change in foreign exchange rates. The Company operates in the United States and Canada. The Company's exposure to currency risk at May 31, 2020 is limited to the Canadian dollar balances consisting of cash of CDN$87,000, accounts receivable of CDN$42,000 and accounts payable of CDN$347,000. Based on a 10% change in the US-Canadian exchange rate, assuming all other variables remain constant, the Company's net loss would change by approximately $16,000.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company holds cash and cash equivalents with Canadian Chartered financial institutions. The Company's accounts receivable consists of Canadian Goods and Services Tax receivable from the Federal Government of Canada and other receivables for recoverable expenses. The Company's exposure to credit risk is equal to the balance of cash and cash equivalents and accounts receivable as recorded in the financial statements.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties raising funds to meet its financial obligations as they fall due. The Company is in the exploration stage and does not have cash inflows from operations; therefore, the Company manages liquidity risk through the management of its capital structure and financial leverage.

Contractually obligated cash flow requirements as at May 31, 2020 are as follows:

in thousands of dollars

	Total $	< 1 Year $	1–2 Years $	2–5 Years $	Thereafter $
Accounts payable and accrued liabilities	539	539	-	-	-
	539	**539**	**-**	**-**	**-**

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk with respect to interest earned on cash and cash equivalents. Based on balances as at May 31, 2020, a 1% change in interest rates would result in a change in net loss of $0.1 million, assuming all other variables remain constant.

11 Commitment

The Company has commitments with respect to an office lease requiring future minimum lease payments as summarized in note 8(b) above.

12 Subsequent event

Subsequent to the end of the second quarter, on June 1, 2020, the newly appointed CEO was granted a one-time stock option grant, per his employment agreement, of 1.6 million stock options vesting equally in thirds on the grant date, the first anniversary of the grant date, and the second anniversary of the grant date. In addition to this grant, the new CEO was also granted 170,000 stock options in lieu of salary for the June 1, 2020 to September 30, 2020 employment period. These options fully vest on September 30, 2020.