



**Trilogy Metals Inc.**  
**Interim Consolidated Financial Statements**  
**May 31, 2019**  
**(Unaudited)**  
(expressed in US dollars)

## Table of Contents

Consolidated Balance Sheets .....	3
Consolidated Statements of Loss and Comprehensive Loss .....	4
Consolidated Statements of Changes in Shareholders' Equity .....	5
Consolidated Statements of Cash Flows .....	6
Notes to the Consolidated Financial Statements .....	7

**Trilogy Metals Inc.**  
**Consolidated Balance Sheets**  
**(unaudited)**

*in thousands of US dollars*

	May 31, 2019 \$	November 30, 2018 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	25,806	22,991
Accounts receivable	171	23
Deposits and prepaid amounts	1,513	619
	<b>27,490</b>	<b>23,633</b>
Rent deposit	114	114
Plant and equipment (note 3)	250	325
Mineral properties and development costs (note 4)	30,587	30,587
	<b>58,441</b>	<b>54,659</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	1,481	1,657
	1,481	1,657
Mineral properties purchase option (note 4(c))	31,000	20,800
	<b>32,481</b>	<b>22,457</b>
<b>Shareholders' equity</b>		
Share capital (note 6) – <i>unlimited common shares authorized, no par value Issued -132,143,407 (2018 – 131,585,612)</i>	164,574	164,069
Warrants (note 6(c))	2,253	2,253
Contributed surplus	122	122
Contributed surplus – options (note 6(a))	20,936	19,076
Contributed surplus – units (note 6(b))	1,727	1,489
Deficit	(163,652)	(154,807)
	<b>25,960</b>	<b>32,202</b>
	<b>58,441</b>	<b>54,659</b>

**Commitments and contingencies** (note 8)

(See accompanying notes to the interim consolidated financial statements)

/s/ Rick Van Nieuwenhuyse, Director

/s/ Kalidas Madhavpeddi, Director

**Approved on behalf of the Board of Directors**

**Trilogy Metals Inc.**  
**Consolidated Statements of Loss and Comprehensive 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, 2019	May 31, 2018	May 31, 2019	May 31, 2018
	\$	\$	\$	\$
<b>Expenses</b>				
Amortization	38	42	75	83
Foreign exchange loss (gain)	5	19	(29)	(44)
General and administrative	436	454	928	799
Investor relations	175	138	292	202
Mineral properties expense (note 4(d))	2,906	2,475	4,441	3,606
Professional fees	153	114	244	273
Salaries	282	223	563	452
Salaries – stock-based compensation	664	151	2,603	1,073
<b>Total expenses</b>	<b>4,659</b>	<b>3,616</b>	<b>9,117</b>	<b>6,444</b>
<b>Other items</b>				
Loss on held for trading investments	-	125	-	260
Interest and other income	(150)	(77)	(272)	(94)
<b>Loss and comprehensive loss for the period</b>	<b>4,509</b>	<b>3,664</b>	<b>8,845</b>	<b>6,610</b>
<b>Basic and diluted loss per common share</b>	<b>\$0.04</b>	<b>\$0.03</b>	<b>\$0.07</b>	<b>\$0.06</b>
<b>Weighted average number of common shares outstanding</b>	<b>132,095,920</b>	<b>117,583,238</b>	<b>132,007,414</b>	<b>111,989,192</b>

(See accompanying notes to the interim consolidated financial statements)

**Trilogy Metals Inc.**  
**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 \$
<b>Balance – November 30, 2017</b>	<b>105,684,523</b>	<b>136,525</b>	<b>2,163</b>	<b>124</b>	<b>18,402</b>	<b>1,319</b>	<b>(132,868)</b>	<b>25,665</b>
Exercise of options	50,753	29	-	-	(29)	-	-	-
Restricted share units	800,000	457	-	-	-	(457)	-	-
Stock-based compensation	-	-	-	-	484	438	-	922
Loss for the period	-	-	-	-	-	-	(2,946)	(2,946)
<b>Balance – February 28, 2018</b>	<b>106,535,276</b>	<b>137,011</b>	<b>2,163</b>	<b>124</b>	<b>18,857</b>	<b>1,300</b>	<b>(135,814)</b>	<b>23,641</b>
Bought deal financing	24,784,482	28,750	90	-	-	-	(90)	28,750
Share issuance costs	-	(1,819)	-	-	-	-	-	(1,819)
Exercise of options	28,700	5	-	-	(5)	-	-	-
Stock-based compensation	-	-	-	-	90	61	-	151
Loss for the period	-	-	-	-	-	-	(3,664)	(3,664)
<b>Balance – May 31, 2018</b>	<b>131,348,458</b>	<b>163,947</b>	<b>2,253</b>	<b>124</b>	<b>18,942</b>	<b>1,361</b>	<b>(139,568)</b>	<b>47,059</b>
<b>Balance – November 30, 2018</b>	<b>131,585,612</b>	<b>164,069</b>	<b>2,253</b>	<b>122</b>	<b>19,076</b>	<b>1,489</b>	<b>(154,807)</b>	<b>32,202</b>
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)
<b>Balance – February 28, 2019</b>	<b>132,042,343</b>	<b>164,521</b>	<b>2,253</b>	<b>122</b>	<b>20,634</b>	<b>1,418</b>	<b>(159,143)</b>	<b>29,805</b>
Exercise of options	101,064	53	-	-	(53)	-	-	-
Stock-based compensation	-	-	-	-	355	309	-	664
Loss for the period	-	-	-	-	-	-	(4,509)	(4,509)
<b>Balance – May 31, 2019</b>	<b>132,143,407</b>	<b>164,574</b>	<b>2,253</b>	<b>122</b>	<b>20,936</b>	<b>1,727</b>	<b>(163,652)</b>	<b>25,960</b>

(See accompanying notes to the interim consolidated financial statements)

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

*in thousands of US dollars*

	<b>May 31, 2019</b>	<b>For the six months ended May 31, 2018</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows used in operating activities</b>		
Loss for the period	(8,845)	(6,610)
Items not affecting cash		
Amortization	75	83
Loss on held for trading investments	-	260
Unrealized foreign exchange loss (gain)	8	(64)
Stock-based compensation	2,603	1,073
Net change in non-cash working capital		
Decrease (Increase) in accounts receivable	(148)	441
Increase in deposits and prepaid amounts	(894)	(67)
Decrease in accounts payable and accrued liabilities	(176)	(1,682)
	<b>(7,377)</b>	<b>(6,566)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from bought deal financing	-	28,750
Share issuance cost	-	(1,819)
	-	<b>26,931</b>
<b>Cash flows from investing activities</b>		
Acquisition of plant & equipment	-	(13)
Mineral properties funding (note 4 (c))	10,200	9,635
Proceeds from the sale of investments, net of fees	-	2,080
	<b>10,200</b>	<b>11,702</b>
Increase in cash and cash equivalents	<b>2,823</b>	<b>32,067</b>
Effect of exchange rate on cash and cash equivalents	(8)	11
Cash and cash equivalents – beginning of period	22,991	5,391
<b>Cash and cash equivalents – end of period</b>	<b>25,806</b>	<b>37,469</b>

(See accompanying notes to the interim consolidated financial statements)

# Trilogy Metals Inc.

## Notes to the 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 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 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.

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

These unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s financial position as of May 31, 2019 and our results of operations and cash flows for the six months ended May 31, 2019 and May 31, 2018. The results of operations for the six months ended May 31, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending November 30, 2019.

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, 2018 filed with the U.S. Securities and Exchange Commission (“SEC”) on February 11, 2019.

These financial statements were approved by the Company’s Audit Committee on behalf of the Board of Directors for issue on July 8, 2019.

#### Accounting standards adopted

##### *i. Financial instruments*

In March 2016, the FASB issued new guidance on classifying and measuring financial instruments (“ASU 2016-01”). This update is effective for annual reporting periods beginning after December 15, 2017. The Company adopted the provisions of this guidance effective November 1, 2018. As the Company’s investments in equity instruments were previously classified at fair value with the change in fair value recorded to the statement of loss and comprehensive loss, the new guidance does not impact the Company’s accounting or reporting results.

#### Recent accounting pronouncements

##### *ii. Leases*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new accounting requirements for accounting for, presentation of, and classification of leases (“ASU 2016-02”). This will result in most leases being capitalized as a right of use asset with a related liability on the balance sheets. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, which for Trilogy is the first quarter of the fiscal year ending November 30, 2020. We expect the adoption will have an impact as we expect to capitalize leases, specifically our office leases which are not currently recognized on the balance sheets. We are in the process of analyzing the quantitative impact of this guidance on our results of operations and financial position. The impact of this adoption will increase asset and liability balances as part of recognizing the leases on the balance sheet.

**Trilogy Metals Inc.**  
**Notes to the Consolidated Financial Statements**

**3 Plant and equipment**

*in thousands of dollars*

<b>May 31, 2019</b>			
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	\$	\$	\$
<b>British Columbia, Canada</b>			
Furniture and equipment	63	(23)	40
Leasehold improvements	53	(14)	39
Computer hardware and software	115	(111)	4
<b>Alaska, USA</b>			
Machinery, and equipment	3,178	(3,014)	164
Vehicles	348	(346)	2
Computer hardware and software	35	(34)	1
	<b>3,792</b>	<b>(3,542)</b>	<b>250</b>

*in thousands of dollars*

<b>November 30, 2018</b>			
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	\$	\$	\$
<b>British Columbia, Canada</b>			
Furniture and equipment	63	(17)	46
Leasehold improvements	53	(10)	43
Computer hardware and software	115	(109)	6
<b>Alaska, USA</b>			
Machinery, and equipment	3,178	(2,964)	214
Vehicles	348	(333)	15
Computer hardware and software	35	(34)	1
	<b>3,792</b>	<b>(3,467)</b>	<b>325</b>

**4 Mineral properties and development costs**

*in thousands of dollars*

	<b>November 30, 2018</b>	<b>Acquisition costs</b>	<b>May 31, 2019</b>
	\$	\$	\$
<b>Alaska, USA</b>			
Ambler (a)	26,587	-	26,587
Bornite (b)	4,000	-	4,000
	<b>30,587</b>	<b>-</b>	<b>30,587</b>

*in thousands of dollars*

	<b>November 30, 2017</b>	<b>Acquisition costs</b>	<b>November 30, 2018</b>
	\$	\$	\$
<b>Alaska, USA</b>			
Ambler (a)	26,587	-	26,587
Bornite (b)	4,000	-	4,000
	<b>30,587</b>	<b>-</b>	<b>30,587</b>

(a) Ambler

On January 11, 2010, NovaGold Resources Inc. (“NovaGold”), through Alaska Gold Company (“AGC”), at the time a wholly-owned NovaGold subsidiary, purchased 100% of the Ambler lands in Northwest Alaska, which contains the copper-zinc-lead-gold-silver Arctic Project and other mineralized targets within the volcanogenic massive sulfide belt, through a series of cash and share payments. Total fair value of the consideration was \$26.6 million. The vendor retained a 1% net smelter return royalty that the Company can purchase at any time for a one-time payment of \$10.0 million.

The Ambler lands were acquired on October 17, 2011 by Trilogy Metals US through a purchase and sale agreement with AGC. On October 24, 2011, NovaGold transferred its ownership of Trilogy Metals US to the Company, then



## Trilogy Metals Inc.

### Notes to the Consolidated Financial Statements

itself a wholly owned subsidiary of NovaGold, which was subsequently spun-out to NovaGold shareholders and publicly listed on April 30, 2012 (“NovaGold Arrangement”).

#### (b) Bornite

On October 19, 2011, Trilogy Metals US acquired the exclusive right to explore and the non-exclusive right to access and enter on the Bornite lands, and lands deeded to NANA Regional Corporation, Inc. (“NANA”) through the Alaska Native Claims Settlement Act, located adjacent to the Ambler lands in Northwest Alaska. As consideration, Trilogy Metals US paid \$4 million to acquire the right to explore and develop the combined Upper Kobuk Mineral Projects through an Exploration Agreement and Option to Lease with NANA. Upon a decision to proceed with construction of a mine on the lands, NANA maintains the right to purchase between a 16%-25% ownership interest in the mine or retain a 15% net proceeds royalty which is payable after Trilogy Metals US has recovered certain historical costs, including capital and cost of capital. Should NANA elect to purchase an ownership interest, consideration will be payable equal to all historical costs incurred on the properties at the elected percentage purchased less \$40 million, not to be less than zero. The parties would form a joint venture and be responsible for all future costs, including capital costs of the mine based on their pro-rata share.

NANA would also be granted a net smelter return royalty of between 1% and 2.5% upon the execution of a mining lease or a surface use agreement, the amount of which is determined by the classification of land from which production originates.

#### (c) Option Agreement

On April 10, 2017, Trilogy and Trilogy Metals US entered into an Option Agreement to form a Joint Venture with South32 Group Operations Pty Ltd., a wholly-owned subsidiary of South32 Limited, which agreement was later assigned by South32 Operations to its affiliate, South32 USA Exploration Inc. (“South32”) on the UKMP (“Option Agreement”). Under the terms of the Option Agreement, as amended, Trilogy Metals US granted South32 the right to form a 50/50 joint venture to hold all of Trilogy Metals US’ Alaskan assets. Upon exercise of the option, Trilogy Metals US will transfer its Alaskan assets, including the UKMP, and South32 will contribute a minimum of \$150 million, to a newly formed and jointly held, limited liability company (“LLC”).

To maintain the option in good standing, South32 is required to fund a minimum of \$10 million per year for up to a three-year period, which funds will be used to execute a mutually agreed upon program at the UKMP. The funds provided by South32 may only be expended in accordance with an approved program by a technical committee with equal representation from Trilogy and South32. South32 may exercise its option at any time over the three-year period to enter into the 50/50 joint venture. To subscribe for 50% of the JV, South32 must contribute a minimum of \$150 million, plus (i) any amounts Trilogy spends on matched parallel funding to a maximum of \$16 million over the three year period and (ii) \$5 million if the option had been exercised between April 1, 2018 and March 31, 2019 or \$10 million if the option is exercised between April 1, 2019 and the expiration date of the option, less the amount of the initial funding contributed by South32 (the “Subscription Price”). South32 has now funded the full three-year option period. South32 has until the end of January 2020 to exercise the option to form the JV LLC and make the subscription payment. Should South32 not make its annual minimum payment or elect to withdraw, the option will lapse and South32 will have no claim to ownership or the funds it had already spent

During the year ended November 30, 2017, the Company received the first payment of \$10.0 million and these funds were expended on the year 1 program at the Bornite Project. In October 2017, the Company received \$0.4 million as a first instalment towards the year 2 program and budget to begin preparatory work. During the year ended November 30, 2018, the Company received payments totaling \$10.4 million following the approval of the year 2 program and budget in January 2018, including a \$0.80 million advance on South32’s year three funding obligation per the Option Agreement. During the quarter ended February 28, 2019, the Company received payments totaling \$10.2 million following the approval of the year 3 program and budget, including \$1 million funding for the approved regional exploration program. The receipt of the year 3 funding represents receipt of the final tranche of funding from South32. The Company is responsible for the disbursement of these funds in accordance with the approved program and budget and accordingly has not classified the funds as restricted cash.

As the initial option payments are credited against the future subscription price upon exercise, the Company has accounted for the payments received from South32 as deferred consideration for the purchase of the UKMP

## Trilogy Metals Inc. Notes to the Consolidated Financial Statements

interest. At such time as the option is exercised, the \$31.0 million of payments received will be recognized as part of the consideration received for the Company's contribution of the UKMP into JV LLC. If South32 withdraws from the Option Agreement, the consideration will be recognized as income in the statement of loss at that time.

The option to form the JV LLC is recognized as a financial instrument at inception of the arrangement with an initial fair value of \$nil. This option is required to be re-measured at fair value at each reporting date with any changes in fair value recorded in loss for the period. The Company determined that the fair value of the option remains \$nil as at May 31, 2019.

(d) Mineral properties expense

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

*In thousands of dollars*

	Three months ended May 31, 2019	Three months ended May 31, 2018	Six months ended May 31, 2019	Six months ended May 31, 2018
	\$	\$	\$	\$
<b>Alaska, USA</b>				
Community	146	154	264	244
Drilling	173	180	173	180
Engineering	303	186	624	505
Environmental	136	81	271	169
Geochemistry and geophysics	593	591	758	646
Land and permitting	174	166	360	359
Project support	778	601	1,004	677
Other income	-	(2)	(1)	(20)
Wages and benefits	603	518	988	846
<b>Mineral property expense</b>	<b>2,906</b>	<b>2,475</b>	<b>4,441</b>	<b>3,606</b>

Mineral property expenses consist of direct drilling, personnel, community, resource reporting and other exploration expenses as outlined above, as well as indirect project support expenses such as fixed wing charters, helicopter support, fuel, and other camp operation costs. Cumulative mineral properties expense in Alaska from the initial earn-in agreement on the property in 2004 to May 31, 2019 is \$99.0 million and cumulative acquisition costs are \$30.6 million totaling \$129.6 million spent to date.

### 5 Accounts payable and accrued liabilities

*in thousands of dollars*

	May 31, 2019	November 30, 2018
	\$	\$
Trade accounts payable	834	400
Accrued liabilities	474	503
Accrued salaries and vacation	173	746
Due to related parties	-	8
<b>Accounts payable and accrued liabilities</b>	<b>1,481</b>	<b>1,657</b>

**Trilogy Metals Inc.**  
**Notes to the Consolidated Financial Statements**

**6 Share capital**

Authorized:  
 unlimited common shares, no par value

*in thousands of dollars, except share amounts*

	Number of shares	Ascribed value \$
<b>November 30, 2017</b>	<b>105,684,523</b>	<b>136,525</b>
Bought deal financing	24,784,482	28,750
Share issuance costs	-	(1,805)
Exercise of options	315,148	140
Restricted share units	800,000	457
NovaGold DSU conversion	1,459	2
<b>November 30, 2018</b>	<b>131,585,612</b>	<b>164,069</b>
Exercise of options	145,294	81
Restricted share units	412,501	424
<b>May 31, 2019, issued and outstanding</b>	<b>132,143,407</b>	<b>164,574</b>

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, 2019, there remains 11,927 NovaGold DSUs outstanding representing a right to receive 1,988 Common Shares in Trilogy, which will settle upon certain directors retiring from NovaGold’s board.

On April 20, 2018, the Company completed a bought-deal financing for gross proceeds of \$28.7 million by issuing 24,784,482 common shares at \$1.16 per common share. Expenses including bank commissions, legal fees, stock exchange and other fees totaled \$1.8 million for net proceeds of \$26.9 million.

(a) Stock options

During the period ended May 31, 2019, the Company granted 2,527,500 options (2018 – 2,125,000 options) at a weighted-average exercise price of CAD\$2.96 (2018 – CAD\$1.04) to employees, consultants and directors exercisable for a period of five years with various vesting terms from immediate vesting to over a two-year period. The weighted-average fair value attributable to options granted in the period was \$1.08 (2018 - \$0.37).

For the period ended May 31, 2019, Trilogy recognized a stock-based compensation charge of \$1.94 million (2018– \$0.58 million) for options granted to directors, employees and service providers, net of estimated forfeitures.

The recognized fair value of the stock options granted 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.

	<b>May 31, 2019</b>
Risk-free interest rates	2.03%
Exercise price	CAD\$3.01
Expected life	3.0 years
Expected volatility	75.0%
Expected dividends	Nil

As of May 31, 2019, there were 1,841,672 non-vested options outstanding with a weighted average exercise price of \$1.79; the non-vested stock option expense not yet recognized was \$0.90 million. This expense is expected to be recognized over the next two years.

**Trilogy Metals Inc.**  
**Notes to the Consolidated Financial Statements**

A summary of the Company's stock option plan and changes during the period ended May 31, 2019 is as follows:

	Number of options	May 31, 2019 Weighted average exercise price \$
Balance – beginning of the period	8,821,434	0.60
Granted	2,527,500	2.19
Exercised	(219,153)	0.77
<b>Balance – end of period</b>	<b>11,129,781</b>	<b>0.95</b>

The following table summarizes information about the stock options outstanding at May 31, 2019.

Range of price	Outstanding			Exercisable		Unvested
	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
\$0.33 to \$0.50	3,920,614	1.22	0.38	3,920,614	0.38	-
\$0.51 to \$1.00	4,346,667	2.45	0.71	3,898,331	0.70	448,336
\$1.01 to \$1.50	225,000	3.87	1.31	125,000	1.22	100,000
\$1.51 to \$2.00	120,000	4.11	1.79	86,666	1.76	33,334
\$2.01 to \$2.52	2,517,500	4.53	2.19	1,257,498	2.19	1,260,002
	<b>11,129,781</b>	<b>2.53</b>	<b>0.95</b>	<b>9,288,109</b>	<b>0.79</b>	<b>1,841,672</b>

The aggregate intrinsic value of vested share options (the market value less the exercise price) at May 31, 2019 was \$17.6 million (2018 - \$5.9 million) and the aggregate intrinsic value of exercised options for the six months ended May 31, 2019 was \$0.3 million (2018 - \$0.1 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.

## Trilogy Metals Inc.

### Notes to the Consolidated Financial Statements

A summary of the Company's unit plans and changes during the period ended May 31, 2019 is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of the period	400,002	1,182,106
Granted	225,000	104,489
Vested/paid	(412,501)	-
<b>Balance – end of period</b>	<b>212,501</b>	<b>1,286,595</b>

For the period ended May 31, 2019, Trilogy recognized a stock-based compensation charge of \$0.66 million (2018- \$0.49 million), net of estimated forfeitures.

As part of the annual incentive payout for the 2018 fiscal year, 225,000 RSUs were granted to officers, vesting half on the grant date and half on the first anniversary of the grant date. RSUs vesting in December 2018 were settled on December 21, 2018 through the issuance of 412,501 common shares.

#### (c) Share Purchase Warrants

A summary of the Company's warrants and changes during the period ended May 31, 2019 is as follows:

	Number of warrants	Years to expiry	Exercise price \$
Balance – beginning of the period	6,521,740	0.59	1.52
<b>Balance – end of period</b>	<b>6,521,740</b>	<b>0.09</b>	<b>1.52</b>

## 7 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. The Company's investments were held for trading and were marked-to-market at each period end with changes in fair value recorded to the statement of loss.

#### 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, 2019 is limited to Canadian dollar consisting of cash of CDN\$244,000, accounts receivable of CDN\$26,000 and accounts payable of CDN\$442,000. 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 \$13,000.

##### (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.

## Trilogy Metals Inc. Notes to the Consolidated 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, 2019 are as follows:

	<i>in thousands of dollars</i>				
	Total \$	< 1 Year \$	1–2 Years \$	2–5 Years \$	Thereafter \$
Accounts payable and accrued liabilities	1,481	1,481	-	-	-
	<b>1,481</b>	<b>1,481</b>	-	-	-

### (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, 2019, a 1% change in interest rates would result in a change in net loss of \$0.3 million, assuming all other variables remain constant.

## 8 Commitment

The Company has commitments with respect to office and warehouse leases requiring future minimum lease payments as follows:

	<i>in thousands of dollars</i>
	<b>May 31, 2019</b>
	\$
One year	231
Years 2 through 5	457
Beyond 5 years	414
<b>Total</b>	<b>1,102</b>

## 9 Subsequent events

On June 28, 2019, the Company announced all its outstanding warrants were exercised in advance of the July 2, 2019 expiry date. As a result of the warrants exercised, the Company issued a total of 6,521,740 common shares and received cash proceeds of approximately \$9.9 million.