

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended May 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number: 1-35447



TRIOLOGY METALS INC.

(Exact Name of Registrant as Specified in Its Charter)

British Columbia
(State or Other Jurisdiction of
Incorporation or Organization)

98-1006991
(I.R.S. Employer
Identification No.)

Suite 1150, 609 Granville Street
Vancouver, British Columbia
Canada
(Address of Principal Executive Offices)

V7Y 1G5
(Zip Code)

(604) 638-8088

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	TMQ	NYSE American Toronto Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 7, 2021, the registrant had 144,446,485 Common Shares, no par value, outstanding.

Trilogy Metals Inc.

Table of Contents

	<u>Page</u>
PART I - FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures about Market Risk	25
Item 4. Controls and Procedures	25
PART II - OTHER INFORMATION	26
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3. Defaults Upon Senior Securities	26
Item 4. Mine Safety Disclosures	26
Item 5. Other Information	26
Item 6. Exhibits	26

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Trilogy Metals Inc.
Interim Consolidated Balance Sheets
(unaudited)

in thousands of US dollars

	May 31, 2021	November 30, 2020
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	8,449	11,125
Accounts receivable (note 3)	19	129
Deposits and prepaid amounts	702	184
	9,170	11,438
Investment in Ambler Metals LLC (note 4)	170,325	173,145
Fixed assets	39	206
Right of use asset (note 6 (a))	559	476
	180,093	185,265
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	907	888
Current portion of lease liability	179	158
	1,086	1,046
Long-term portion of lease liability (note 6 (b))	347	408
	1,433	1,454
Shareholders' equity		
Share capital (note 7) – <i>unlimited common shares authorized, no par value Issued – 144,446,485 (2020 – 144,137,850)</i>	180,388	179,746
Contributed surplus	122	122
Contributed surplus – options (note 7(a))	25,367	23,303
Contributed surplus – units (note 7(b))	1,657	1,585
Deficit	(28,874)	(20,945)
	178,660	183,811
	180,093	185,265

Commitments (note 9)

(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, 2021	May 31, 2020	May 31, 2021	May 31, 2020
	\$	\$	\$	\$
Expenses				
Amortization	50	42	104	144
Feasibility study (note 4(a))	—	742	—	742
Foreign exchange loss (gain)	40	(16)	75	7
General and administrative	306	407	669	998
Investor relations	116	101	270	227
Mineral properties expense	—	—	—	1,545
Professional fees	275	198	504	866
Salaries	407	226	846	450
Salaries – stock-based compensation	524	770	2,672	1,966
Total expenses	1,718	2,470	5,140	6,945
Other items				
Share of loss on equity investment (note 4(b))	1,700	561	2,820	739
Interest and other income	(5)	(12)	(9)	(74)
Services agreement income (note 4(e))	—	(17)	(22)	(17)
Gain on derecognition of assets contributed to joint venture (note 4(a))	—	—	—	(175,770)
Comprehensive (loss) earnings for the period	(3,413)	(3,002)	(7,929)	168,177
Basic (loss) earnings per common share	(0.02)	(0.02)	(0.05)	1.20
Diluted (loss) earnings per common share	(0.02)	(0.02)	(0.05)	1.13
Basic weighted average number of common shares outstanding	144,428,511	140,785,082	144,297,644	140,701,337
Diluted weighted average number of common shares outstanding	144,428,511	140,785,082	144,297,644	148,705,482

(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 \$	Contributed surplus \$	Contributed surplus – options \$	Contributed surplus – units \$	Deficit \$	Total shareholders' equity \$
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
Loss 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
Balance – November 30, 2020	144,137,850	179,746	122	23,303	1,585	(20,945)	183,811
Exercise of options	76,635	334	—	(334)	—	—	—
Stock-based compensation	—	—	—	2,112	36	—	2,148
Loss for the period	—	—	—	—	—	(4,516)	(4,516)
Balance – February 28, 2021	144,214,485	180,080	122	25,081	1,621	(25,461)	181,443
Exercise of options	232,000	308	—	(202)	—	—	106
Stock-based compensation	—	—	—	488	36	—	524
Loss for the period	—	—	—	—	—	(3,413)	(3,413)
Balance – May 31, 2021	144,446,485	180,388	122	25,367	1,657	(28,874)	178,660

(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, 2021	May 31, 2020
	\$	\$
Cash flows used in operating activities		
(Loss) earnings for the period	(7,929)	168,177
Adjustments to reconcile net loss to cash flows in operating activities		
Amortization	104	144
Office lease accounting	(98)	(97)
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))	2,820	739
Unrealized foreign exchange loss	35	11
Stock-based compensation	2,672	1,966
Net change in non-cash working capital		
Decrease (increase) in accounts receivable	110	(435)
Decrease (increase) in deposits and prepaid amounts	(518)	246
(Decrease) in accounts payable and accrued liabilities	19	(1,815)
	(2,785)	(6,816)
Cash flows from financing activities		
Proceeds from exercise of options	106	—
	106	—
Decrease in cash from operating activities	(2,679)	(6,816)
Effect of exchange rate on cash and cash equivalents	3	(15)
Cash and cash equivalents – beginning of year	11,125	19,174
Cash and cash equivalents – end of the period	8,449	12,343

(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 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, 2021 and our results of operations and cash flows for the six months ended May 31, 2021 and May 31, 2020. The results of operations for the six months ended May 31, 2021 are not necessarily indicative of the results to be expected for the fiscal year ending November 30, 2021.

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, 2020, filed with the U.S. Securities and Exchange Commission (“SEC”) and Canadian securities regulatory authorities on February 12, 2021.

These interim consolidated financial statements were approved by the Company’s Audit Committee on behalf of the Board of Directors for issue on July 6, 2021.

3) Accounts receivable

	<i>in thousands of dollars</i>	
	May 31, 2021	November 30, 2020
	\$	\$
GST input tax credits	19	15
Ambler Metals LLC	—	114
Accounts receivable	19	129

The balance due from Ambler Metals LLC (see note 4 below) consisted of services rendered by Trilogy and reimbursements for invoices paid by Trilogy on behalf of Ambler Metals LLC per a service agreement.

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. To assist Ambler Metals during the initial set up

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

phase, Trilogy was paying all of Ambler Metals LLC's invoices and being reimbursed pursuant to a services agreement (the "Services Agreement") between Trilogy and Ambler Metals LLC until the back office was fully transitioned to a new permanent team employed by the joint venture. The Services Agreement ended on December 31, 2020.

Ambler Metals LLC is an independently operated company jointly controlled by Trilogy and South32 through a four-member board, of which two members are 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, as at May 31, 2021, totaled \$170 million. The following table summarizes the gain on derecognition of the UKMP assets upon transfer to the Ambler Metals LLC joint venture on February 11, 2020.

	<i>in thousands of dollars</i>
	\$
Fair value ascribed to Ambler Metals LLC interest	176,000
Less: carrying value of contributed /eliminated assets	
Mineral properties	(30,631)
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:	
Reimbursement of claims staking	44
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

No additional mineral properties expenses were incurred subsequent to February 11, 2020 as upon the formation of the joint venture with South 32, all mineral properties previously held by the Company were contributed to Ambler Metals LLC. Prior to the formation of the joint venture, the Company had also incurred \$0.7 million in Arctic Project feasibility costs that are included in the mineral properties expense balance of \$1.5 million for the six-month period ended May 31, 2020.

(b) Carrying value of equity method investment

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 \$3.4 million for the three-month period ending May 31, 2021 (2020 - \$1.1 million) and \$5.6 million for the six-month period ending May 31, 2021 (2020 - \$1.5 million). The carrying value of Trilogy's 50% investment in Ambler Metals LLC as at May 31, 2021 is summarized on the following table.

	<i>in thousands of dollars</i>
	\$
November 30, 2020, investment in Ambler Metals LLC	173,145
Share of loss on equity investment for the six-month period ending May 31, 2021	(2,820)
May 31, 2021, investment in Ambler Metals LLC	170,325

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

(c) The following table summarizes Ambler Metals LLC's Balance Sheet as at May 31, 2021.

in thousands of dollars

	May 31, 2021	November 30, 2020
	\$	\$
Current assets: Cash, deposits and prepaid expenses	77,156	82,226
Non - current assets: Property, equipment and mineral properties	32,078	31,287
Loan receivable from South32	57,959	58,478
Current liabilities: Accounts payable and accrued liabilities	(1,555)	(1,445)
Non - current liabilities: Lease obligation	(782)	(51)
Net assets	164,856	170,495

(d) The following table summarizes Ambler Metals LLC's comprehensive loss for the three and six-month period ending May 31, 2021.

in thousands of dollars

	Three months ending		Six months ending	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
	\$	\$	\$	\$
Amortization	17	38	33	50
Mineral properties expense	2,570	913	3970	1,080
General and administrative expense	1,088	685	2183	904
Interest income	(275)	(514)	(547)	(557)
Comprehensive loss	3,400	1,122	5,639	1,477

(e) Related party transactions - services agreement income

The Company charged \$22,151 of expenses related to technical services, including geological, engineering, environmental and human resources, and accounting services in connection with the Services Agreement. In addition, the Company received payments of \$4,053 related to operating expenses paid on behalf of Ambler Metals during the three-month period ending February 28, 2021. There were no services provided to Ambler Metals during the three-month period ended May 31, 2021.

5) Accounts payable and accrued liabilities

in thousands of dollars

	May 31, 2021	November 30, 2020
	\$	\$
Trade accounts payable	603	226
Accrued liabilities	189	198
Accrued salaries and vacation	115	464
Accounts payable and accrued liabilities	907	888

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

6) Leases

(a) Right-of-use asset

	<i>in thousands of dollars</i>
	\$
ASC transition as at December 1, 2019	872
Net amortization	(147)
Derecognition of Fairbanks warehouse lease	(93)
Balance as at November 30, 2020	632
Net amortization	(73)
Balance as at May 31, 2021	559

(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:

	<i>in thousands of dollars</i>	
	Six months ended May 31, 2021	Six months ended May 31, 2020
	\$	\$
Operating lease costs	93	86
Variable lease costs	50	64
Total lease expense	143	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, 2021, the weighted-average remaining lease term is 3 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, 2021 are as follows:

- Cash paid for amounts included in the measurement of lease liabilities was \$98,359.

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

Future minimum payments relating to the lease recognized in our balance sheet as of May 31, 2021 are as follows:

	<i>in thousands of dollars</i>
	May 31, 2021
Fiscal year	\$
2021	106
2022	217
2023	223
2024	36
Total undiscounted lease payments	582
Effect of discounting	(56)
Present value of lease payments recognized as lease liability	526

7) Share capital

Authorized:

unlimited common shares, no par value

	<i>in thousands of dollars, except share amounts</i>	
	Number of shares	Ascribed value
		\$
November 30, 2019	140,427,761	177,971
Exercise of options	3,297,588	1,133
Restricted Share Units	412,501	642
November 30, 2020	144,137,850	179,746
Exercise of options	308,635	642
May 31, 2021, issued and outstanding	144,446,485	180,388

(a) Stock options

During the six-month period ended May 31, 2021, the Company granted 3,374,150 options (2020 - 2,325,000 options) at a weighted-average exercise price of CAD\$2.52 (2020 - CAD\$2.93) 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 \$0.84 (2020 - \$0.96).

For the six-month period ended May 31, 2021, Trilogy recognized a stock-based compensation charge of \$2.60 million (2020 – \$1.58 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.

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

Assumptions used in the pricing model for the six-month period ended May 31, 2021 are as provided below.

	May 31, 2021
Risk-free interest rates	0.31%
Exercise price	1.98
Expected life	3 years
Expected volatility	64.4%
Expected dividends	Nil

As of May 31, 2021, there were 3,176,337 non-vested options outstanding with a weighted average exercise price of CAD\$2.63; the non-vested stock option expense not yet recognized was \$1.17 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 six-month period ended May 31, 2021 is as follows:

	May 31, 2021	
	Number of options	Weighted average exercise price \$
Balance – beginning of the year	8,647,500	1.84
Granted	3,374,150	2.09
Exercised	(767,000)	1.67
Cancelled	(131,334)	2.52
Balance – end of the period	11,123,316	2.03

The following table summarizes information about the stock options outstanding at May 31, 2021.

Range of exercise 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
\$0.58 to \$1.00	1,440,000	1.09	0.73	1,440,000	0.73	—
\$1.01 to \$1.50	75,000	1.56	1.22	75,000	1.22	—
\$1.50 to \$2.00	865,000	3.48	1.96	865,000	1.96	—
\$2.01 to \$2.50	8,705,816	3.87	2.25	5,529,479	2.29	3,176,337
\$2.51 to \$3.00	37,500	2.97	2.82	37,500	2.82	—
	11,123,316	3.46	2.03	7,946,979	1.97	3,176,337

The aggregate intrinsic value of vested share options (the market value less the exercise price) at May 31, 2021 was \$6.8 million (2020 - \$8.3 million) and the aggregate intrinsic value of exercised options for the six months ended May 31, 2021 was \$0.71 million (2020 - \$0.18 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

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

("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 six-month period ended May 31, 2021 is as follows:

	Number of DSUs
Balance – beginning of the year	1,218,520
Granted	35,406
Balance – end of the period	1,253,926

For the six-month period ended May 31, 2021, Trilogy recognized a stock-based compensation charge of \$0.07 million (2020- \$0.39 million), net of estimated forfeitures. The Company did not issue any RSU grants during the six-month period ended May 31, 2021. As of May 31, 2021, there were no outstanding RSU grants.

8) 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, 2021 is limited to the Canadian dollar balances consisting of cash of approximately CAD\$123,000, accounts receivable of approximately CAD\$24,000 and accounts payable of approximately CAD\$248,000. 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 \$8,000.

(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.

Trilogy Metals Inc.
Notes to the Interim Consolidated Financial Statements

Contractually obligated undiscounted cash flow requirements as at May 31, 2021 are as follows:

in thousands of dollars

	Total \$	< 1 Year \$	1–2 Years \$	2–5 Years \$	Thereafter \$
Accounts payable and accrued liabilities	907	907	—	—	—
Office lease	582	213	369	—	—
	1,489	1,120	369	—	—

(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, 2021, a 1% change in interest rates would result in a \$200 change in net loss, assuming all other variables remain constant.

9) Commitment

The Company has commitments with respect to an office lease requiring future minimum lease payments as summarized in note 6(b) above.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Trilogy Metals Inc. Management's Discussion & Analysis For the Quarter Ended May 31, 2021 (expressed in US dollars)

Cautionary notes

Forward-looking statements

This Management's Discussion and Analysis contains "forward-looking information" and "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable securities laws. These forward-looking statements may include statements regarding the Company's work programs and budgets; perceived merit of properties, exploration results and budgets, the Company and Ambler Metals' funding requirements, mineral reserves and resource estimates, work programs, capital expenditures, operating costs, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, timelines, strategic plans, statements regarding Ambler Metals' plans and expectations relating to its Upper Kobuk Mineral Projects, sufficiency of the \$145 million subscription price to fund the UKMP; impact of COVID-19 on the Company's operations; market prices for precious and base metals; statements regarding the Ambler Road Project (also known as the Ambler Mining District Industrial Access Project); or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Statements concerning mineral resource estimates may also be deemed to constitute "forward-looking statements" to the extent that they involve estimates of the mineralization that will be encountered if the property is developed.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, as well as on a number of material assumptions, which could prove to be significantly incorrect, including about:

- *our ability to achieve production at the Upper Kobuk Mineral Projects;*
- *the accuracy of our mineral resource and reserve estimates;*
- *the results, costs and timing of future exploration drilling and engineering;*
- *timing and receipt of approvals, consents and permits under applicable legislation;*
- *the adequacy of our financial resources;*
- *the receipt of third party contractual, regulatory and governmental approvals for the exploration, development, construction and production of our properties and any litigation or challenges to such approvals;*
- *our expected ability to develop adequate infrastructure and that the cost of doing so will be reasonable;*

- *continued good relationships with South32 Limited ("South32"), our joint venture partner, as well as local communities and other stakeholders;*
- *there being no significant disruptions affecting operations, whether relating to labor, supply, power damage to equipment or other matter;*
- *the potential impact of the novel coronavirus (COVID-19);*
- *expected trends and specific assumptions regarding metal prices and currency exchange rates; and*
- *prices for and availability of fuel, electricity, parts and equipment and other key supplies remaining consistent with current levels.*

We have also assumed that no significant events will occur outside of our normal course of business. Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. We believe that the assumptions inherent in the forward-looking statements are reasonable as of the date of this MD&A. However, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- *risks related to the COVID-19 pandemic;*
- *risks related to inability to define proven and probable reserves;*
- *risks related to our ability to finance the development of our mineral properties through external financing, strategic alliances, the sale of property interests or otherwise;*
- *uncertainty as to whether there will ever be production at the Company's mineral exploration and development properties;*
- *risks related to our ability to commence production and generate material revenues or obtain adequate financing for our planned exploration and development activities;*
- *risks related to lack of infrastructure including but not limited to the risk whether or not the Ambler Access Project, (formerly, Ambler Mining District Industrial Access Project, or AMDIAP), will receive all the requisite permits and, if it does, whether the Alaska Industrial Development and Export Authority will build the AMDIAP;*
- *risks related to inclement weather which may delay or hinder exploration activities at our mineral properties;*
- *risks related to our dependence on a third party for the development of our projects;*
- *none of the Company's mineral properties are in production or are under development;*
- *commodity price fluctuations;*
- *uncertainty related to title to our mineral properties;*
- *our history of losses and expectation of future losses;*

- *risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;*
- *uncertainties relating to the assumptions underlying our resource estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;*
- *uncertainty related to inferred mineral resources;*
- *mining and development risks, including risks related to infrastructure, accidents, equipment breakdowns, labor disputes or other unanticipated difficulties with or interruptions in development, construction or production;*
- *risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of our mineral deposits;*
- *risks related to governmental regulation and permits, including environmental regulation, including the risk that more stringent requirements or standards may be adopted or applied due to circumstances unrelated to the Company and outside of our control;*
- *the risk that permits and governmental approvals necessary to develop and operate mines at our mineral properties will not be available on a timely basis or at all;*
- *risks related to the need for reclamation activities on our properties and uncertainty of cost estimates related thereto;*
- *risks related to the acquisition and integration of operations or projects;*
- *our need to attract and retain qualified management and technical personnel;*
- *risks related to conflicts of interests of some of our directors and officers;*
- *risks related to potential future litigation;*
- *risks related to market events and general economic conditions;*
- *risks related to future sales or issuances of equity securities decreasing the value of existing Trilogy common shares, diluting voting power and reducing future earnings per share;*
- *risks related to the voting power of our major shareholders and the impact that a sale by such shareholders may have on our share price;*
- *uncertainty as to the volatility in the price of the Company's common shares;*
- *the Company's expectation of not paying cash dividends;*
- *adverse federal income tax consequences for U.S. shareholders should the Company be a passive foreign investment company;*
- *risks related to global climate change;*
- *risks related to adverse publicity from non-governmental organizations;*

- *uncertainty as to our ability to maintain the adequacy of internal control over financial reporting as per the requirements of Section 404 of the Sarbanes-Oxley Act; and*
- *increased regulatory compliance costs, associated with rules and regulations promulgated by the United States Securities and Exchange Commission, Canadian Securities Administrators, the NYSE American, the Toronto Stock Exchange, and the Financial Accounting Standards Boards, and more specifically, our efforts to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act;*

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in Trilogy's Form 10-K dated February 12, 2021, filed with the Canadian securities regulatory authorities and the SEC, and other information released by Trilogy and filed with the appropriate regulatory agencies.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

General

This Management's Discussion and Analysis ("MD&A") of Trilogy Metals Inc. ("Trilogy", "Trilogy Metals", "the Company" or "we") is dated July 6, 2021 and provides an analysis of our unaudited interim financial results for the quarter ended May 31, 2021 compared to the quarter ended May 31, 2020.

The following information should be read in conjunction with our May 31, 2021 unaudited interim condensed consolidated financial statements and related notes which were prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). The MD&A should also be read in conjunction with our audited consolidated financial statements and related notes for the year ended November 30, 2020. A summary of the U.S. GAAP accounting policies is outlined in note 2 of the audited consolidated financial statements. All amounts are in United States dollars unless otherwise stated. References to "Canadian dollars" and "C\$" and "CAD\$" are to the currency of Canada and references to "U.S. dollars", "\$" or "US\$" are to the currency of the United States.

Richard Gosse, P.Geo., Vice President, Exploration of the Company, is a Qualified Person under National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101"), and has approved the scientific and technical information in this MD&A.

Trilogy's shares are listed on the Toronto Stock Exchange ("TSX") and the NYSE American Stock Exchange ("NYSE American") under the symbol "TMQ". Additional information related to Trilogy, including our annual report on Form 10-K, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Description of business

We are a base metals exploration company focused on the exploration and development of mineral properties, through our equity investee, in the Ambler mining district located in Alaska, U.S.A. We conduct our operations through a wholly owned subsidiary, NovaCopper US Inc. which is doing business as Trilogy Metals US ("Trilogy Metals US"). Our Upper Kobuk Mineral Projects, ("UKMP" or "UKMP Projects") were contributed into a 50/50 joint venture named Ambler Metals LLC ("Ambler Metals") between Trilogy and South32 on February 11, 2020 (see below). The projects contributed to Ambler Metals consist of: i) the Ambler lands which host the Arctic copper-zinc-lead-gold-silver project (the "Arctic Project"); and ii) the Bornite lands being explored under a collaborative long-term agreement with NANA Regional

Corporation, Inc. (“NANA”), a regional Alaska Native Corporation, which hosts the Bornite carbonate-hosted copper project (the “Bornite Project”) and related assets.

Project Activities

Development Funding Agreement with the Alaska Industrial Development and Export Authority (AIDEA)

In a press release dated April 19, 2021, the Company announced that the Alaska Industrial Development and Export Authority (“AIDEA”) had formally approved the proposed plan and budget for the 2021 summer field season activities and services of up to \$13 million for the Ambler Access Project (“AAP”). The cost will be shared 50/50 by AIDEA and Ambler Metals. The Board of AIDEA has authorized up to \$6.5 million for field season activities. These funds will be matched by up to another \$6.5 million from Ambler Metals under the terms of the Ambler Access Development Agreement that was approved by the AIDEA Board on February 10, 2021 and subsequently executed by both parties, resulting in a total budget for 2021 of up to \$13 million. The AAP is a proposed 211-mile, east-west running controlled industrial access road that would provide industrial access to the Ambler Mining District in northwestern Alaska.

2021 Exploration Season for the Upper Kobuk Mineral Projects

In a press release dated May 17, 2021, the Company announced that Ambler Metals had finalized the details of the 2021 exploration field program at the UKMP for the previously approved \$27 million exploration budget. The exploration program is aligned with a strategy developed by the Company and South32 which prioritizes the exploration budget within the UKMP. The strategy defines a program that advances the highest priority projects and exploration targets, both volcanogenic Massive Sulphide (“VMS”) and Carbonate-Hosted Copper (“CHC”), ranging from early-stage geophysical anomalies that were identified during the 2019 airborne Versatile Time Domain Electromagnetic (“VTEM”) survey to advanced VMS and CHC prospects with historical resources. The site camp opened on June 1, 2021, and drilling has now commenced.

Arctic Project

Exploration activities planned for the 2021 field season at the Arctic Project include geotechnical drilling (8 holes – 2,000 meters), conversion/metallurgical drilling (28 holes – 4,800 meters) and condemnation drilling (4 holes – 800 meters). The condemnation drilling will target areas proximal to the Arctic Project that may host additional VMS-style mineralization but also provide condemnation information for the processing plant and tailings management facility. The goal of this summer’s campaign at Arctic is to advance and de-risk the project so the joint venture partners can make a future construction decision. In total, there is expected to be approximately 7,600 meters of drilling at Arctic during the summer campaign. In addition, approximately 2,250 meters of drilling is planned for three high-priority target areas that are within 5 kilometers of the Arctic project.

Regional Exploration Project

During the 2021 field season, Ambler Metals plans to focus approximately 2,900 meters of drilling on the three drill-ready VMS Belt prospects that have the best potential for shallow open-pit mineralization. These targets consist of the Sunshine, Snow and Cliff prospects, all of which are within 30 km from the Arctic Project. Ambler Metals plans to perform additional geological mapping and soil sampling at several other VMS prospects in the belt, including Ambler, Dead Creek, South Cliff and Nora, as well as at approximately 10 high-priority VTEM anomalies that were identified from the 2019 VTEM survey.

Included in the 2021 field season is exploration, including drilling, for carbonate-hosted copper-cobalt mineralization in the Cosmos Hills, host to the Bornite deposit, and along strike in the Ambler Lowlands. Outside of exploration work on the Bornite deposit itself, the Cosmos Hills have not been systematically explored since historical work was carried out by Kennecott in the 1990s. Mapping and soil sampling planned for 2021 cover an area approximately 10 kilometers in length, from the Aurora and Pardner Hill copper prospects in the west to Bornite East and will be used to define drill

targets for 2022. The Ambler Lowlands form a 10-kilometer-wide glaciated valley separating Arctic and Bornite that is virtually unexplored despite its proximity to Bornite.

COVID Safety Measures

During the 2021 field season, we will be adhering to a strict COVID safety protocol regime which includes limited personnel rotations, COVID-19 testing, stringent sanitation and disinfection procedures and contact tracing. These protocols will be followed throughout the summer field season in strict observance to Government of Alaska guidelines.

Corporate Developments

Annual General Meeting

The Annual General Meeting of shareholders was held on May 19, 2021. At the Annual General Meeting, all directors nominated by the Company and standing for election were elected by shareholders of the Company, with each director receiving no less than 99.77% of the votes cast.

Joint Venture

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, which agreement was later assigned by South32 Operations Pty Ltd. to its affiliate, South32 USA Exploration Inc. 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. South32 exercised its option on December 19, 2019.

Formation of joint venture

On February 11, 2020, Trilogy completed the formation of the 50/50 joint venture with South32. Trilogy contributed all its assets associated with the UKMP, including the Arctic and Bornite Projects, while South32 contributed a subscription price of US\$145 million (the “Subscription Price”), resulting in each party owning a 50% interest in Ambler Metals. The Subscription Price will be used to advance the Arctic and Bornite Projects, along with exploration in the Ambler mining district. With Ambler Metals being well funded, with access to \$145 million, Trilogy does not expect to fund programs and budgets to advance the UKMP until the Subscription Price is spent by Ambler Metals. To assist Ambler Metals during the initial set up phase, Trilogy paid all of Ambler Metals’ invoices and was being reimbursed pursuant to a services agreement (the “Services Agreement”) until the back office was fully transitioned to a new team employed by Ambler Metals. The Services Agreement ended on December 31, 2020.

Ambler Metals is an independently operated company 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 is a variable interest entity, or 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 as the power to direct its activities, through its board, is shared under the limited liability company agreement. As we have significant influence over Ambler Metals through our representation on its board, we use the equity method of accounting for our investment in Ambler Metals. Our investment in Ambler Metals 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, which, as of May 31, 2021, totaled \$170 million.

During the three-month period ended May 31, 2020, Ambler Metals loaned \$57.5 million back to South32 and retained \$87.5 million of the cash subscription price. The loan has a 7-year maturity date, but Ambler Metals has begun drawing

down on the loan with cash calls to South32 to fund its 50% share of the 2021 budget to advance development studies, resource drilling and regional exploration programs. The loan is secured by South32's membership interest in Ambler Metals and guaranteed by South32 International Investment Holdings Pty Ltd. Trilogy currently estimates that the Subscription Price, which includes the funds to be repaid under the loan, will fund the UKMP through feasibility and the permitting of the first mine to be developed in the Ambler mining district. Once the full amount of the Subscription Price payment of \$145 million is expended, the parties will contribute funding pro rata, as contemplated by the operating agreement which governs Ambler Metals.

Summary of results

*in thousands of dollars,
except for per share amounts*

	Three months ended		Six months ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Selected expenses	\$	\$	\$	\$
Mineral properties and feasibility study expenses	—	—	—	1,545
General and administrative	306	407	669	998
Investor relations	116	101	270	227
Professional fees	275	198	504	866
Salaries	407	226	846	450
Salaries – stock-based compensation	524	770	2,672	1,966
Gain on derecognition of assets contributed to joint venture	—	—	—	(175,770)
Share of loss on equity investment	1,700	561	2,820	739
Comprehensive earnings (loss) for the year	(3,413)	(3,002)	(7,929)	168,177
Basic earnings (loss) per common share	(0.02)	(0.02)	(0.05)	1.20
Diluted earnings (loss) per common share	(0.02)	(0.02)	(0.05)	1.13

For the three-month period ended May 31, 2021, Trilogy reported a net loss of \$3.4 million (or \$0.02 basic and diluted loss per common share). For the comparable period in 2020, we reported a net loss of \$3.0 million (or \$0.02 basic and diluted loss per common share). This second quarter difference is primarily due to a \$1.1 million increase in our 50% pro rata share of Ambler Metals' comprehensive loss. This was offset by a one-time amount of \$0.7 million in feasibility study costs incurred during the second quarter of 2020. The share of loss in equity investment is higher versus the comparative period as the current quarter includes costs incurred to ready the camp for the 2021 field season. These set up costs were not incurred in the comparative period as the 2020 field season had been cancelled due to the COVID-19 pandemic.

Other variances noted for the comparable period were: i) a decrease in general and administrative expenses of \$0.10 million primarily due to recruiting fees incurred in the comparative period for which there are no current period costs as well as the elimination of travel costs due to COVID-19 travel restrictions; ii) an increase of \$0.07 million in professional fees primarily driven by an increase of \$0.12 million for geological consulting, offset by \$0.04 million in savings for auditing and legal services as the comparative period included charges for new accounting standard implementation and joint venture set up; iii) an increase of \$0.18 million in salaries as the current period cost reflects additions to the executive team during the third quarter of 2020 for which there are no prior year second quarter comparatives; and iv) a decrease of \$0.30 million in stock-based compensation driven primarily by RSUs that vested during the second quarter of 2020, for which there are no current quarter comparatives.

For the six-month period ended May 31, 2021, Trilogy reported a net a loss of \$7.9 million (or \$0.05 basic and diluted loss per common share). For the comparable period in 2020, we reported net earnings of \$168 million (or \$1.20 basic and \$1.13 diluted earnings per common share). The difference for the six-month period ended May 31, 2021, when compared to the same period in 2020, is primarily due to the \$176 million gain on derecognition of mineral property assets contributed to Ambler Metals upon formation of the joint venture on February 11, 2020. This variance is offset by \$1.5 million of mineral property expenses and \$0.7 million of feasibility study cost incurred during the comparable prior

period for which there are no current period comparatives. Furthermore, our share of loss on equity investment was \$2 million higher for the six-month period ended May 31, 2021, and reflects costs incurred by Ambler Metals to ready the project site for the 2021 field season. These set up costs were not incurred by Ambler Metals in 2020 as the field season was cancelled due to the COVID-19 pandemic.

Other variances noted for the comparative six-month period ended May 31, 2021 consist of: i) a decrease of \$0.3 million in general and administrative expenses, primarily due to additional stock exchange fees of \$0.1 million as well as \$0.2 million in recruiting fees incurred in the comparative prior year period; ii) a decrease of \$0.4 million in professional fees as the comparative period includes one-time charges for the implementation of new accounting standards and legal and accounting fees in relation to the formation of the joint venture; iii) an increase of \$0.4 million in salaries reflecting additions to the executive team during the third quarter of 2020; iv) an increase of \$0.7 million in stock-based compensation, driven primarily by a \$1.0 million increase in stock based compensation due to a higher fair value per award (2021 -\$0.97/option; 2021 - \$0.65/option) and an increase in total awards vested during the period (2021 - 2.7 million; 2020 – 2.4 million), offset by a \$0.3 million reduction in stock based compensation from DUSs that vested during the prior year comparative period.

Selected financial data

Quarterly information

*in thousands of dollars,
except per share amounts*

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
	5/31/21	02/28/21	11/30/20	08/31/20	05/31/20	02/29/20	11/30/19	08/31/19
	\$	\$	\$	\$	\$	\$	\$	\$
Interest and other income	5	5	5	8	12	62	91	137
Mineral properties and feasibility study expenses	—	—	91	232	742	1,545	3,819	10,951
Share of loss on equity investment	1,700	1,120	1,022	1,094	561	178	—	—
Earnings (loss) for the period	(3,413)	(4,516)	(3,226)	(3,184)	(3,002)	171,179	(6,525)	(12,535)
Earnings (loss) per common share – basic	(0.02)	(0.03)	(0.04)	(0.02)	(0.02)	1.22	(0.05)	(0.09)
Earnings (loss) per common share – diluted	(0.02)	(0.03)	(0.01)	(0.01)	(0.02)	1.16	(0.05)	(0.09)

Factors that can cause fluctuations in our quarterly results include the length of the exploration field season at the properties, the type of program conducted, stock option vesting, and issuance of shares. Subsequent to the formation of the Joint Venture on February 11, 2020, project related costs may cause fluctuations in our quarterly results through our 50% share of the Joint Venture's net operating loss.

For the second quarter of 2021, we reported a comprehensive loss of \$3.4 million, which consisted of \$1.7 million in operating expenses and \$1.7 million for Trilogy's 50% share of Ambler Metals' operating loss. In the second quarter of 2020, we recognized a comprehensive loss of \$3.0 million which consisted of \$2.5 million in operating expenses and \$0.6 million for Trilogy's share of Ambler Metals' operating loss. When compared to the second quarter of 2020, our pro rata share of the joint venture's operating loss is \$1.1 million higher for the second quarter of 2021. The increase is due to camp set up costs in relation to the 2021 field season. Ambler Metals did not incur these costs during the second quarter of 2020 due to the cancellation of the 2020 field season as a result of the COVID-19 pandemic. The \$0.8 million decrease in operating expenses for the current period versus the comparative was primarily due to the Arctic project feasibility study costs that were incurred by Trilogy during the second quarter of 2020 for which there are no current period comparatives.

For the first quarter of 2021, we reported comprehensive loss of \$4.5 million, which consists of \$3.4 million in operating expenses and \$1.1 million for Trilogy's 50% share of Ambler Metals' operating loss. In the first quarter of 2020, we recognized a gain of \$176 million from the contribution of our Alaskan mineral properties to the joint venture for which there is no current period comparative. Other variances, when compared to the three-month period ended February 29, 2020, include our pro rata share of the joint venture's operating loss, which is \$0.9 million higher in the current period and operating expenses, which are \$1.1 million lower for the current period. The decrease in the operating expenses is primarily due to the elimination of \$1.5 million in mineral properties expenses as the mineral properties were contributed to the joint venture during the first quarter of 2020 and a cost savings of \$0.4 million from professional fees, offset by an increase of \$1.0 million in stock-based compensation.

For the fourth quarter ended November 30, 2020, we incurred a loss of \$3.2 million, which consists of \$3.1 million in operating expense and \$1.0 million for Trilogy's share of Ambler Metals' operating loss. When compared to the fourth quarter of 2019, the operating expenses were \$3.5 million lower. The decrease is primarily due to the elimination of \$3.8 million in mineral property expenses, a decrease of \$0.4 million in professional fees, \$0.3 million lower stock-based compensation and a decrease of \$0.2 million in general and administrative expenses. These cost savings were offset by a loss of \$1.0 million on the equity method investment for which there is no comparative amounts for the fourth quarter of 2019, and an increase of \$0.3 million in salaries due to new hires to the management team in the fourth quarter 2020.

For the third quarter ended August 31, 2020, we reported a comprehensive loss of \$3.2 million, which consists of \$2.1 million in operating expenses and \$1.1 million for Trilogy's 50% share of Ambler Metals' operating loss. When compared to the three-month period ended August 31, 2019, the operating expenses for the third quarter was \$10.6 million lower. The decrease is primarily due to the elimination of \$11 million in mineral properties expenses due to the formation of the joint venture for which there are no comparable expenses in the third quarter of 2020, offset by \$1 million in feasibility study costs in the same period.

Liquidity and capital resources

At May 31, 2021, we had \$8.4 million in cash and working capital of \$8.1 million, which is sufficient to fund our ongoing operations for at least the next 12 months. The projects are fully funded by Ambler Metals and we do not anticipate needing to fund our 50% share of future expenditures to advance the projects until the subscription price paid by South32 into Ambler Metals of \$145 million is spent.

Contractual obligations

Contractually obligated undiscounted cash flow requirements as at May 31, 2021 are as follows.

	<i>In thousands of dollars</i>				
	Total \$	<1 Year \$	1–2 Years \$	2–5 Years \$	Thereafter \$
Accounts payable and accrued liabilities	907	907	—	—	—
Office lease	582	213	369	—	—
	1,489	1,120	369	—	—

Off-balance sheet arrangements

We have no material off-balance sheet arrangements.

Outstanding share data

At July 6, 2021, we had 144,446,485 common shares issued and outstanding. At July 6, 2021, we had outstanding, 11,123,316 stock options with a weighted-average exercise price of \$1.98, no RSUs, as well as 1,265,275 DSUs and 11,927

NovaGold Resources Inc. (“NovaGold”) DSUs for which the holder is entitled to receive one common share for every six NovaGold shares received. Upon exercise of all the foregoing convertible securities, the Company would be required to issue an aggregate of 12,390,580 common shares.

New accounting pronouncements

There are no new accounting pronouncements affecting the Company.

Critical accounting estimates

The most critical accounting estimates upon which our financial status depends are those requiring estimates of the recoverability of our equity method investment in Ambler Metals, income taxes and valuation of stock-based compensation.

Impairment of Investment in Ambler Metals LLC

Management assesses the possibility of impairment in the carrying value of its equity method investment in Ambler Metals whenever events or circumstances indicate that the carrying amount of the investment may not be recoverable. Significant judgments are made in assessing the possibility of impairment. Factors that may be indicative of an impairment include a loss in the value of an investment that is not temporary. Management considers several factors in considering if an indicator of impairment has occurred, including but not limited to, significant changes in the legal, business or regulatory environment, adverse changes in the use or physical condition of the underlying mineral properties asset, changes in the market interest rates or other market rates of return that are likely to significantly affect the discount rate used in the impairment assessment, significant adverse changes impacting the investee and internal reporting indicating the economic performance of an investment is, or will be, worse than expected.

These factors are subjective and require consideration at each period end. If an indicator of impairment is determined to exist, the fair value of the impaired investment is determined based on the valuation of cohort companies with similar projects or upon the present value of expected future cash flows using discount rates and other assumptions believed to be consistent with those used by principal market participants and observed market earnings multiples of comparable companies.

Management’s estimates of mineral prices, mineral resources, foreign exchange rates and projected future production levels and operating capital are subject to risk and uncertainties that may affect the determination of the recoverability of the equity method investment.

Income taxes

We must make estimates and judgments in determining the provision for income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized charges including interest and penalties. We are subject to income tax law in the United States and Canada. The evaluation of tax liabilities involving uncertainties in the application of complex tax regulation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. The evaluation of an uncertain tax position requires significant judgment, and a change in such recognition would result in an additional charge to the income tax expense and liability.

Stock-based compensation

Compensation expense for options granted to employees, directors and certain service providers is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model, which considers, as of the grant date, the fair market value of the shares, expected volatility, expected life, expected forfeiture rate, expected dividend yield and the risk-free interest rate over the expected life of the option. The use of the Black-Scholes

option pricing model requires input estimation of the expected life of the option, volatility, and forfeiture rate which can have a significant impact on the valuation model, and resulting expense recorded.

Additional information

Additional information regarding the Company, including our annual report on Form 10-K, is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov and on our website at www.trilogymetals.com. Information contained on our website is not incorporated by reference.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted by the Company under U.S. and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules, including providing reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to permit timely decisions regarding public disclosure. Management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the rules of Canadian Securities Administration, as of May 31, 2021. Based on this evaluation, the CEO and CFO have concluded that the Company’s disclosure controls and procedures were effective.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act and National Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim filings. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during the fiscal quarter ended May 31, 2021 which have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. We continue to evaluate our internal control over financial reporting on an ongoing basis to identify improvements.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are a party to routine litigation and proceedings that are considered part of the ordinary course of its business. We are not aware of any material current, pending, or threatened litigation.

Item 1A. Risk Factors

Trilogy and its future business, operations and financial condition are subject to various risks and uncertainties due to the nature of its business and the present stage of exploration of its mineral properties and the formation of the joint venture. Certain of these risks and uncertainties are under the heading "Risk Factors" under Trilogy's Form 10-K dated February 12, 2021 which is available on SEDAR at www.sedar.com, EDGAR at www.sec.gov and on our website at www.trilogymetals.com.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Securities

None.

Item 4. Mine Safety Disclosures

These disclosures are not applicable to us.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation, dated April 27, 2011 (incorporated by reference Exhibit 99.2 to the Registration Statement on Form 40-F as filed on March 1, 2012, File No. 001-35447)
3.2	Articles of Trilogy Metals Inc., effective April 27, 2011, as altered March 20, 2011 (incorporated by reference to Exhibit 99.3 to Amendment No. 1 to the Registration Statement on Form 40-F as filed on April 19, 2012, File No. 001-35447)
3.3	Notice of Articles and Certificate of Change of Name, dated September 1, 2016 (incorporated by reference to Exhibit 3.1 to the Form 8-K dated September 8, 2016)
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350

101 Interactive Data Files

101.INS Inline XBRL Instance Document

101.SCH Inline XBRL Taxonomy Extension Schema Document

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

104 Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 7, 2021

TRILOGY METALS INC.

By: /s/ Tony Giardini
Tony Giardini

President and Chief Executive Officer

By: /s/ Elaine M. Sanders
Elaine M. Sanders

Vice President and Chief Financial Officer