



**Trilogy Metals Inc.**  
**Interim Consolidated Financial Statements**  
**February 29, 2020**  
**(Unaudited)**  
(expressed in US dollars)

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

*in thousands of US dollars*

	February 29, 2020 \$	November 30, 2019 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	15,217	19,174
Accounts receivable (note 3)	418	264
Deposits and prepaid amounts	300	719
	15,935	20,157
Rent deposit	-	114
Equity method investment (note 4)	175,822	-
Plant and equipment (note 5)	255	715
Right of use asset (note 8)	547	-
Mineral properties and development costs (note 6)	-	30,631
	<b>192,559</b>	<b>51,617</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	1,274	2,354
Current portion of lease liability	137	-
	1,411	2,354
Long-term portion of lease liability (note 8)	510	-
Mineral properties purchase option	-	31,000
	1,921	33,354
<b>Shareholders' equity</b>		
Share capital (note 9) – <i>unlimited common shares authorized, no par value Issued -140,659,776 (2019 – 140,427,761)</i>	178,307	177,971
Contributed surplus	122	122
Contributed surplus – options (note 9(a))	22,272	21,123
Contributed surplus – units (note 9(b))	1,470	1,759
Deficit	(11,533)	(182,712)
	190,638	18,263
	<b>192,559</b>	<b>51,617</b>
<b>Commitments</b> (note 11)		

(See accompanying notes to the interim consolidated financial statements)

/s/ James Gowans, 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	
	February 29, 2020	February 28, 2019
	\$	\$
<b>Expenses</b>		
Amortization	42	37
Foreign exchange loss (gain)	23	(34)
General and administrative	651	492
Investor relations	126	117
Mineral properties expense (note 6(a))	1,545	1,535
Professional fees	668	91
Salaries	224	281
Salaries – stock-based compensation	1,196	1,939
<b>Total expenses</b>	<b>4,475</b>	<b>4,458</b>
<b>Other items</b>		
Gain on derecognition of assets contributed to joint venture (note 4(a))	(175,770)	-
Share of loss on equity investment(note 4(b))	178	-
Interest and other income	(62)	(122)
<b>Comprehensive earnings (loss) for the period</b>	<b>171,179</b>	<b>(4,336)</b>
<b>Basic earnings (loss) per common share</b>	<b>\$1.22</b>	<b>\$(0.03)</b>
<b>Diluted earnings (loss) per common share</b>	<b>\$1.16</b>	<b>\$(0.03)</b>
<b>Basic weighted average number of common shares outstanding</b>	<b>140,616,672</b>	<b>131,916,941</b>
<b>Diluted weighted average number of common shares outstanding</b>	<b>147,649,507</b>	<b>131,916,941</b>

(See accompanying notes to the interim consolidated financial statements)

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

*in thousands of US dollars, except share amounts*

	Number of shares outstanding	Share capital \$	Warrants \$	Contributed surplus \$	Contributed surplus – options \$	Contributed surplus – units \$	Deficit \$	Total shareholders' equity \$
<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>

<b>Balance – November 30, 2019</b>	<b>140,427,761</b>	<b>177,971</b>	<b>-</b>	<b>122</b>	<b>21,123</b>	<b>1,759</b>	<b>(182,712)</b>	<b>18,263</b>
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
<b>Balance – February 29, 2020</b>	<b>140,659,776</b>	<b>178,307</b>	<b>-</b>	<b>122</b>	<b>22,272</b>	<b>1,470</b>	<b>(11,533)</b>	<b>190,638</b>

(See accompanying notes to the interim consolidated financial statements)

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

*in thousands of US dollars*

	<b>For the three months ended</b>	
	<b>February 29, 2020</b>	<b>February 28, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows used in operating activities</b>		
Earnings (Loss) for the period	171,179	(4,336)
Items not affecting cash		
Amortization	42	37
Right of use asset amortization	60	-
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))	178	-
Unrealized foreign exchange loss (gain)	25	5
Stock-based compensation	1,196	1,939
Operating lease payments	(54)	-
Net change in non-cash working capital		
Increase in accounts receivable	(154)	(6)
Decrease (increase) in deposits and prepaid amounts	419	(280)
Decrease in accounts payable and accrued liabilities	(1,080)	(590)
	<b>(3,941)</b>	<b>(3,231)</b>
<b>Cash flows from investing activities</b>		
Mineral properties funding	-	10,200
	-	<b>10,200</b>
Increase in cash and cash equivalents	<b>(3,941)</b>	<b>6,969</b>
Effect of exchange rate on cash and cash equivalents	(16)	(5)
Cash and cash equivalents – beginning of period	19,174	22,991
<b>Cash and cash equivalents – end of period</b>	<b>15,217</b>	<b>29,955</b>

(See accompanying notes to the interim consolidated financial statements)

# Trilogy Metals Inc.

## Notes to the Interim Consolidated Financial Statements

### 1 Nature of operations

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

### 2 Summary of significant accounting policies

#### Basis of presentation

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

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

The unaudited interim consolidated financial statements include all adjustments necessary for the fair presentation of the Company’s financial position as of February 29, 2020 and our results of operations and cash flows for the three months ended February 29, 2020 and February 28, 2019. The results of operations for the three months ended February 29, 2020 are not necessarily indicative of the results to be expected for the fiscal year ending November 30, 2020.

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

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

#### Accounting standards adopted

##### *i. Leases*

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

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

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

## Trilogy Metals Inc.

### Notes to the Interim Consolidated Financial Statements

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

#### ii *Investment in affiliates*

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

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

### 3 Accounts receivable

	February 29, 2020	November 30, 2019
	\$	\$
GST input tax credits	37	42
Recoverable payments	22	222
Ambler Metals LLC	359	-
<b>Accounts receivable</b>	<b>418</b>	<b>264</b>

*in thousands of dollars*

The balance due from Ambler Metals LLC ("Ambler Metals") (see note 4 below) consists of \$110 thousand for services rendered by Trilogy per a service agreement (the "Service Agreement") between Trilogy and Ambler Metals, \$120 thousand for additional staking costs and \$130 thousand for invoices paid by Trilogy on behalf of Ambler Metals LLC, per the 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 with South32 Limited ("South32"). As part of the formation of the joint venture, Trilogy contributed all of its assets associated with the Upper Kobuk Mineral Projects ("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.

Ambler Metals is an independently operated company jointly controlled by Trilogy and South32 through a four-member board, of which two members are currently appointed by Trilogy based on its 50% equity interest. All significant decisions related to the UKMP require the approval of both companies. We determined that Ambler Metals 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 as the power to direct its activities, through its board, is shared under the Ambler Metals 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



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

in this entity is limited to the carrying amount of our investment in Ambler Metals, which totaled \$176 million, as well as \$0.4 million of amounts receivable per the Service Agreement. The following table summarizes the gain on recognition of the UKMP assets upon transfer to the Ambler Metals joint venture on February 11, 2020.

*in thousands of dollars*

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

(b) Carrying value of equity method investment

During the three-month period ended February 29, 2020, Trilogy recognized, based on its 50% ownership interest in Ambler Metals, an equity pick-up equivalent to its pro rata share of Ambler Metals' operating loss of \$0.4 million for the period between February 11, 2020 (date of joint venture formation) to February 29, 2020. The carry value of Trilogy's 50% investment in Ambler Metals as at February 29, 2020 is summarized on the following table.

*in thousands of dollars*

	\$
February 11, 2020, fair value ascribed to Ambler Metals interest	176,000
Share of loss on equity investment	(178)
February 29, 2020, equity method investment	175,822

(c) The following table summarizes Ambler Metals Balance Sheet as at February 29, 2020.

*in thousands of dollars*

	February 29, 2020
	\$
Current assets: Cash, deposits and prepaid expenses	145,049
Non - current assets: Property, equipment and mineral properties	31,454
Current liabilities: Accounts payable and accrued liabilities	(517)
Non - current liabilities: Lease obligation	(91)
Net assets	175,895

(d) The following table summarizes Ambler Metals comprehensive loss from the formation of the joint venture on February 11, 2020 to the end of the reporting period on February 29, 2020.

*in thousands of dollars*

	February 11- 29, 2020
	\$
Amortization	12
Mineral properties expense	167
General and administrative expense	219
Interest income	(43)
Comprehensive loss	355

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

**5 Plant and equipment**

*in thousands of dollars*

<b>February 29, 2020</b>				
	Cost	Accumulated amortization	Assets derecognized note 4(a)	Net
	\$	\$	\$	\$
<b>British Columbia, Canada</b>				
Furniture and equipment	63	(33)	-	30
Leasehold improvements	253	(30)	-	223
Computer hardware and software	115	(113)	-	2
<b>Alaska, USA</b>				
Machinery, and equipment	3,667	(3,049)	(618)	-
Vehicles	348	(348)	-	-
Computer hardware and software	4	(4)	-	-
	<b>4,450</b>	<b>(3,577)</b>	<b>(618)</b>	<b>255</b>

*in thousands of dollars*

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

**6 Mineral properties and development costs**

*in thousands of dollars*

	November 30, 2019	Acquisition costs reimbursable from Ambler Metals LLC	Assets derecognized note 4(a)	February 29, 2020
	\$	\$	\$	\$
<b>Alaska, USA</b>				
Ambler (a)	26,631	(44)	(26,587)	-
Bornite (b)	4,000	-	(4,000)	-
	<b>30,631</b>	<b>(44)</b>	<b>(30,587)</b>	<b>-</b>

*in thousands of dollars*

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

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

(a) Mineral properties expense

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

	<b>Three months ended February 29, 2020</b>	<b>Three months ended February 28, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Alaska, USA</b>		
Community	137	118
Drilling	-	-
Engineering	723	357
Environmental	99	165
Geochemistry and geophysics	12	165
Land and permitting	134	120
Project support	249	226
Other income	-	(1)
Wages and benefits	191	385
	<b>1,545</b>	<b>1,535</b>

*In thousands of dollars*

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. Expenses during the first quarter ended February 29, 2020 consisted mainly of engineering studies in preparation of the Arctic feasibility study and care and maintenance of the camp during the winter season. Cumulative mineral properties expense in Alaska from the initial earn-in agreement on the property in 2004 to February 29, 2020 is \$115.3 million and cumulative acquisition costs were \$30.6 million. Cumulative spend to date totaled \$145.9 million through to February 29, 2020. On February 11, 2020, upon the formation of the joint venture with South 32, the acquisition costs of \$30.6 million were derecognized upon the contribution of the mineral properties to Ambler Metals.

(b) Derecognition

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

**7 Accounts payable and accrued liabilities**

	<b>February 29, 2020</b>	<b>November 30, 2019</b>
	<b>\$</b>	<b>\$</b>
Trade accounts payable	528	902
Accrued liabilities	646	721
Accrued salaries and vacation	100	731
<b>Accounts payable and accrued liabilities</b>	<b>1,274</b>	<b>2,354</b>

*in thousands of dollars*

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

**8 Leases**

(a) Right-of-Use asset

	<i>in thousands of dollars</i>
	\$
ASC 842 transition as at December 1, 2019	681
Amortization	(60)
Lease accretion	19
Derecognition of Fairbanks warehouse lease	(93)
	547

(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>
	<b>Three months ended February 29, 2020</b>
	\$
Operating lease costs	50
Variable lease costs	34
Total lease expense	84

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 February 29, 2020, the weighted-average remaining lease term was 4.3 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 three months ended February 29, 2020 are as follows:

- Cash paid for amounts included in the measurement of lease liabilities was \$54,134.
- No cash was paid upon termination of a lease for office and warehouse space and reassignment to Ambler Metals that resulted in the derecognition of the right-of-use asset of \$92,974 and the operating lease liability of \$93,006.

Future minimum payments relating to the lease recognized in our balance sheet as of February 29, 2020 are as follows:

	<i>in thousands of dollars</i>
Fiscal year	<b>February 29, 2020</b>
	\$
2020	136
2021	189
2022	195
2023	200
2024	119
Total undiscounted lease payments	839
Effect of discounting	(192)
Present value of lease payments recognized as lease liability	647

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

**9 Share capital**

Authorized:

unlimited common shares, no par value

*in thousands of dollars, except share amounts*

	Number of shares	Ascribed value \$
<b>November 30, 2018</b>	<b>131,585,612</b>	<b>164,069</b>
Exercise of options	1,725,776	1,123
Restricted Share Units	412,501	424
Deferred Share Units	182,132	189
Exercise of warrants	6,521,740	12,166
<b>November 30, 2019</b>	<b>140,427,761</b>	<b>177,971</b>
Exercise of options	19,514	6
Restricted Share Units	212,501	330
<b>February 29, 2020, issued and outstanding</b>	<b>140,659,776</b>	<b>178,307</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 February 29, 2020, 11,927 NovaGold DSUs remained outstanding representing a right to receive 1,988 common shares in Trilogy, which will settle upon certain directors retiring from NovaGold’s board.

(a) Stock options

During the period ended February 29, 2020, the Company granted 2,050,000 options (2019 – 2,430,000 options) at a weighted-average exercise price of CAD\$3.02 (2019 – CAD\$2.94) 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 \$0.99 (2019 - \$1.08).

For the period ended February 29, 2020, Trilogy recognized a stock-based compensation charge of \$1.16 million (2019 – \$1.59 million) for options granted to directors, employees and service providers, net of estimated forfeitures.

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

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

	February 29, 2020
Risk-free interest rates	1.64%
Exercise price	CAD\$3.10
Expected life	3.0 years
Expected volatility	63.1%
Expected dividends	Nil

As of February 29, 2020, there were 1,453,338 non-vested options outstanding with a weighted average exercise price of \$2.21; the non-vested stock option expense not yet recognized was \$0.95 million. This expense is expected to be recognized over the next two years.

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

A summary of the Company's stock option plan and changes during the period ended February 29, 2020 is as follows:

	Number of options	February 29, 2020 Weighted average exercise price \$
Balance – beginning of the period	9,205,600	1.08
Granted	2,050,000	2.25
Exercised	(26,667)	0.54
Forfeited	(230,000)	2.19
<b>Balance – end of period</b>	<b>10,998,933</b>	<b>1.27</b>

The following table summarizes information about the stock options outstanding at February 29, 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	2,676,433	0.73	0.36	2,676,433	0.73	-
\$0.51 to \$1.00	3,195,000	2.35	0.66	3,195,000	2.35	-
\$1.01 to \$1.50	225,000	3.12	1.32	175,000	3.08	50,000
\$1.51 to \$2.00	640,000	4.46	1.81	623,333	4.49	16,667
\$2.01 to \$2.54	4,262,500	4.28	2.23	2,875,829	4.17	1,386,671
	<b>10,998,933</b>	<b>2.84</b>	<b>1.27</b>	<b>9,545,595</b>	<b>2.60</b>	<b>1,453,338</b>

The aggregate intrinsic value of vested share options (the market value less the exercise price) at February 29, 2020 was \$5.9 million (2019 - \$13 million) and the aggregate intrinsic value of exercised options for the three months ended February 29, 2020 was \$0.04 million (2019 - \$0.08 million).

(b) Restricted Share Units and Deferred Share Units

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

A summary of the Company's unit plans and changes during the period ended February 29, 2020 is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of the period	212,501	1,137,488
Granted	-	21,927
Vested/paid	(212,501)	-
<b>Balance – end of period</b>	<b>-</b>	<b>1,159,415</b>

For the period ended February 29, 2020, Trilogy recognized a stock-based compensation charge of \$0.04 million (2019- \$0.35 million), net of estimated forfeitures.

No RSUs were granted as part of the annual incentive payout for the 2019 fiscal year to officers. The 225,000 RSUs granted for the annual incentive payout for the 2018 fiscal year vested half on the grant date and half on the first anniversary of

## Trilogy Metals Inc.

### Notes to the Interim Consolidated Financial Statements

the grant date. RSUs vesting in December 2019 were settled on December 17, 2019 through the issuance of 212,501 common shares.

#### 10 Financial instruments

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

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

#### Financial risk management

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

##### (a) Currency risk

Currency risk is the risk of a fluctuation in financial asset and liability settlement amounts due to a change in foreign exchange rates. The Company operates in the United States and Canada. The Company's exposure to currency risk at February 29, 2020 is limited to the Canadian dollar consisting of cash of CDN\$540,000, accounts receivable of CDN\$49,000 and accounts payable of CDN\$865,000. 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 \$21,000.

##### (b) Credit risk

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

##### (c) Liquidity risk

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

Contractually obligated cash flow requirements as at February 29, 2020 are as follows:

	<i>in thousands of dollars</i>				
	Total \$	< 1 Year \$	1-2 Years \$	2-5 Years \$	Thereafter \$
Accounts payable and accrued liabilities	1,274	1,274	-	-	-
	<b>1,274</b>	<b>1,274</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

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equivalents. Based on balances as at February 29, 2020, a 1% change in interest rates would result in a change in net loss of \$0.1 million, assuming all other variables remain constant.

**11 Commitment**

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