



Trilogy Metals Inc.
Interim Consolidated Financial Statements
August 31, 2018
(Unaudited)
(expressed in US dollars)

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Trilogy Metals Inc.
Consolidated Balance Sheets
(unaudited)

in thousands of US dollars

	August 31, 2018	November 30, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	30,468	5,391
Accounts receivable	57	470
Deposits and prepaid amounts	646	837
Investments (note 3)	-	2,516
	31,171	9,214
Plant and Equipment (note 4)	363	478
Mineral properties and development costs (note 5)	30,587	30,587
	62,121	40,279
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	3,964	4,249
	3,964	4,249
Mineral properties purchase option (note 5(c))	20,800	10,365
	24,764	14,614
Shareholders' equity		
Share capital (note 7) – <i>unlimited common shares authorized, no par value Issued -131,533,953 (2017 – 105,684,523)</i>	164,034	136,525
Warrants (note 7(c))	2,253	2,163
Contributed surplus	122	124
Contributed surplus – options (note 7(a))	19,011	18,402
Contributed surplus – units (note 7(b))	1,425	1,319
Deficit	(149,488)	(132,868)
	37,357	25,665
	62,121	40,279

Commitments and contingencies (notes 5, 9)

(See accompanying notes to the interim consolidated financial statements)

/s/ Rick Van Nieuwenhuysse, Director _____

/s/ Kalidas Madhavpeddi, Director _____

Approved on behalf of the Board of Directors

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

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

	For the three months ended		For the nine months ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
	\$	\$	\$	\$
Expenses				
Amortization	39	27	122	66
Foreign exchange loss (gain)	15	(592)	(29)	(542)
General and administrative	376	273	1,175	1,050
Investor relations	59	107	261	263
Mineral properties expense (note 5(d))	9,051	8,471	12,657	10,407
Professional fees	13	86	286	404
Salaries	286	218	738	683
Salaries – stock-based compensation	204	104	1,277	603
Total expenses	10,043	8,694	16,487	12,934
Other items				
Loss on held for trading investments	12	313	272	1,482
Loss on disposal of equipment	-	8	-	8
Interest and other income	(135)	(23)	(229)	(46)
Loss and comprehensive loss for the period	9,920	8,992	16,530	14,378
Basic and diluted loss per common share	\$0.08	\$0.09	\$0.14	\$0.14
Weighted average number of common shares outstanding	131,470,146	105,581,406	118,530,242	105,524,598

(See accompanying notes to the interim consolidated financial statements)

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

in thousands of US dollars, except share amounts

	Number of shares outstanding	Share capital \$	Warrants \$	Contributed surplus \$	Contributed surplus – options \$	Contributed surplus – units \$	Deficit \$	Total shareholders' equity \$
Balance – November 30, 2016	105,286,469	136,357	2,163	124	18,134	1,140	(111,764)	46,154
Exercise of options	171,458	54	-	-	(54)	-	-	-
Restricted Share Units	209,198	83	-	-	-	(173)	-	(90)
Stock-based compensation	-	-	-	-	312	291	-	603
Loss for the period	-	-	-	-	-	-	(14,378)	(14,378)
Balance – August 31, 2017	105,667,125	136,494	2,163	124	18,392	1,258	(126,142)	32,289

Balance – November 30, 2017	105,684,523	136,525	2,163	124	18,402	1,319	(132,868)	25,665
Bought deal financing (Note 7)	24,784,482	28,750	90	-	-	-	(90)	28,750
Share issuance costs	-	(1,805)	-	-	-	-	-	(1,805)
Exercise of options	263,928	105	-	-	(105)	-	-	-
Restricted Share Units	800,000	457	-	-	-	(457)	-	-
NovaGold DSU Conversion	1,020	2	-	(2)	-	-	-	-
Stock-based compensation	-	-	-	-	714	563	-	1,277
Loss for the period	-	-	-	-	-	-	(16,530)	(16,530)
Balance – August 31, 2018	131,533,953	164,034	2,253	122	19,011	1,425	(149,488)	37,357

(See accompanying notes to the interim consolidated financial statements)

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

in thousands of US dollars

	August 31, 2018	For the nine months ended August 31, 2017
	\$	\$
Cash flows used in operating activities		
Loss for the period	(16,530)	(14,378)
Items not affecting cash	-	-
Amortization	122	66
Loss on disposal of equipment	-	8
Loss on held for trading investments	272	1,424
Unrealized foreign exchange loss (gain)	(52)	(472)
Stock-based compensation	1,277	603
Net change in non-cash working capital		
Decrease (Increase) in accounts receivable	413	(294)
Decrease (Increase) in deposits and prepaid amounts	191	(140)
(Increase) Decrease in accounts payable and accrued liabilities	(285)	4,116
	(14,592)	(9,067)
Cash flows from (used in) financing activities		
Proceeds from bought deal financing (note 7)	28,750	-
Share issuance cost	(1,805)	-
Settlement of Restricted Share Units	-	(90)
	26,945	(90)
Cash flows from (used in) investing activities		
Acquisition of plant & equipment	(7)	(209)
Mineral properties funding (note 5 (c))	10,435	10,000
Proceeds from the sale of investments, net of fees	2,297	2,180
	12,725	11,971
Increase in cash and cash equivalents	25,078	2,814
Effect of exchange rate on cash and cash equivalents	(1)	51
Cash and cash equivalents – beginning of period	5,391	7,340
Cash and cash equivalents – end of period	30,468	10,205

(See accompanying notes to the interim consolidated financial statements)

Trilogy Metals Inc.

Notes to the Consolidated Financial Statements

1 Nature of operations

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

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared using accounting principles generally accepted in the United States (“U.S. GAAP”) and include the accounts of Trilogy and its wholly-owned subsidiary, NovaCopper US Inc. (dba “Trilogy Metals US”). All significant intercompany transactions are eliminated on consolidation.

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

The unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company’s financial position as of August 31, 2018 and our results of operations and cash flows for the nine months ended August 31, 2018 and August 31, 2017. The results of operations for the nine months ended August 31, 2018 are not necessarily indicative of the results to be expected for the year ending November 30, 2018.

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, 2017 filed with the U.S. Securities and Exchange Commission (“SEC”) on February 2, 2018.

These financial statements were approved by the Company’s Audit Committee on behalf of the Board of Directors for issue on October 4, 2018.

Recent accounting pronouncements

i. Leases

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

ii. Financial instruments

In March 2016, the FASB issued new guidance on classifying and measuring financial instruments (“ASU 2016-02”). This update is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The Company has analyzed the impact of the update and determined that the changes to classification and measurement of financial instruments are not expected to have an impact as the Company’s prior year equity investments which were held at fair value with changes recorded to the statement of loss and comprehensive loss. The remaining changes in the update do not have an effect on the Company’s accounting

Trilogy Metals Inc.

Notes to the Consolidated Financial Statements

for financial instruments. The standard will be effective for the Company for the fiscal year ending November 30, 2019.

iii. Stock-based compensation

In March 2016, the FASB issued new guidance simplifying the accounting for stock-based compensation transactions, including income tax consequences, classification of awards as equity or liabilities, forfeitures, and classification on the statement of cash flows (“ASU 2016-09”). This update is effective for annual reporting periods beginning after December 15, 2016. The Company has adopted this guidance and made the policy choice of estimating the number of awards expected to be forfeited and adjusting the estimate when it is no longer probable that the employee will fulfill the service condition. This policy choice is consistent with the Company’s previous practice and therefore, no adjustments were necessary on adoption. The remaining changes in the update do not have an effect on the Company’s accounting for stock-based compensation.

iv. Business combinations

In January 2017, the FASB issued new guidance to assist in determining if a set of assets and activities being acquired or sold is a business (“ASU 2017-01”). It also provided a framework to assist entities in evaluating whether both an input and a substantive process are present, which at a minimum, must be present to be considered a business. This update is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted in most circumstances. The standard does not have an impact to the Company’s historical recognition of asset acquisitions and business combinations. However, the Company expects there would be an impact to how the Company accounts for assets acquired in the future. The Company has adopted the standard early for the fiscal year ended November 30, 2018.

v. Accounting for certain financial instruments with down round features

In July 2017, the FASB issued a two-part Accounting Standards Update (“ASU”), No. 2017-11, Earnings Per Share (ASC 260), Distinguishing Liabilities from Equity (ASC 480), Derivatives and Hedging (ASC 815): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. Under the guidance, entities will no longer consider a down round feature when determining whether a free standing financial instrument or an embedded feature that contains a down round feature is considered indexed to the entity’s own stock under ASC 815-40 which is required for a freestanding financial instrument to be classified in shareholder’s equity and may exempt an embedded feature from bifurcation and derivative accounting. Entities will recognize the effect of a down round feature only when it is triggered.

ASU 2017-11 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and early adoption is permitted. The Company has adopted this guidance for the fiscal year ended November 30, 2018.

3 Investments

On September 1, 2016, Trilogy acquired 5,000,000 common shares of GoldMining Inc. (“GMI”), formerly Brazil Resources Inc., a public company listed on the TSX-Venture exchange, and 1,000,000 warrants, with each warrant exercisable into one common share of GMI until September 1, 2018 at an exercise price of CAD\$3.50, through its sale of Sunward Investments Ltd.

Trilogy Metals Inc.

Notes to the Consolidated Financial Statements

The common shares and warrants received have been designated as held-for-trading financial assets and classified as current investments.

	August 31, 2018	November 30, 2017
	\$	\$
Current investments	-	2,516

in thousands of dollars

During the nine month period ended August 31, 2018, the Company sold 2,365,000 (2017 – 1,519,000) common shares of GMI for proceeds of \$2.3 million (2017 – \$2.2 million) and realized a loss on sale of \$0.3 million (2017 - \$0.2 million). During the period, the Company recorded an unrealized gain on the common shares and warrants of GMI of Nil (2017 - loss of \$1.3 million).

As at August 31, 2018, the Company held Nil (2017 – 3,371,000) common shares of GMI and 1,000,000 (2017 – 1,000,000) warrants expiring September 1, 2018 which were valued at \$Nil using the Black-Scholes option pricing model at period end. All the warrants expired unexercised on September 1, 2018.

4 Plant and equipment

	August 31, 2018		
	Cost	Accumulated amortization	Net
	\$	\$	\$
British Columbia, Canada			
Furniture and equipment	63	(14)	49
Leasehold improvements	53	(8)	45
Computer hardware and software	115	(108)	7
Alaska, USA			
Machinery, and equipment	3,178	(2,939)	239
Vehicles	348	(327)	21
Computer hardware and software	35	(33)	2
	3,792	(3,429)	363

in thousands of dollars

	November 30, 2017		
	Cost	Accumulated amortization	Net
	\$	\$	\$
British Columbia, Canada			
Furniture and equipment	63	(4)	59
Leasehold improvements	85	(34)	51
Computer hardware and software	108	(105)	3
Alaska, USA			
Machinery, and equipment	3,178	(2,855)	323
Vehicles	348	(309)	39
Computer hardware and software	35	(32)	3
	3,817	(3,339)	478

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Notes to the Consolidated Financial Statements

5 Mineral properties and development costs

in thousands of dollars

	November 30, 2017 \$	Acquisition costs \$	August 31, 2018 \$
Alaska, USA			
Ambler (a)	26,587	-	26,587
Bornite (b)	4,000	-	4,000
	30,587	-	30,587

in thousands of dollars

	November 30, 2016 \$	Acquisition costs \$	November 30, 2017 \$
Alaska, USA			
Ambler (a)	26,586	1	26,587
Bornite (b)	4,000	-	4,000
	30,586	-	30,587

(a) Ambler

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

The Ambler lands were acquired on October 17, 2011 by Trilogy Metals US through a purchase and sale agreement with AGC. On October 24, 2011, NovaGold transferred its ownership of Trilogy Metals US to the Company, then itself a wholly owned subsidiary of NovaGold, which was subsequently spun-out to NovaGold shareholders and publicly listed on April 30, 2012 (“NovaGold Arrangement”).

(b) Bornite

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

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

(c) Option Agreement

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

Trilogy Metals Inc.

Notes to the Consolidated Financial Statements

newly formed limited liability company (“JV LLC”), plus any amounts Trilogy Metals US spends at the Arctic Project over the next three years to a maximum of \$5 million per year (the “Subscription Price”), less an amount of the initial funding contributed by South32.

To maintain the option in good standing, South32 is required to fund a minimum of \$10 million per year for up to a three year period, which funds will be used to execute a mutually agreed upon program at the UKMP. The funds provided by South32 may only be expended based on the approved program. Provided that all the exploration data and information has been made available to South32 by no later than December 31 of each year, South32 must decide by the end of January of the following year whether: (i) to fund a further tranche of a minimum of \$10 million, or (ii) to withdraw and not provide any further annual funding. If the election to fund a further tranche is not made in January, South32 has until the end of March to exercise the option to form the JV LLC and make the subscription payment.

During the year ended November 30, 2017, the Company received the first payment of \$10.0 million and these funds were expended on the year 1 program at the Bornite Project. In October 2017, the Company received \$0.4 million as a first instalment towards the year 2 program and budget to begin preparatory work. During the nine months ended August 31, 2018, the Company received payments totaling \$10.4 million following the approval of the year 2 program and budget in January 2018, including a \$0.80 million advance on South32’s year three funding obligation per the Option Agreement. The Company is responsible for the disbursement of these funds in accordance with the approved program and budget and accordingly has not classified the funds as restricted cash.

As the initial option payments are credited against the future subscription price upon exercise, the Company has accounted for the payment received as deferred consideration for the purchase of the UKMP interest. At such time as the option is exercised, the initial payments received to that date will be recognized as part of the consideration received for the Company’s contribution of the UKMP into JV LLC. If South 32 withdraws from the Option Agreement, the consideration will be recognized as income in the statement of loss at that time.

The option to form the JV LLC is recognized as a financial instrument at inception of the arrangement with an initial fair value of \$nil. This option is required to be re-measured at fair value at each reporting date with any changes in fair value recorded in loss for the period. The Company determined that the fair value of the option is still \$nil as at August 31, 2018.

(d) Mineral properties expense

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

In thousands of dollars

	Three months ended August 31, 2018 \$	Three months ended August 31, 2017 \$	Nine months ended August 31, 2018 \$	Nine months ended August 31, 2017 \$
Alaska, USA				
Community	81	67	324	201
Drilling	3,624	3,194	3,804	3,284
Engineering	259	1,085	785	1,508
Environmental	326	122	488	181
Geochemistry and geophysics	420	146	1,066	151
Land and permitting	118	215	463	667
Project support	2,703	2,307	3,381	2,641
Other income	-	(26)	(20)	(26)
Wages and benefits	1,520	1,361	2,366	1,800
Mineral property expense	9,051	8,471	12,657	10,407

Mineral property expenses consist of direct drilling, personnel, community, resource reporting and other exploration expenses as outlined above, as well as indirect project support expenses such as fixed wing charters, helicopter support, fuel, and other camp operation costs. Cumulative mineral properties expense in Alaska from the initial earn-

Trilogy Metals Inc. Notes to the Consolidated Financial Statements

in agreement on the property in 2004 to August 31, 2018 is \$91.0 million and cumulative acquisition costs are \$30.6 million totaling \$121.6 million spent to date.

6 Accounts payable and accrued liabilities

	August 31, 2018 \$	November 30, 2017 \$
Trade accounts payable	3,021	2,767
Accrued liabilities	838	1,293
Accrued salaries and vacation	105	189
Accounts payable and accrued liabilities	3,964	4,249

in thousands of dollars

7 Share capital

Authorized:

unlimited common shares, no par value

	Number of shares	Ascribed value \$
November 30, 2016	105,286,469	136,357
Exercise of options	188,856	85
Restricted Share Units	209,198	83
November 30, 2017	105,684,523	136,525
Bought deal financing	24,784,482	28,750
Share issuance costs	-	(1,805)
Exercise of options	263,928	105
Restricted Share Units	800,000	457
NovaGold DSU Conversion	1,020	2
August 31, 2018, issued and outstanding	131,533,953	164,034

in thousands of dollars, except share amounts

On April 20, 2018, the Company completed a bought-deal financing for gross proceeds of \$28.8 million by issuing 24,784,482 common shares at \$1.16 per common share. Expenses including bank commissions, legal fees, stock exchange and other fees totaled \$1.8 million for net proceeds of \$26.9 million.

As of August 31, 2018, 11,927 NovaGold DSUs remain outstanding representing a right to receive 1,988 common shares in Trilogy, which will settle upon certain directors retiring from the board of NovaGold Resources Inc.

(a) Stock options

During the nine month period ended August 31, 2018, the Company granted 2,395,000 options (2017 – 1,695,000 options) at a weighted-average exercise price of CAD\$1.15 (2017 – CAD\$0.72) to employees, consultants and directors exercisable for a period of five years with various vesting terms between nil and two years. The weighted-average fair value attributable to options granted in the period was \$0.43.

For the nine-month period ended August 31, 2018, Trilogy recognized a stock-based compensation charge of \$0.71 million (2017– \$0.31 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 Consolidated Financial Statements

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

	August 31, 2018
Risk-free interest rates	1.59%
Exercise price	CAD\$1.18
Expected life	3.0 years
Expected volatility	77.9%
Expected dividends	Nil

As of August 31, 2018, there were 1,586,676 non-vested options outstanding with a weighted average exercise price of \$0.85; the non-vested stock option expense not yet recognized was \$0.64 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 nine month period ended August 31, 2018 is as follows:

	August 31, 2018	Weighted average exercise price \$
	Number of options	
Balance – beginning of the year	7,127,500	0.54
Granted	2,395,000	0.88
Exercised	(412,732)	0.58
Forfeited	(70,000)	1.10
Expired	(25,000)	1.52
Balance – end of period	9,014,768	0.62

The following table summarizes information about the stock options outstanding at August 31, 2018.

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
\$0.34 to \$0.50	4,006,433	1.95	0.40	4,006,433	0.40	-
\$0.51 to \$1.00	4,663,335	3.15	0.74	3,329,993	0.75	1,333,342
\$1.01 to \$1.49	345,000	4.84	1.47	91,666	1.19	253,334
	9,014,768	2.68	0.62	7,428,092	0.57	1,586,676

The aggregate intrinsic value of vested share options (the market value less the exercise price) at August 31, 2018 was \$9.2 million (2017 - \$2.8 million) and the aggregate intrinsic value of exercised options for the nine months ended August 31, 2018 was \$0.4 million (2017 - \$0.15 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.

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A summary of the Company's unit plans and changes during the nine month period ended August 31, 2018 is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of the year	600,002	1,041,231
Granted	600,000	109,670
Vested/paid	(800,000)	-
Balance – end of period	400,002	1,150,901

For the nine months ended August 31, 2018, Trilogy recognized a stock-based compensation charge of \$0.56 million (2017- \$0.29 million), net of estimated forfeitures.

As part of the annual incentive payout for the 2017 fiscal year, 300,000 RSUs were granted to officers vesting immediately. In addition, 300,000 RSUs were granted to officers vesting one third immediately, one third on the first anniversary of the grant date, and one third on the second anniversary. On December 27, 2017, 800,000 RSUs vested and were settled through the issuance of 800,000 shares.

(c) Share Purchase Warrants

A summary of the Company's warrants and changes during the nine months ended August 31, 2018 is as follows:

	Number of warrants	Years to expiry	Exercise price \$
Balance – beginning of the year	6,521,740	1.60	1.60
Balance – end of period	6,521,740	0.84	1.52

The exercise price of the share purchase warrants was adjusted downward as a result of the financing completed on April 20, 2018 from \$1.60 to \$1.52. The Company measured the fair value of the warrants prior to the financing and after the financing and recorded the difference of \$90,000 as an adjustment to the warrant value and to retained earnings in shareholders equity during the period. The warrants expire on July 2, 2019.

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

Financial risk management

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

(a) Currency risk

Currency risk is the risk of a fluctuation in financial asset and liability settlement amounts due to a change in foreign exchange rates. The Company operates in the United States and Canada. The Company's exposure to currency risk at August 31, 2018 is limited to the Canadian dollar consisting of cash of CAD\$1.0 million, deposit amounts of CAD\$0.1 million and accounts payable of CAD\$0.5 million. 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 \$0.1 million.

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(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 consist 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 August 31, 2018 are as follows.

in thousands of dollars

	Total \$	< 1 Year \$	1-2 Years \$	2-5 Years \$	Thereafter \$
Accounts payable and accrued liabilities	3,964	3,964	-	-	-
Office lease (note 9)	1,128	175	182	596	175
	5,092	4,139	182	596	175

(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 August 31, 2018, a 1% change in interest rates would result in a change in net loss of \$0.3 million, assuming all other variables remain constant.

Fair value accounting

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the significance of the inputs used in making the measurement. The three levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 — Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity)

The levels in the fair value hierarchy into which the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis were categorized as follows:

in thousands of dollars

	August 31, 2018 \$			November 30, 2017 \$		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Current investments – shares	-	-	-	2,516	-	-

During the nine month period ended August 31, 2018, the Company disposed of its remaining shares of GMI, a publicly-held mineral exploration company. The share investments were recorded as current investments and were valued using quoted market prices in active markets and as such are classified as a Level 1 financial instrument.

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9 Commitment

The Company has commitments in respect of its office lease (denominated in Canadian dollars converted at the foreign exchange rate at the end of the quarter) requiring future minimum lease payments from the date as follows:

<i>in thousands of dollars</i>	
August 31, 2018	
\$	
One year	175
Years 2 through 5	778
Beyond 5 years	175
Total	1,128