Trilogy Metals Inc.

Consolidated Financial Statements
November 30, 2019, 2018 and 2017

(expressed in US dollars)

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Management's Report on Internal Control over Financial Reporting

The management of Trilogy Metals Inc. is responsible for establishing and maintaining adequate internal control over financial reporting under Rule 13a-15(f) and 15d-15(f) of the U.S. Exchange Act. The Securities Exchange Act of 1934 defines this as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that may have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of November 30, 2019. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013).

Based upon our assessment and those criteria, management concluded that the Company's internal control over financial reporting is effective as of November 30, 2019.

/s/ James Gowans

James Gowans
President & Chief Executive Officer

/s/ Elaine Sanders

Elaine Sanders
Vice President & Chief Financial Officer

February 12, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Trilogy Metals Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Trilogy Metals Inc. and its subsidiaries (together, the Company) as of November 30, 2019 and 2018, and the related consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for each of the three years in the period ended November 30, 2019, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of November 30, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of November 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 2019 in conformity with accounting principles generally accepted in the United States of America (US GAAP). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants
Vancouver, Canada
February 12, 2020

We have served as the Company's auditor since 2012.

Trilogy Metals Inc.
Consolidated Balance Sheets
As at November 30, 2019 and 2018

in thousands of US dollars

	November 30, 2019 $	November 30, 2018 $
Assets		
Current assets		
Cash and cash equivalents	19,174	22,991
Accounts receivable	264	23
Deposits and prepaid amounts	719	619
	20,157	23,633
Rent deposit	114	114
Plant and equipment (note 3)	715	325
Mineral properties and development costs (note 4)	30,631	30,587
	51,617	**54,659**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	2,354	1,657
	2,354	1,657
Mineral properties purchase option (note 4c)	31,000	20,800
	33,354	22,457
Shareholders' equity		
Share capital (note 6) – *unlimited common shares authorized, no par value*		
Issued – 140,427,761 (2018 – 131,585,612)	177,971	164,069
Warrants (note 6(c))	-	2,253
Contributed surplus	122	122
Contributed surplus – options (note 6(a))	21,123	19,076
Contributed surplus – units (note 6(b))	1,759	1,489
Deficit	(182,712)	(154,807)
	18,263	32,202
	51,617	**54,659**

Commitments and contingencies (note 10)
Subsequent events (note 11)

(See accompanying notes to the consolidated financial statements)

/s/ James Gowans, Director

/s/ Kalidas Madhavpeddi, Director

Approved on behalf of the Board of Directors

Trilogy Metals Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended November 30

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

	2019 $	2018 $	2017 $
Expenses			
Amortization	211	160	107
Foreign exchange gain	(19)	(26)	(395)
General and administrative	1,838	1,532	1,385
Investor relations	623	406	345
Mineral properties expense (note 4(d))	19,211	16,490	15,100
Professional fees	1,382	453	708
Salaries	1,314	1,467	975
Salaries – stock-based compensation	3,845	1,441	705
Total expenses	28,405	21,923	18,930
Other items			
Loss on held for trading investments	-	272	2,225
Loss on disposal of equipment	-	-	8
Interest and other income	(500)	(346)	(59)
Loss and comprehensive loss for the year	**27,905**	**21,849**	**21,104**
Basic and diluted loss per common share	**$0.21**	**$0.18**	**$0.20**
Weighted average number of common shares outstanding	**135,225,349**	**121,778,727**	**105,562,769**

(See accompanying notes to the consolidated financial statements)

Trilogy Metals Inc.
Consolidated Statements of Changes in Shareholders’ Equity
For the Years Ended November 30

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 – 2016	**105,286,469**	**136,357**	**2,163**	**124**	**18,134**	**1,140**	**(111,764)**	**46,154**
Exercise of options	188,856	85	-	-	(85)	-	-	-
Restricted Share Units	209,198	83	-	-	-	(173)	-	(90)
Stock-based compensation	-	-	-	-	353	352	-	705
Loss for the year	-	-	-	-	-	-	(21,104)	(21,104)
Balance – 2017	**105,684,523**	**136,525**	**2,163**	**124**	**18,402**	**1,319**	**(132,868)**	**25,665**
Bought-deal financing (note 6)	24,784,482	28,750	90	-	-	-	(90)	28,750
Share issuance costs	-	(1,805)	-	-	-	-	-	(1,805)
Exercise of options	315,148	140	-	-	(140)	-	-	-
Restricted Share Units	800,000	457	-	-	-	(457)	-	-
NovaGold DSU conversion	1,459	2	-	(2)	-	-	-	-
Stock-based compensation	-	-	-	-	814	627	-	1,441
Loss for the year	-	-	-	-	-	-	(21,849)	(21,849)
Balance – 2018	**131,585,612**	**164,069**	**2,253**	**122**	**19,076**	**1,489**	**(154,807)**	**32,202**
Exercise of options	1,725,776	1,123	-	-	(915)	-	-	208
Exercise of warrants	6,521,740	12,166	(2,253)	-	-	-	-	9,913
Restricted share units	412,501	424	-	-	-	(424)	-	-
Deferred share units	182,132	189	-	-	-	(189)	-	-
Stock-based compensation	-	-	-	-	2,962	883	-	3,845
Loss for the year	-	-	-	-	-	-	(27,905)	(27,905)
Balance – 2019	**140,427,761**	**177,971**	**-**	**122**	**21,123**	**1,759**	**(182,712)**	**18,263**

(See accompanying notes to the consolidated financial statements)

Trilogy Metals Inc.
Consolidated Statements of Cash Flows
For the Years Ended November 30

in thousands of US dollars

	2019 $	2018 $	2017 $
Cash flows used in operating activities			
Loss for the year	(27,905)	(21,849)	(21,104)
Items not affecting cash			
Amortization	211	160	107
Loss on held for trading investments	-	272	2,225
Loss on disposal of equipment	-	-	8
Foreign exchange (gain) loss	1	(53)	(393)
Stock-based compensation	3,845	1,441	705
Net change in non-cash working capital			
Decrease (increase) in accounts receivable	(241)	447	(423)
Decrease (increase) in deposits and prepaid amounts	(100)	104	(113)
Increase (decrease) in accounts payable, accrued liabilities and due to related parties	697	(2,592)	3,577
	(23,492)	**(22,070)**	**(15,411)**
Cash flows from (used in) financing activities			
Proceeds from exercise of options	208	-	-
Proceeds from exercise of warrants (note 6 (c))	9,913	-	-
Proceeds from bought deal financing (note 6)	-	28,750	-
Share issuance costs	-	(1,805)	-
Settlement of Restricted Share Units	-	-	(90)
	10,121	**26,945**	**(90)**
Cash flows from (used in) investing activities			
Acquisition of plant & equipment	(645)	(7)	(300)
Mineral properties funding (note 4)	10,200	10,435	10,365
Proceeds from the sale of investments, net of fees	-	2,297	3,479
	9,555	**12,725**	**13,544**
(Decrease) increase in cash and cash equivalents	(3,816)	17,600	(1,957)
Effect of exchange rate on cash and cash equivalents	(1)	-	8
Cash and cash equivalents – beginning of year	22,991	5,391	7,340
Cash and cash equivalents – end of year	19,174	**22,991**	**5,391**

(See accompanying notes to the consolidated financial statements)

1 Nature of operations

Trilogy Metals Inc., ("Trilogy", the "Company", or "we") was incorporated in British Columbia under the Business Corporations Act (BC) on April 27, 2011. The Company changed its name from NovaCopper Inc. to Trilogy Metals Inc. on September 1, 2016 to better reflect its diversified metals resource base. 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" or "USA").

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. ("Trilogy Metals US"). All significant intercompany transactions are eliminated on consolidation.

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

These financial statements were approved by the Company's Board of Directors for issue on February 12, 2020.

Cash and cash equivalents

Cash and cash equivalents comprise of highly liquid investments maturing less than 90 days from date of initial investment. Cash and cash equivalents are designated as loans and receivables.

Plant and equipment

Plant and equipment are recorded at cost and amortization begins when the asset is put into service. Amortization is calculated on a straight-line basis over the respective assets' estimated useful lives. Amortization periods by asset class are:

Computer hardware and software	3 years
Machinery and equipment	3 – 10 years
Office furniture and equipment	5 years
Vehicles	3 years
Leasehold Improvements	lease term

Mineral properties and development costs

All direct costs related to the acquisition of mineral property interests are capitalized. Mineral property exploration expenditures are expensed when incurred. When it has been established that a mineral deposit is commercially mineable, an economic analysis has been completed and permits are obtained, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. Capitalized costs will be amortized following commencement of production using the unit of production method over the estimated life of proven and probable reserves.

The acquisition of title to mineral properties is a complicated and uncertain process. The Company has taken steps, in accordance with industry standards, to verify the title to mineral properties in which it has an interest. Although the Company has made efforts to ensure that legal titles to its mining assets are properly recorded, there can be no assurance that such title will be secured indefinitely.

Impairment of long-lived assets

Management assesses the possibility of impairment in the carrying value of long-lived assets whenever events or circumstances indicate that the carrying amounts of the asset or asset group may not be recoverable. Management calculates the estimated undiscounted future net cash flows relating to the asset or asset group using estimated future prices, proven and probable reserves and other mineral resources, and operating, capital and reclamation costs. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted future cash flows. Management's estimates of mineral prices, mineral resources, foreign exchange rates, production levels operating, capital and reclamation costs are subject to risk and uncertainties that may affect the determination of the recoverability of the long-lived asset. It is possible that material changes could occur that may adversely affect management's estimates.

Income taxes

The liability method of accounting for income taxes is used and is based on differences between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes using enacted income tax rates expected to be in effect for the period in which the differences are expected to reverse. Deferred income tax assets are evaluated and, if realization is not considered more likely than not, a valuation allowance is provided.

Uncertainty in income tax positions

The Company recognizes tax benefits from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Any tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the taxing authorities. Related interest and penalties, if any, are recorded as tax expense in the tax provision.

Financial instruments

Held-for-trading financial assets and liabilities are recorded at fair value as determined by active market prices or valuation models, as appropriate. Valuation models require the use of assumptions which may include the expected life of the instrument, the expected volatility, dividend payouts, and interest rates. In determining these assumptions, management uses readily observable market inputs where available or, where not available, inputs generated by management. Changes in fair value of held-for-trading financial instruments are recorded in income or loss for the period. Held-for-trading financial assets consisting of common share and warrant investments in a publicly-held mining company were disposed during the 2018 fiscal year.

Loans and receivables are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method. Loans and receivables consist of cash and cash equivalents, accounts receivable, and deposits.

Other financial liabilities are recorded initially at fair value and subsequently at amortized cost using the effective interest rate method. Other financial liabilities include accounts payable and accrued liabilities.

Translation of foreign currencies

Monetary assets and liabilities are translated into United States dollars at the exchange rate in effect at the balance sheet date, and non-monetary assets and liabilities at the exchange rate in effect at the time of acquisition or issue. Income and expenses are translated at rates approximating the exchange rate in effect at the time of transactions. Exchange gains or losses arising on translation are included in income or loss for the period.

The functional currency of the Company and its subsidiary and the Company's reporting currency is the United States dollar.

Earnings and loss per share

Earnings and loss per common share is calculated based on the weighted average number of common shares outstanding during the year. The Company follows the treasury stock method in the calculation of diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period.

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 takes into account, as of the grant date, the fair market value of the shares, expected volatility, expected dividend yield and the risk-free interest rate over the expected life of the option. The compensation cost is recognized using the graded attribution method over the vesting period of the respective options. The expense relating to the fair value of stock options is included in expenses and is credited to contributed surplus. Shares are issued from treasury in settlement of options exercised.

Compensation expense for restricted share units ("RSUs") and deferred share units ("DSUs") granted to employees and directors, respectively, is determined based on estimated fair values of the units at the time of grant using quoted market prices or at the time the units qualify for equity classification under ASC 718. The cost is recognized using the graded attribution method over the vesting period of the respective units. The expense relating to the fair value of the units is included in expenses and is credited to other liabilities or contributed surplus based on the unit's classification. Units may be settled in either i) cash, and/or ii) shares purchased in the open market, and/or iii) shares issued from treasury, at the Company's election at the time of vesting.

Use of estimates and measurement uncertainties

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions of future events that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of expenditures during the period. Significant judgments include the assessment of potential indicators of impairment of mineral properties. Significant estimates include the measurement of the South32 property acquisition option, income taxes, and the valuation of stock-based compensation. Actual results could differ materially from those reported.

Accounting standards adopted

i. Financial instruments

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

Recent accounting pronouncements

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. 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 ended November 30, 2020.

We expect to elect to apply all of the transition practical expedients available, including:

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

In addition, we expect to elect the short-term lease recognition exemption for all leases and elect the practical expedient to not separate lease and non-lease components for all leases.

We expect to adopt 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.

During 2019, we have commenced our analysis to determine the quantitative impact of this new standard. As of the release of these consolidated financial statements, we have developed an implementation and transition plan including related internal controls, identified the population of contracts within the Company, reviewed the contracts and segregated the contracts that contain leases, and determined the discount rate applicable to its leases.

We currently estimate the adoption of this new standard is expected to result in right of use assets and lease liabilities of $786,000. We are continuing to finalize our adoption procedures and our quantification of the impact of adoption.

3 Plant and equipment

in thousands of dollars

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

in thousands of dollars

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

4 Mineral properties and development costs

in thousands of dollars

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

in thousands of dollars

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

(a) Ambler

On January 11, 2010, NovaGold Resources Inc. ("NovaGold"), through Alaska Gold Company ("AGC"), its wholly-owned 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 can be purchased 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 a wholly owned subsidiary of NovaGold, which was subsequently spun-out to NovaGold shareholders and publicly listed on April 30, 2012 ("NovaGold Arrangement").

Minor staking, at a cost of $44,000, added to the Ambler land holdings during the year ended November 30, 2019.

(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 ("UKMP") through an Exploration Agreement and Option to Lease with NANA. Upon a decision to proceed with construction of a mine on the lands, NANA maintains the right to purchase between a 16%-25% ownership interest in the mine or retain a 15% net proceeds royalty which is payable after Trilogy Metals US has recovered certain historical costs, including capital and cost of capital. Should NANA elect to purchase an ownership interest, consideration will be payable equal to all historical costs incurred on the properties at the elected percentage purchased less $40 million, not to be less than zero. The parties would form a joint venture and be responsible for all future costs, including capital costs of the mine based on their pro-rata share.

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

(c) Option Agreement

On April 10, 2017, Trilogy and Trilogy Metals US entered into an Option Agreement to form a Joint Venture with South32 Group Operations Pty Ltd., a wholly-owned subsidiary of South32 Limited, which agreement was later assigned by South32 Operations to its affiliate, South32 USA Exploration Inc. ("South32") on the UKMP ("Option Agreement"). Under the terms of the Option Agreement, as amended, Trilogy Metals US granted South32 the right to form a 50/50 joint venture to hold all of Trilogy Metals US' Alaskan assets. Upon exercise of the option, the option agreement provided that Trilogy Metals US would transfer its Alaskan assets, including the UKMP, and

South32 would contribute the Subscription Price (as defined below) to a newly formed and jointly held, limited liability company ("LLC") (see note 11).

To maintain the option in good standing, South32 was required to fund a minimum of $10 million per year for up to a three-year period, which funds were to execute a mutually agreed upon program at the UKMP. The funds provided by South32 could only be expended in accordance with an approved program by a technical committee with equal representation from Trilogy and South32. South32 could exercise its option at any time over the three-year period to enter into the 50/50 joint venture. To subscribe for 50% of the joint venture, the Option Agreement provided that South32 must contribute $150 million, plus (i) any amounts Trilogy spends on matched parallel funding to a maximum of $16 million over the three year period and (ii) $5 million if the option had been exercised between April 1, 2018 and March 31, 2019 or $10 million if the option was exercised between April 1, 2019 and the expiration date of the option, less the amount of the initial funding contributed by South32 (the "Subscription Price"). South32 has now funded the full three-year option period. On December 19, 2019, South32 elected to exercise the option to form the JV LLC (see note 11).

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

As the initial option payments are credited against the future subscription price upon exercise, the Company has accounted for the payments received from South32 as deferred consideration for the purchase of the UKMP interest. The $31.0 million of payments received will be recognized as part of the consideration received for the Company's contribution of the UKMP into the LLC.

The option to form the LLC is recognized as a financial instrument at inception of the arrangement with an initial fair value of $nil. This option is required to be re-measured at fair value at each reporting date with any changes in fair value recorded in loss for the period. The Company determined that the fair value of the option remains $nil as at November 30, 2019.

(d) Mineral properties expense

The following table summarizes mineral properties expense for the years ended November 30, 2019, 2018 and 2017, and includes expenditures funded by South32, as applicable.

In thousands of dollars

	2019 $	2018 $	2017 $
Alaska, USA			
Community	596	466	318
Drilling	5,194	4,545	5,074
Engineering	2,410	1,056	1,774
Environmental	611	806	365
Geochemistry and geophysics	1,259	1,253	357
Land and permitting	744	705	795
Other income	(13)	(20)	(25)
Project support	4,652	4,244	3,836
Wages and benefits	3,758	3,435	2,606
Mineral property expense	**19,211**	**16,490**	**15,100**

Mineral property expenses consist of direct drilling, personnel, community, resource reporting and other exploration expenses as outlined above, as well as indirect project support expenses such as fixed wing charters, helicopter support, fuel, and other camp operation costs. Cumulative mineral properties expense in Alaska from the initial earn-in agreement on the property in 2004 to November 30, 2019 is $113.8 million and cumulative acquisition costs are $30.6 million totaling $144.4 million spent to date.

5 Accounts payable and accrued liabilities

in thousands of dollars

	November 30, 2019 $	November 30, 2018 $
Trade accounts payable	902	400
Accrued liabilities	721	503
Accrued salaries and vacation	731	746
Due to related parties	-	8
Accounts payable and accrued liabilities	**2,354**	**1,657**

6 Share capital

Authorized:
unlimited common shares, no par value

in thousands of dollars, except share amounts

	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	315,148	140
Restricted Share Units	800,000	457
NovaGold DSU Conversion	1,459	2
November 30, 2018	**131,585,612**	**164,069**
Exercise of options	1,725,776	1,123
Restricted Share Units	412,501	424
Deferred Share Units	182,132	189
Exercise of warrants	6,521,740	12,166
November 30, 2019, issued and outstanding	**140,427,761**	**177,971**

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

On April 30, 2012, under the NovaGold Arrangement, Trilogy committed to issue common shares to satisfy holders of NovaGold deferred share units ("NovaGold DSUs"), once vested, 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 November 30, 2019, a total of 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 NovaGold's board.

(a) Stock options

The Company has a stock option plan providing for the issuance of options with a rolling maximum number equal to 10% of the issued and outstanding Common Shares at any given time. The Company may grant options to its directors, officers, employees and service providers. The exercise price of each option cannot be lower than the greater of market price or fair market value of the Common Shares (as such terms are defined in the plan) at the date of the option grant. The number of Common Shares optioned to any single optionee may not exceed 10% of the issued and outstanding Common Shares at the date of grant. The options are exercisable for a maximum of five years from the date of grant and may be subject to vesting provisions.

During the year ended November 30, 2019, a total of 3,077,500 options (2018 – 2,395,000 options) at a weighted-average exercise price of CDN$2.86 (2018 - CDN$1.20) were granted 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 2019 was $1.03 (2018 - $0.43).

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.

	November 30, 2019	November 30, 2018	November 30, 2017
Risk-free interest rates	1.96%	1.59%	0.90%
Exercise price	CDN$2.87	CDN$1.20	CDN$0.69
Expected life	3.0 years	3.0 years	3.0 years
Expected volatility	73.0%	77.9%	74.2%
Expected dividends	Nil	Nil	Nil

The Company recognized a stock option payment charge of $2.9 million for the year ended November 30, 2019 (2018 - $0.8 million; 2017 - $0.4 million), net of forfeitures.

As of November 30, 2019, there were 1,775,005 non-vested options outstanding with a weighted average exercise price of $1.83. The non-vested stock option expense not yet recognized was $0.4 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 year ended is as follows:

		November 30, 2019
	Number of options	Weighted average exercise price $
Balance – beginning of year	8,821,434	0.60
Granted	3,077,500	2.15
Exercised	(2,693,334)	0.73
Balance – end of year	**9,205,600**	**1.09**

The following table summarizes information about the stock options outstanding at November 30, 2019.

			Outstanding		Exercisable	Unvested
Range of price	Number of outstanding options	Weighted average years to expiry	Weighted average exercise price $	Number of exercisable options	Weighted average exercise price $	Number of unvested options
$0.33 to $0.50	2,696,433	1.00	0.36	2,696,433	0.36	-
$0.51 to $1.00	3,201,667	2.60	0.66	2,753,331	0.65	448,336
$1.01 to $1.50	225,000	3.37	1.33	175,000	1.30	50,000
$1.51 to $2.00	640,000	471	1.82	623,333	1.82	16,667
$2.01 to $2.52	2,405,000	4.02	2.22	1,144,998	2.22	1,260,002
$2.53 to $2.57	37,500	4.47	2.57	37,500	2.57	-
	9,205,600	**2.67**	**1.09**	**7,430,595**	**0.91**	**1,775,005**

The aggregate intrinsic value of vested share options (the market value less the exercise price) at November 30, 2019 was $7.2 million (2018 - $12.2 million, 2017 - $1.8 million) and the aggregate intrinsic value of exercised options in 2019 was $2.6 million (2018 - $0.5 million, 2017 - $0.2 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. The RSU Plan and DSU Plan may be settled in cash and/or Common Shares at the Company's election with each RSU and DSU entitling the holder to receive one common share of the Company or equivalent value. All units are accounted for as equity-settled awards.

On December 5, 2018 Company officers were granted 225,000 RSUs of which 112,500 units vested immediately. The remaining 112,500 units vested on December 5, 2019. Directors were granted 137,514 DSUs throughout the year ended November 30, 2019 based on their election to receive 50% of their annual retainer in DSUs.

A summary of the Company's unit plans and changes during the year ended is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of year	400,002	1,182,106
Granted	225,000	137,514
Vested/paid	(412,501)	(182,132)
Balance – end of year	**212,501**	**1,137,488**

For the year ended November 30, 2019, Trilogy recognized a stock-based compensation charge of $0.9 million (2018 - $0.6 million, 2017 - $0.4 million), net of forfeitures for RSUs and DSUs.

(c) Share Purchase Warrants

A summary of the Company's warrants and changes during the year ended November 30, 2019 is as follows:

	Number of Warrants	Weighted average years to expiry	Weighted average exercise price $
Balance – beginning of year	6,521,740	0.59	1.52
Balance – end of year	-	-	-

During the year ended November 30, 2019, all the outstanding warrants were exercised in advance of the July 2, 2019 expiry date. As a result of the warrants exercised, the Company issued a total of 6,521,740 common shares and received cash proceeds of approximately $9.9 million.

7 Management of capital risk

The Company relies upon management to manage capital in order to accomplish the objectives of safeguarding the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and maintain a capital structure which optimizes the costs of capital at an acceptable risk. The Company's current capital consists of equity funding through capital markets and project funding by South32.

As the Company is currently in the exploration phase none of its financial instruments are exposed to commodity price risk; however, the Company's ability to obtain long-term financing and its economic viability may be affected by commodity price volatility. The Company will need to raise additional funds to support its operations and administration expenses. Future sources of liquidity may include equity financing, debt financing, convertible debt, or other means.

To facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

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 marked-to-market at each period end with changes in fair value recorded to the statement of loss. The South32 purchase option is a derivative financial liability measured at fair value with changes in value recorded to the statement of loss.

Financial risk management

The Company's activities expose them 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 November 30, 2019 is limited to the Canadian dollar balances consisting of cash of CDN$127,000, accounts receivable of CDN$56,000 and accounts payable of CDN$1,600,000. 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 $107,000.

(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 GST 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 November 30, 2019 are as follows.

in thousands of dollars

	Total $	< 1 Year $	1–2 Years $	2–5 Years $	Thereafter $
Accounts payable and accrued liabilities	2,354	2,354	-	-	-
Office lease	892	182	388	322	-
Office and warehouse lease (Alaska)	110	57	53	-	-
	3,356	**2,593**	**441**	**322**	**-**

(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 November 30, 2019, a 1% change in interest rates would result in a change in net loss of $0.2 million, assuming all other variables remain constant.

As we are currently in the exploration phase none of our financial instruments are exposed to commodity price risk; however, our ability to obtain long-term financing and its economic viability could be affected by commodity price volatility.

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 Company did not have any financial assets and liabilities that were measured and recognized at fair value as at November 30, 2019.

During the year ended November 30, 2018, the Company disposed of its remaining shares of Gold Mining Inc., a publicly-held mineral exploration company. During the year ended November 30, 2017, 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.

9 Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

in thousands of dollars

	November 30, 2019 $	November 30, 2018 $	November 30, 2017 $
Combined federal and provincial statutory tax rate	27.00%	26.92%	26.00%
Income taxes at statutory rate	(7,534)	(5,882)	(5,486)
Difference in foreign tax rates	(281)	(424)	(2,267)
Impact of change in tax rate	-	23,582	
Effect of foreign exchange changes	-	-	-
Non-taxable gain on the sale of Sunward Investments	-	-	-
Non-deductible expenditures	4,061	3,018	4,664
Return to provision adjustments	193	1,319	(72)
Other	-	-	(357)
Expiry of Losses	277	-	-
Valuation allowance	(3,284)	(21,613)	3,518
Income tax expense	**-**	-	-

Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of deferred income tax assets and liabilities at November 30, 2019 and 2018 are as follows:

in thousands of dollars

	November 30, 2019 $	November 30, 2018 $
Deferred income tax assets		
Non-capital losses	48,968	46,469
Mineral property interest	11,351	10,419
Deferred interest	6,251	6,251
Property, plant and equipment	70	64
Share issuance costs	351	440
Capital Loss	186	290
Investments	-	-
Other deductible temporary differences	345	316
Total deferred tax assets	67,522	64,249
Valuation allowance	(67,519)	(64,248)
Net deferred income tax assets	**3**	**1**
Deferred income tax liabilities		
Mineral property interest	-	-
Other taxable temporary differences	(3)	(1)
Deferred income tax liabilities	**(3)**	**(1)**
Net deferred income tax assets	**-**	**-**

On December 22, 2017, the U.S. Tax Cuts and Jobs Act ("Act") was passed into law. The new legislation decreases the corporate federal income tax rate from 35% to 21% effective January 1, 2018. Since the Company has a November 30 fiscal year end, the US entity will have a blended tax rate of 21% commencing the November 30, 2019 fiscal year and thereafter.

The Company has loss carry-forwards of approximately $174.3 million that may be available for tax purposes. Certain of these losses occurred prior to the incorporation of the Company and are accounted for in the financial statements as if they were incurred by the Company. Prior to the NovaGold Arrangement, the Company undertook a tax reorganization in order to preserve the future deductibility of these losses for the Company, subject to the limitations below. Deferred tax assets have been recognized to the extent of future taxable income and the future taxable amounts related to taxable temporary differences for which a deferred tax liability is recognized can be offset. A valuation allowance has been provided against deferred income tax assets where it is not more likely than not that the Company will realize those benefits.

The losses expire as follows in the following jurisdictions:

in thousands of dollars

	Non-capital losses Canada $	Operating losses United States $
2020	-	830
2021	-	1
2022	-	366
2023	-	960
Thereafter	41,275	130,902
	41,275	**133,059**

Future use of U.S. loss carry-forwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relates to a 50% change in control over a three-year period and are further dependent upon the Company attaining profitable operations. An ownership change under Section 382 occurred on January 22, 2009 regarding losses incurred by AGC, of which the attributes of those losses were transferred to Trilogy Metals US with the purchase of the mineral property in October 2011. Therefore, approximately $39.4 million of the U.S. losses above are subject to limitation under Section 382. Accordingly, the Company's ability to use these losses may be limited. Furthermore, tax reform provisions under section 172 allow federal net operating losses arising in tax years subsequent to December 31, 2017 to be carried forward indefinitely. As at November 30, 2019 the Company has $10.7 million in operating losses that can be carried forward indefinitely.

An additional change in control may have occurred after November 30, 2011 which may further limit the availability of losses prior to the date of change in control.

On June 19, 2015, we completed the Sunward acquisition which resulted in an acquisition of control of Sunward Resources ULC under of the Income Tax Act in Canada. Therefore, the Company's ability to use approximately $15.2 million of losses in Canada may be limited.

10 Commitment

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

in thousands of dollars

	November 30, 2019 $
2020	240
2021	243
2022	197
2023	202
Thereafter	120
Total	**1,002**

On February 21, 2017, the Company entered into a lease for office space effective July 1, 2017 for a period of seven years with a total commitment of $1.3 million.

On October 12, 2018, NovaCopper US Inc. entered into a lease for office and warehouse space effective October 15, 2018 for a period of three years with a total commitment of $175,000.

11 Subsequent events

On December 27, 2019 directors were granted 600,000 stock options vesting immediately and 1,450,000 stock options were granted to employees vesting equally in thirds on the grant date, the first anniversary of the grant date, and the second anniversary of the grant date.

RSUs that were previously granted, vested during December 2019 and were settled on December 11, 2019 through the issuance of 70,834 Common Shares and on December 20, 2019 through the issuance of 141,667 Common Shares.

On February 11, 2020, the Company announced the completion of the formation of a 50/50 joint venture with South32. Trilogy Metals contributed all its assets associated with the UKMP and South32 paid the Subscription Price of $145 million.