



Trilogy Metals Inc.
Interim Consolidated Financial Statements
February 28, 2019
(Unaudited)
(expressed in US dollars)

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Trilogy Metals Inc.
Consolidated Balance Sheets
(unaudited)

in thousands of US dollars

	February 28, 2019 \$	November 30, 2018 \$
Assets		
Current assets		
Cash and cash equivalents	29,955	22,991
Accounts receivable	29	23
Deposits and prepaid amounts	899	619
	30,883	23,633
Rent deposit	114	114
Plant and equipment (note 3)	288	325
Mineral properties and development costs (note 4)	30,587	30,587
	61,872	54,659
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	1,067	1,657
	1,067	1,657
Mineral properties purchase option (note 4(c))	31,000	20,800
	32,067	22,457
Shareholders' equity		
Share capital (note 7) – <i>unlimited common shares authorized, no par value Issued -132,042,343 (2018 – 131,585,612)</i>	164,521	164,069
Warrants (note 6(c))	2,253	2,253
Contributed surplus	122	122
Contributed surplus – options (note 6(a))	20,634	19,076
Contributed surplus – units (note 6(b))	1,418	1,489
Deficit	(159,143)	(154,807)
	29,805	32,202
	61,872	54,659

Commitments and contingencies (note 8)

(See accompanying notes to the interim consolidated financial statements)

/s/ Rick Van Nieuwenhuyse, Director

/s/ Kalidas Madhavpeddi, Director

Approved on behalf of the Board of Directors

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

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

	For the three months ended	
	February 28, 2019	February 28, 2018
	\$	\$
Expenses		
Amortization	37	41
Foreign exchange gain	(34)	(63)
General and administrative	492	345
Investor relations	117	64
Mineral properties expense (note 4(d))	1,535	1,131
Professional fees	91	159
Salaries	281	229
Salaries – stock-based compensation	1,939	922
Total expenses	4,458	2,828
Other items		
Loss on held for trading investments	-	135
Interest and other income	(122)	(17)
Loss and comprehensive loss for the period	4,336	2,946
Basic and diluted loss per common share	\$0.03	\$0.03
Weighted average number of common shares outstanding	131,916,941	106,270,835

(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, 2017	105,684,523	136,525	2,163	124	18,402	1,319	(132,868)	25,665
Exercise of options	50,753	29	-	-	(29)	-	-	-
Restricted Share Units	800,000	457	-	-	-	(457)	-	-
Stock-based compensation	-	-	-	-	484	438	-	922
Loss for the period	-	-	-	-	-	-	(2,946)	(2,946)
Balance – February 28, 2018	106,535,276	137,011	2,163	124	18,857	1,300	(135,814)	23,641

Balance – November 30, 2018	131,585,612	164,069	2,253	122	19,076	1,489	(154,807)	32,202
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)
Balance – February 28, 2019	132,042,343	164,521	2,253	122	20,634	1,418	(159,143)	29,805

(See accompanying notes to the interim consolidated financial statements)

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

in thousands of US dollars

	For the three months ended	
	February 28, 2019	February 28, 2018
	\$	\$
Cash flows used in operating activities		
Loss for the period	(4,336)	(2,946)
Items not affecting cash		
Amortization	37	41
Loss on held for trading investments	-	135
Unrealized foreign exchange loss (gain)	5	(88)
Stock-based compensation	1,939	922
Net change in non-cash working capital		
Decrease (Increase) in accounts receivable	(6)	118
Decrease (Increase) in deposits and prepaid amounts	(280)	276
Decrease in accounts payable and accrued liabilities	(590)	(2,789)
	(3,231)	(4,331)
Cash flows from investing activities		
Acquisition of plant & equipment	-	(6)
Mineral properties funding (note 4 (c))	10,200	9,635
Proceeds from the sale of investments, net of fees	-	1,432
	10,200	11,061
Increase in cash and cash equivalents	6,969	6,730
Effect of exchange rate on cash and cash equivalents	(5)	25
Cash and cash equivalents – beginning of period	22,991	5,391
Cash and cash equivalents – end of period	29,955	12,146

(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 February 28, 2019 and our results of operations and cash flows for the three months ended February 28, 2019 and February 28, 2018. The results of operations for the three months ended February 28, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending November 30, 2019.

As these interim consolidated financial statements do not contain all of the disclosures required by U.S. GAAP for annual financial statements, these unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2018 filed with the U.S. Securities and Exchange Commission (“SEC”) on February 11, 2019.

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

Accounting standards adopted

i. Financial instruments

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

Recent accounting pronouncements

ii. Leases

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

Trilogy Metals Inc.
Notes to the Consolidated Financial Statements

3 Plant and equipment

in thousands of dollars

	February 28, 2019		
	Cost	Accumulated amortization	Net
	\$	\$	\$
British Columbia, Canada			
Furniture and equipment	63	(20)	43
Leasehold improvements	53	(12)	41
Computer hardware and software	115	(110)	5
Alaska, USA			
Machinery, and equipment	3,178	(2,989)	189
Vehicles	348	(339)	9
Computer hardware and software	35	(34)	1
	3,792	(3,504)	288

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	February 28, 2019
	\$	\$	\$
Alaska, USA			
Ambler (a)	26,587	-	26,587
Bornite (b)	4,000	-	4,000
	30,587	-	30,587

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"), 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

Trilogy Metals Inc.

Notes to the Consolidated Financial Statements

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

To maintain the option in good standing, South32 is required to fund a minimum of \$10 million per year for up to a three-year period, which funds will be used to execute a mutually agreed upon program at the UKMP. The funds provided by South32 may only be expended in accordance with an approved program by a technical committee with equal representation from Trilogy and South32. South32 may exercise its option at any time over the three-year period to enter into the 50/50 joint venture. To subscribe for 50% of the JV, South32 must contribute a minimum of \$150 million, plus (i) any amounts Trilogy spends on matched parallel funding to a maximum of \$16 million over the three year period and (ii) \$5 million if the option is exercised between April 1, 2018 and March 31, 2019 or \$10 million if the option is exercised between April 1, 2019 and the expiration date of the option, less the amount of the initial funding contributed by South32 (the “Subscription Price”). South32 has now funded the full three-year option period. South32 has until the end of January 2020 to exercise the option to form the JV LLC and make the subscription payment.

During the year ended November 30, 2017, the Company received the first payment of \$10.0 million and these funds were expended on the year 1 program at the Bornite Project. In October 2017, the Company received \$0.4 million as a first instalment towards the year 2 program and budget to begin preparatory work. During the year ended November 30, 2018, the Company received payments totaling \$10.4 million following the approval of the year 2 program and budget in January 2018, including a \$0.80 million advance on South32’s year three funding obligation per the Option Agreement. During the period ended February 28, 2019, the Company received payments totaling \$10.2 million following the approval of the year 3 program and budget, including \$1 million funding for the approved regional

Trilogy Metals Inc. Notes to the Consolidated Financial Statements

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

The option to form the JV LLC is recognized as a financial instrument at inception of the arrangement with an initial fair value of \$nil. This option is required to be re-measured at fair value at each reporting date with any changes in fair value recorded in loss for the period. The Company determined that the fair value of the option is still \$nil as at February 28, 2019.

(d) Mineral properties expense

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

In thousands of dollars

	Three months ended February 28, 2019 \$	Three months ended February 28, 2018 \$
Alaska, USA		
Community	118	90
Drilling	-	-
Engineering	357	332
Environmental	165	77
Geochemistry and geophysics	165	55
Land and permitting	120	191
Project support	226	76
Other income	(1)	(18)
Wages and benefits	385	328
Mineral property expense	1,535	1,131

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 February 28, 2019 is \$96.1 million and cumulative acquisition costs are \$30.6 million totaling \$126.7 million spent to date.

5 Accounts payable and accrued liabilities

in thousands of dollars

	February 28, 2019 \$	November 30, 2018 \$
Trade accounts payable	483	400
Accrued liabilities	467	503
Accrued salaries and vacation	116	746
Due to related parties	1	8
Accounts payable and accrued liabilities	1,067	1,657

Trilogy Metals Inc.
Notes to the Consolidated Financial Statements

6 Share capital

Authorized:

unlimited common shares, no par value

in thousands of dollars, except share amounts

	Number of shares	Ascribed value \$
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	44,230	28
Restricted Share Units	412,501	424
February 28, 2019, issued and outstanding	132,042,343	164,521

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 28, 2019, there remains 11,927 NovaGold DSUs outstanding representing a right to receive 1,988 Common Shares in Trilogy, which will settle upon certain directors retiring from NovaGold’s board.

(a) Stock options

During the period ended February 28, 2019, the Company granted 2,430,000 options (2018 – 2,125,000 options) at a weighted-average exercise price of CAD\$2.94 (2018 – CAD\$1.04) to employees, consultants and directors exercisable for a period of five years with various vesting terms from immediate vesting to over a two-year period. The weighted-average fair value attributable to options granted in the period was \$1.08 (2018 - \$0.37).

For the period ended February 28, 2019, Trilogy recognized a stock-based compensation charge of \$1.59 million (2018–\$0.49 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 28, 2019
Risk-free interest rates	2.05%
Exercise price	CAD\$2.92
Expected life	3.0 years
Expected volatility	75.4%
Expected dividends	Nil

As of February 28, 2019, there were 1,835,006 non-vested options outstanding with a weighted average exercise price of \$1.80; the non-vested stock option expense not yet recognized was \$1.13 million. This expense is expected to be recognized over the next two years.

Trilogy Metals Inc.
Notes to the Consolidated Financial Statements

A summary of the Company's stock option plan and changes during the period ended February 28, 2019 is as follows:

		February 28, 2019
	Number of options	Weighted average exercise price \$
Balance – beginning of the period	8,821,434	0.60
Granted	2,430,000	2.23
Exercised	(73,334)	0.81
Balance – end of period	11,178,100	0.96

The following table summarizes information about the stock options outstanding at February 28, 2019.

Range of price	Number of outstanding options	Weighted average years to expiry	Outstanding	Exercisable		Unvested
			Weighted average exercise price \$	Number of exercisable options	Weighted average exercise price \$	Number of unvested options
\$0.33 to \$0.50	3,996,433	1.46	0.39	3,996,433	0.39	-
\$0.51 to \$1.00	4,406,667	2.67	0.73	3,924,997	0.73	481,670
\$1.01 to \$1.50	225,000	4.12	1.34	125,000	1.25	100,000
\$1.51 to \$2.00	120,000	4.36	1.84	86,666	1.81	33,334
\$2.01 to \$2.23	2,430,000	4.76	2.23	1,209,998	2.23	1,220,002
	11,178,100	2.74	0.96	9,343,094	0.80	1,835,006

The aggregate intrinsic value of vested share options (the market value less the exercise price) at February 28, 2019 was \$13 million (2019 - \$6.9 million) and the aggregate intrinsic value of exercised options for the three months ended February 28, 2019 was \$0.08 million (2018 - \$0.06 million).

(b) Restricted Share Units and Deferred Share Units

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

Trilogy Metals Inc. Notes to the Consolidated Financial Statements

A summary of the Company's unit plans and changes during the period ended February 28, 2019 is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of the period	400,002	1,182,106
Granted	225,000	10,746
Vested/paid	(412,501)	-
Balance – end of period	212,501	1,192,852

For the period ended February 28, 2019, Trilogy recognized a stock-based compensation charge of \$0.35 million (2018-\$0.44 million), net of estimated forfeitures.

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

(c) Share Purchase Warrants

A summary of the Company's warrants and changes during the three months ended February 28, 2019 is as follows:

	Number of warrants	Years to expiry	Exercise price \$
Balance – beginning of the period	6,521,740	0.59	1.52
Balance – end of period	6,521,740	0.34	1.52

7 Financial instruments

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

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. The fair value of the Company's financial instruments approximates their carrying value due to the short-term nature of their maturity. The Company's financial instruments initially measured at fair value and then held at amortized cost include cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. The Company's investments were held for trading and were marked-to-market at each period end with changes in fair value recorded to the statement of loss.

Financial risk management

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

(a) Currency risk

Currency risk is the risk of a fluctuation in financial asset and liability settlement amounts due to a change in foreign exchange rates. The Company operates in the United States and Canada. The Company's exposure to currency risk at February 28, 2019 is limited to Canadian dollar consisting of cash of CDN\$497,000, accounts receivable of CDN\$26,000 and accounts payable of CDN\$465,000. 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 \$4,000.

(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 consist of Canadian Goods and Services Tax receivable from the Federal Government of Canada and

Trilogy Metals Inc.

Notes to the Consolidated Financial Statements

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 28, 2019 are as follows:

	<i>in thousands of dollars</i>				
	Total \$	< 1 Year \$	1–2 Years \$	2–5 Years \$	Thereafter \$
Accounts payable and accrued liabilities	1,067	1,067	-	-	-
	1,067	1,067	-	-	-

(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 February 28, 2019, a 1% change in interest rates would result in a change in net loss of \$0.3 million, assuming all other variables remain constant.

8 Commitment

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

	<i>in thousands of dollars</i>
	February 28, 2019
	\$
One year	235
Years 2 through 5	476
Beyond 5 years	475
Total	1,186

9 Subsequent events

On March 14, 2019 employees were granted 60,000 stock options, vesting equally in thirds on the grant date, the first anniversary of the grant date, and the second anniversary of the grant date.