Trilogy Metals Inc.
(formerly NovaCopper Inc.)

Interim Consolidated Financial Statements
August 31, 2017
(Unaudited)
(expressed in US dollars)

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Trilogy Metals Inc.
Consolidated Balance Sheets
(unaudited)

in thousands of US dollars

	August 31, 2017 $	November 30, 2016 $
Assets		
Current assets		
Cash and cash equivalents	10,205	7,340
Accounts receivable	341	47
Deposits and prepaid amounts	864	724
Current investments (note 3)	4,571	7,538
	15,981	15,649
Investments (note 3)	81	297
Plant and equipment	399	215
Mineral properties and development costs (note 4)	30,587	30,586
	47,048	**46,747**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	4,759	593
	4,759	593
Mineral properties purchase option (note 4)	10,000	-
	14,759	593
Shareholders' equity		
Share capital (note 6) – *unlimited common shares authorized, no par value*		
Issued –105,667,125 (2016 – 105,286,469)	136,494	136,357
Warrants (note 6(d))	2,163	2,163
Contributed surplus	124	124
Contributed surplus – options (note 6(a, b))	18,392	18,134
Contributed surplus – units (note 6(c))	1,258	1,140
Deficit	(126,142)	(111,764)
	32,289	46,154
	47,048	**46,747**

Commitments and contingencies (notes 4, 5 and 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		For the nine months ended	
	August 31, 2017 $	August 31, 2016 $	August 31, 2017 $	August 31, 2016 $
Expenses				
Amortization	27	17	66	59
Foreign exchange (gain) loss	(592)	3	(542)	8
General and administrative	273	311	1,050	1,030
Investor relations	107	30	263	80
Mineral properties expense (note 4(d))	8,471	3,077	10,407	4,067
Professional fees	86	84	404	430
Salaries	218	250	683	719
Salaries – stock-based compensation	104	146	603	544
Total expenses	8,694	3,918	12,934	6,937
Other items				
Unrealized loss on held for trading investments	83	-	1,252	-
Loss on sale of investments	230	-	230	-
Loss on disposal of equipment	8	-	8	-
Interest and other income	(23)	(16)	(46)	(52)
Loss from continuing operations for the period	**8,992**	**3,902**	**14,378**	**6,885**
Loss from discontinued operations	-	353	-	712
Loss from discontinued operations for the period	**-**	**353**	**-**	**712**
Loss and comprehensive loss for the period	**8,992**	**4,255**	**14,378**	**7,597**
Basic and diluted loss per common share	**$0.09**	**$0.04**	**$0.14**	**$0.07**
Weighted average number of common shares outstanding	**105,581,406**	**105,213,320**	**105,524,598**	**105,046,854**

(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, 2015	**104,796,421**	**136,040**	**2,163**	**124**	**17,841**	**1,164**	**(106,902)**	**50,430**
Restricted Share Units	108,399	34	-	-	-	(63)	-	(29)
Deferred Share Units	218,795	218	-	-	-	(218)	-	-
Exercise of options	143,889	56	-	-	(56)	-	-	-
Stock-based compensation	-	-	-	-	326	218	-	544
Loss for the period	-	-	-	-	-	-	(7,597)	(7,597)
Balance – August 31, 2016	**105,267,504**	**136,348**	**2,163**	**124**	**18,111**	**1,101**	**(114,499)**	**43,348**
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**

(See accompanying notes to the interim consolidated financial statements)

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

in thousands of US dollars

	For nine months ended	
	August 31, 2017 **$**	**August 31, 2016** **$**
Cash flows used in operating activities		
Loss for the period	(14,378)	(7,597)
Items not affecting cash		
Amortization	66	154
Loss on disposal of equipment	8	-
Loss on sale of held for trading investments	172	-
Unrealized loss on held for trading investments	1,252	-
Unrealized foreign exchange gain	(472)	-
Stock-based compensation	603	514
Net change in non-cash working capital		
Increase in accounts receivable	(294)	(23)
(Increase)/decrease in deposits and prepaid amounts	(140)	132
Increase in accounts payable and accrued liabilities	4,116	104
	(9,067)	**(6,716)**
Cash flows from (used in) financing activities		
Settlement of Restricted Share Units	(90)	-
	(90)	**-**
Cash flows from (used in) investing activities		
Acquisition of plant & equipment	(209)	(121)
Mineral properties funding (note 4)	10,000	-
Proceeds from the sale of investments, net of fees	2,180	-
	11,971	**(121)**
Increase (decrease) in cash and cash equivalents	2,814	(6,837)
Effect of exchange rate on cash and cash equivalents	51	-
Cash and cash equivalents – beginning of period	7,340	16,139
Cash and cash equivalents – end of period	**10,205**	**9,302**
Less cash and cash equivalents of discontinued operations – end of period	-	(75)
Cash and cash equivalents of continuing operations – end of period	**10,205**	**9,227**

(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., formerly NovaCopper 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”).

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., doing business as Trilogy Metals US (“Trilogy Metals US”). These consolidated financial statements included the accounts of Sunward Resources Ltd. (“Sunward”), Sunward Investments Ltd. (“Sunward Investments”) and Sunward Resources Limited (“Sunward BVI”) for the period June 19, 2015 to September 1, 2016, inclusive. Sunward BVI has registered a branch, Sunward Resources Sucursal Colombia, to do business in Colombia. All significant intercompany transactions are eliminated on consolidation.

On June 19, 2015, we completed the acquisition of Sunward, which held 100% ownership in the Titiribi gold-copper exploration project in Colombia through Sunward Investments. Sunward was converted to Sunward Resources Unlimited Liability Company on June 19, 2015 and wound-up on February 29, 2016. On September 1, 2016, we completed the sale of Sunward Investments and the Titiribi project. The Company classified the operations of Sunward Investments as discontinued operations, retrospectively.

All figures are in United States dollars unless otherwise noted. References to CDN$ 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 our financial position as of August 31, 2017, our results of operations for the three months and nine months ended August 31, 2017 and 2016 and our cash flows for the nine months ended August 31, 2017 and 2016. The results of operations for the three and nine months ended August 31, 2017 are not necessarily indicative of the results to be expected for the year ending November 30, 2017.

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, 2016 filed with the U.S. Securities and Exchange Commission (“SEC”) on February 3, 2017.

These financial statements were approved by the Company’s Audit Committee on behalf of the Board of Directors for issue on October 4, 2017.

Recent accounting pronouncements

i. Statement of cash flows

In November 2016, the FASB issued guidance regarding the presentation of restricted cash in the statement of cash flows (“ASU 2016-18”). 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 clarification will not affect the Company’s presentation on its statement of cash flows. The Company early adopted the standard in the second quarter of 2017. As there was no impact on the Company’s statement of cash flows, there were no changes as a result of adopting the standard.

ii. Leases

In February 2016, the 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 our 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 fiscal year 2020. We expect the adoption will have an impact as we expect to capitalize leases, specifically our office leases that are not currently recognized on the balance sheet and are in the process of analyzing the quantitative impact of this guidance on our results of operations and financial position.

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, and early adoption is permitted. The Company has analyzed the impact of the update and determined that the simplification applied to accounting for forfeitures will affect the results of operations and financial position as it will alter the timing of recognition of forfeitures. The Company is currently considering its policy choice. 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. It expects there could be an impact to how the Company accounts for assets acquired in the future.

3 Investments

On September 1, 2016, Trilogy completed the sale to GoldMining Inc. ("GMI"), formerly Brazil Resources Inc., a public company listed on the TSX-Venture exchange, of all of the issued and outstanding shares of Sunward Investments for consideration of 5,000,000 common shares of GMI valued at $7.8 million and 1,000,000 warrants, with each warrant exercisable into one common share of GMI for a period of two years at an exercise price of CDN$3.50, valued at $0.3 million, for total consideration of $8.1 million. Of the common shares received, 2,500,000 common shares were saleable immediately with the remaining 2,500,000 common shares saleable six months following the close. Sunward Investments, through a subsidiary, owns 100% of the Titiribi gold-copper exploration project.

The common shares and warrants received have been designated as held-for-trading financial assets, with the classification as current investments and long-term investments, respectively.

in thousands of dollars

	August 31, 2017 $	November 30, 2016 $
Current investments	4,571	7,538
Long-term investments	81	297
Investments	**4,652**	**7,835**

The fair value of the common shares is determined based on the closing price at each period end. The fair value of the BRI warrants is determined using the Black-Scholes option pricing model at each period end.

During the nine months ended August 31, 2017, the Company sold 1,519,000 common shares of GMI during the period for proceeds of $2.2 million and realized a loss on sale of $0.2 million. For the nine months ended August 31, 2017, the Company recorded an unrealized loss on the common shares and warrants of GMI of $1.3 million.

4 Mineral properties and development costs

in thousands of dollars

	November 30, 2016 $	Acquisition costs $	August 31, 2017 $
Alaska, USA			
Ambler (a)	26,586	1	26,587
Bornite (b)	4,000	-	4,000
	30,586	**1**	**30,587**

in thousands of dollars

	November 30, 2015 $	Acquisition costs $	November 30, 2016 $
Alaska, USA			
Ambler (a)	26,586	-	26,586
Bornite (b)	4,000	-	4,000
	30,586	**-**	**30,586**

(a) Ambler

On January 11, 2010, NovaGold Resources Inc. (“NovaGold”), through Alaska Gold Company (“AGC”), at the time a 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 the owner of the property 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 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") on the UKMP ("Option Agreement"). Trilogy Metals US has 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 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.

The Company received $10.0 million for the first payment following the approval of the year 1 program and budget in April 2017. As at August 31, 2017, the Company held $2.7 million in a segregated bank account for spending on the approved year 1 program at Bornite. 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. 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 the JV LLC. If South 32 withdraws from the Option Agreement, the consideration will be recognized 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.

(d) Mineral properties expense

The following table summarizes mineral properties expense for the noted periods and includes expenditures funded by South32.

In thousands of dollars

	Three months ended August 31, 2017 $	**Three months ended August 31, 2016 $**	**Nine months ended August 31, 2017 $**	**Nine months ended August 31, 2016 $**
Alaska, USA				
Community	67	63	201	184
Drilling	3,194	712	3,284	712
Engineering	1,085	191	1,508	410
Environmental	122	212	181	235
Geochemistry and geophysics	146	28	151	41
Land and permitting	215	113	667	322
Other income	(26)	(34)	(26)	(34)
Project support	2,307	1,030	2,641	1,136
Wages and benefits	1,361	762	1,800	1,061
Mineral property expense	**8,471**	**3,077**	**10,407**	**4,067**

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 August 31, 2017 is $73.4 million and cumulative acquisition costs are $30.6 million totaling $104.0 million spent to date.

5 Accounts payable and accrued liabilities

in thousands of dollars

	August 31, 2017 $	November 30, 2016 $
Trade accounts payable	2,179	160
Accrued liabilities	2,494	281
Accrued salaries and vacation	86	152
Accounts payable and accrued liabilities	**4,759**	**593**

6 Share capital

Authorized:
unlimited common shares, no par value

in thousands of dollars, except share amounts

	Number of shares	Ascribed value $
November 30, 2015	**104,796,421**	**136,040**
Exercise of options	162,854	65
Restricted Share Units	108,399	34
Deferred Share Units	218,795	218
November 30, 2016	**105,286,469**	**136,357**
Exercise of options	171,458	54
Restricted Share Units	209,198	83
August 31, 2017, issued and outstanding	**105,667,125**	**136,494**

On April 30, 2012, under the NovaGold Arrangement, Trilogy committed to issue common shares, once vested, to satisfy holders of 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 August 31, 2017, 20,685 NovaGold DSUs remain outstanding representing a right to receive 3,447 common shares in Trilogy, which will settle upon certain directors retiring from NovaGold's board.

(a) Stock options

During the nine month period ended August 31, 2017, 1,695,000 options (August 31, 2016 – 1,785,000 options) at a weighted-average exercise price of CDN$0.72 (August 31, 2016 – CDN$0.44) were granted 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 $0.22 per option.

For the nine month period ended August 31, 2017, Trilogy recognized a stock-based compensation charge of $0.31 million (August 31, 2016– $0.33 million) for options granted to directors, employees and service providers, net of 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.

	August 31, 2017
Risk-free interest rates	0.89%
Exercise price	CDN$0.72
Expected life	3.0 years
Expected volatility	74.3%
Expected dividends	Nil

As of August 31, 2017, there were 1,405,843 non-vested options outstanding with a weighted average exercise price of $0.48; the non-vested stock option expense not yet recognized was $0.1 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 is as follows:

		August 31, 2017
	Number of options	Weighted average exercise price $
Balance – beginning of period	6,049,433	0.50
Granted	1,695,000	0.57
Exercised	(362,477)	0.40
Forfeited	(169,329)	0.50
Balance – end of period	**7,212,627**	**0.56**

The following table summarizes information about the stock options outstanding at August 31, 2017.

			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
$0.35 to $0.50	4,267,627	2.95	0.41	3,588,457	0.42	679,170
$0.51 to $1.00	2,890,000	3.30	0.75	2,163,327	0.81	726,673
$1.01 to $1.47	55,000	0.67	1.59	55,000	1.59	-
	7,212,627	**3.07**	**0.56**	**5,806,784**	**0.58**	**1,405,843**

The aggregate intrinsic value of vested share options (the market value less the exercise price) at August 31, 2017 was $2.8 million (August 31, 2016 - $0.49 million) and the aggregate intrinsic value of exercised options for the nine months ended August 31, 2017 was $0.15 million (August 31, 2016 - $0.09 million).

(b) NovaGold Arrangement Options

Under the NovaGold Arrangement, holders of NovaGold stock options received one option in Trilogy for every six options held in NovaGold ("NovaGold Arrangement Options"). All NovaGold Arrangement Options remaining expired during the nine months ended August 31, 2017.

A summary of the NovaGold Arrangement Options and changes during the nine month period ended is as follows:

		August 31, 2017
	Number of options	Weighted average exercise price $
Balance – beginning of period	312,195	4.26
Expired	(312,195)	4.26
Balance – end of period	**-**	**-**

(c) 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.

A summary of the Company's unit plans and changes during the nine month period ended August 31, 2017 is as follows:

	Number of RSUs	Number of DSUs
Balance – beginning of period	400,001	925,390
Granted	600,000	98,554
Vested/paid	(399,999)	-
Balance – end of period	**600,002**	**1,023,944**

For the nine months ended August 31, 2017, Trilogy recognized a stock-based compensation charge of $0.29 million (August 31, 2016- $0.22 million), net of forfeitures.

On December 15, 2016, 600,000 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 23, 2016, 399,999 RSUs vested and were settled through the issuance of 209,198 shares and a cash payment of $90,000 to cover tax withholdings.

(d) Share Purchase Warrants

A summary of the Company's warrants and changes during the nine months ended August 31, 2017 is as follows:

	Number of Warrants	Weighted average years to expiry	Weighted average exercise price $
Balance – beginning of period	6,521,740	2.35	1.60
Balance – end of period	**6,521,740**	**1.85**	**1.60**

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, investments, 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 are held for trading and are 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 August 31, 2017 is limited the Canadian dollar balances consisting of cash of CDN$2,596,000, accounts receivable of CDN$421,000, deposit amounts of CDN$116,000, investments of CDN$5,833,000 and accounts payable of CDN$859,000. 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 $647,000.

(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 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. Management does expect to monetize its investments held over the next year to assist in meeting its operational requirements. Future financings are anticipated through the sale of investments, equity financing, the exercise of mineral properties option, debt financing, convertible debt, or other means.

Contractually obligated cash flow requirements as at August 31, 2017 are as follows.

in thousands of dollars

	Total $	< 1 Year $	1–2 Years $	2–5 Years $	Thereafter $
Accounts payable and accrued liabilities	4,759	4,759	-	-	-
Office lease (note 8)	1,349	44	178	580	547
	6,108	**4,803**	**178**	**580**	**547**

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.

(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, 2017, a 1% change in interest rates would result in a change in net loss of $0.1 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 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, 2017 $			November 30, 2016 $		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Current investments – shares	4,571	-	-	7,538	-	-
Investments – warrants	-	-	81	-	-	297
South32 purchase option	-	-	-	-	-	-

The Company's investments consist of shares and warrants in a publicly-held mining company. The share investments are recorded as current investments and are valued using quoted market prices in active markets and as such are classified as a Level 1 financial instrument. The warrants are valued using a Black-Scholes pricing model and are considered a Level 3 financial instrument because the valuation models have significant unobservable inputs.

The South32 purchase option received is recorded at fair value. As the inputs to valuing the purchase option are significant to the measurement of the option and are unobservable, it is considered a Level 3 financial instrument.

8 Commitments

The Company has commitments in respect of office leases requiring future minimum lease payments as follows:

in thousands of dollars

	August 31, 2017 $
2017	44
2018	178
2019	184
2020	193
2021	203
2022-2024	547
Total	**1,349**