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Trilogy Metals Inc.

TMQ (TSX; NYSE American): C\$2.15; US\$1.67

Stock Rating: Outperform

Target: C\$3.75

Risk Rating: Speculative

Trilogy Metals Announces 2021 Exploration Program

Impact: Positive

This morning, Trilogy Metals announced that Ambler Metals (50/50 JV between South32 Ltd. (S32:ASX, Not Covered) and Trilogy), has approved its 2021 exploration program with a budget of US\$27 mln at their 100%-owned Upper Kobuk Mineral Projects (UKMP) in northwestern Alaska. The project is wholly funded by Ambler Metals and is expected to be confirmed by the NANA Oversight committee on December 3, 2020.

The 2021 program is expected to follow-up on 2019 work along the 100 km Ambler VMS belt and further de-risk the Arctic project as it advances towards permitting in H2/21.

Highlights of the upcoming program include:

- 7,600 m of infill and metallurgical drilling at the Arctic Project. Pilot plant work is expected to begin in H2/21.
- 7,000 m of exploration drilling focused on the Sunshine prospect and other drill-ready targets along the Ambler VMS belt. The drill program is expected to commence in mid-July and finish before the end of September 2021.
- Engineering activities focused on getting the Arctic Project ready for permitting
- Permitting efforts focused on submission of the Federal 404 permit application in H2/21
- -US\$27 mln budget fully funded by Ambler Metals

Ambler Metals Leadership team fully staffed

On February 11, 2020, the Ambler Metals joint venture was formed wherein Trilogy contributed all its assets associated with the 172,675-hectare UKMP, including the Arctic and Bornite projects, while South32 contributed US\$145 mln, resulting in each party owning a 50% interest in Ambler Metals. The funds are dedicated to advancing the Arctic and Bornite projects, along with exploration in the Ambler mining district.

The permanent management team at Ambler Metals has been hired and are all now based in Alaska. The joint venture company is led by President and CEO, Ramzi Fawaz, VP Operations, Kevin Torpy and VP Finance, Rebecca Donald.

Our Outperform rating is supported by the attractive economics of the Arctic project, TMQ's strategic partnership with South32 and the significant exploration upside within the surrounding land package (including Sunshine/Bornite to date). Importantly, the Arctic FS does not incorporate any of the project's Inferred resources or near-mine satellite deposits. After having to cancel the 2020 field season as a result of COVID-19, regional exploration drilling will support more positive newsflow for the company throughout 2021.

Our \$3.75 target price remains based on ascribing a multiple of 0.70x to our fully-financed project NAV plus corporate adjustments. The multiple is a modest premium to comparable developer and junior base metal producers within our

coverage universe as a result of the strategic agreement with South32, which lowers financing risk and in our view increases the likelihood of Trilogy Metals being acquired.

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