

INTERNATIONAL TOWER HILL MINES LTD.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Current Business Activities

General

Livengood Gold Project Developments

During the year ended December 31, 2016 and to the date of this Annual Report on Form 10-K, the Company progressed on a number of opportunities for optimization and reducing the costs of building and operating a mine at the Project. Outside consultants were retained to conduct additional metallurgical tests and engineering, including confirmation of the flow sheet and optimizing the operating costs. These inputs were used to prepare the October 2016 Study, which evaluated several scenarios, ultimately selecting a project that will process 52,600 tons per day and produce 6.8 million ounces of gold over 23 years. This improved configuration has reduced the capital costs ("CAPEX") by 34% or \$950 million to \$1.84 billion, the process operating cost ("process OPEX") by 28% or \$2.97 per ton to \$7.48 per ton, and the all-in costs to \$1,247 per ounce, all as compared to the 100,000 tons per day project evaluated in the September 2013 Feasibility Study.

2016

Financing

On December 28, 2016, the Company closed a non-brokered private placement financing through the issuance of 45,833,334 common shares issued at \$0.48 per share for gross proceeds of \$22.0 million. Total share issuance costs for this non-brokered private placement financing amounted to \$146,735. The Company has used \$14.7 million of the net proceeds for the final payment with respect to acquisition of certain mining claims and related rights in the vicinity of the Livengood Gold Project, with the balance to be used for continuation of optimization studies to further improve and de-risk the Project, required environmental baseline studies, and for general working capital purposes.

Management Changes

On January 23, 2017, the ITH Board approved a management transition plan, which was implemented on January 31, 2017, in which Karl Hanneman, currently the Chief Operating Officer (COO), became the Chief Executive Officer (CEO), managing both the CEO and COO responsibilities, and Tom Irwin, the previous CEO, transitioned into a part-time position of Senior Advisor prior to his being considered for nomination to the Board at the Company's May 2017 Annual General Meeting (AGM).

Appointment of Directors

On December 28, 2016, Marcelo Kim was appointed as an additional director of ITH, and as the Chair of the Board. Mr. Kim is a Partner at Paulson & Co. Inc., the Company's major shareholder, where he oversees global natural resource investments. Commencing from the 2017 AGM of the Company's shareholders, Paulson & Co. Inc. will have the right to nominate Mr. Kim and one other individual to stand for election to the Board. Steve Lang, who has served as the Board Chair since January 2014, was appointed as the lead independent director for the Company upon the appointment of Mr. Kim as Chair.

Other Developments

On January 12, 2017, the Company paid \$14.7 million for the timely and full satisfaction of the final derivative payment due with respect to acquisition of certain mining claims and related rights in the vicinity of the Livengood Gold Project. On January 17, 2017, the Full Deed of Reconveyance releasing the Deed of Trust on the acquired property was recorded and the Company now fully owns this property and has no further liability with respect to this acquisition.

2017 Outlook

2017 Work Program Details

On January 23, 2017 the Board approved a 2017 budget of \$6.3 million. The work program incorporated in this budget will seek to build upon the Project improvements announced with the October 2016 Study, focusing on improving the mineralization and alteration models used to support the resource block model, evaluating alternative block models for production schedule opportunities,

and completion of several phases of metallurgical work to better define and optimize the flowsheet and recovery parameters. The 2017 work program has been specifically designed to target those aspects of the Project that could deliver the highest NPV increase for the least expenditure. Preliminary work on the block model and metallurgical recovery variability indicates a potential NPV benefit of up to \$280 million and \$100 million respectively (see section below 2017 Work Program Details). The engineering firm of BBA Inc. (BBA), who provided support for the 2016 Pre-feasibility Study (the “2016 PFS”), will be retained to continue work in the 2017 program. Work is also planned to advance the environmental baseline efforts needed to support future permitting.

However, the Company cautions that, until this multi-phase metallurgical program and the updated block model are completed and the results thereof are incorporated into a revised financial model, there can be no assurance that the overall recovery increases, potential process optimizations, or block model improvements, will, in fact, be realized, or that any such increases, optimizations or improvements will have the overall effect suggested above.

The Company remains open to a strategic alliance to help support the future development of the Project while considering all other appropriate financing options. The size of the gold resource, the favorable location, and the proven team are some of the reasons the Company would potentially attract a strategic partner with a long term development horizon who understands the Project is highly leveraged to gold prices.

The Company has sufficient funds to complete the test programs and engineering work underway.

Results of Operations

Summary of Quarterly Results

Description	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Net loss	\$ (1,109,733)	\$ (1,524,589)	\$ (2,068,850)	\$ (2,487,456)
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Net loss	\$ (1,119,972)	\$ (1,007,489)	\$ (2,048,868)	\$ (636,495)
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)

Significant fluctuations in the Company’s quarterly net loss have mainly been the result of changes in operating costs and the valuation of the Company’s derivative liability. The fluctuation in the derivative liability was caused by changes in the price of gold during the period along with the expected price of gold through the term of the derivative liability, which was paid in January 2017. The following table presents the unrealized gain or loss on the valuation of the derivative for each quarterly period during the years ended December 31, 2016 and 2015:

Three months ended:	2016 Unrealized Gain/(Loss)	2015 Unrealized Gain/(Loss)
March 31	\$ (700,000)	\$ 200,000
June 30	\$ (100,000)	\$ (100,000)
September 30	\$ (100,000)	\$ 400,000
December 31	\$ 105,831	\$ 300,000

Year ended December 31, 2016 compared to Year ended December 31, 2015

The Company had cash and cash equivalents of \$22,466,493 at December 31, 2016 compared to \$6,493,486 at December 31, 2015. The Company incurred a net loss of \$7,190,628 for the year ended December 31, 2016, compared to a net loss of \$4,812,824 for the year ended December 31, 2015. The following discussion highlights certain selected financial information and changes in operations between the year ended December 31, 2016 and the year ended December 31, 2015.

Mineral property expenditures were \$2,648,631 for the year ended December 31, 2016 compared to \$2,381,868 for the year ended December 31, 2015. The increase of \$266,763 is due to increased expenditures for metallurgical studies and engineering partially offset by the Company limiting field activities to the continuation of critical environmental baseline work while moving forward with a multi-phase metallurgical test work program.

Share-based payment charges were \$108,526 during the year ended December 31, 2016 compared to \$540,468 during the year ended

December 31, 2015. The decrease in share-based payment charges during the period was mainly the result of a reduction in the fair value of options granted in 2015 as compared to 2014. The Company granted no options during the year ended December 31, 2016 compared to 2,135,200 options during the year ended December 31, 2015. At December 31, 2016 there was unrecognized compensation expense of \$38,644 related to non-vested options outstanding. The cost is expected to be recognized over a weighted-average remaining period of approximately 0.21 years.

Share based payment charges were allocated as follows:

Expense category:	Year ended December 31, 2016	Year ended December 31, 2015
Consulting	\$ 25,013	\$ 113,150
Investor relations	6,603	27,223
Wages and benefits	76,910	400,095
	<u>\$ 108,526</u>	<u>\$ 540,468</u>

Excluding share-based payment charges of \$76,910 and \$400,095, respectively, wages and benefits decreased to \$2,119,681 for the year ended December 31, 2016 from \$2,159,515 for the year ended December 31, 2015. The closure of the Colorado office during 2015 contributed to lower wages and benefits expenses partially offset by higher healthcare premiums as a result of the base for the employee healthcare programs moving from Colorado to Alaska.

Excluding share-based payment charges of \$25,013 and \$113,150, respectively, consulting fees were \$238,321 for the year ended December 31, 2016 compared to \$305,274 for the year ended December 31, 2015. The decrease of \$66,953 is primarily due to lower consulting fees paid for Chief Financial Officer services during 2016 as compared to 2015.

Excluding share-based payments, all other operating expense categories reflected only moderate changes period over period.

Other items amounted to other expense of \$1,076,740 during the year ended December 31, 2016 compared to other income of \$1,637,352 in the year ended December 31, 2015. Total other expense in 2016 resulted from the unrealized loss on the revaluation of the derivative liability of \$794,169. This unrealized loss was caused by the increase in the price per ounce of gold during 2016 and is compared to an unrealized gain of \$800,000 during 2015 which resulted from a decrease in the price of gold during 2015. In addition to the unrealized loss on the derivative liability, the Company had a foreign exchange loss of \$340,551 during the year ended December 31, 2016 compared to a gain of \$990,690 during the year ended December 31, 2015 as a result of the impact of exchange rates on certain of the Company's U.S. dollar cash balances. The average exchange rate during the year ended December 31, 2016 was C\$1 to US\$0.7548 compared to C\$1 to US\$0.7820 for the year ended December 31, 2015.

Available-for-sale securities were deemed not to be impaired for the year ended December 31, 2016 compared to a loss of \$219,402 related to the other than temporary impairment of certain available-for-sale securities during the year ended December 31, 2015.

Year ended December 31, 2015 compared to Year ended December 31, 2014

The Company had cash and cash equivalents of \$6,493,486 at December 31, 2015 compared to \$13,521,473 at December 31, 2014. The Company incurred a net loss of \$4,812,824 for the year ended December 31, 2015, compared to a net loss of \$7,767,096 for the year ended December 31, 2014. The following discussion highlights certain selected financial information and changes in operations between the year ended December 31, 2015 and the year ended December 31, 2014.

Mineral property expenditures were \$2,381,868 for the year ended December 31, 2015 compared to \$2,631,974 for the year ended December 31, 2014. The decrease of \$250,106 is due to the Company limiting field activities to the continuation of critical environmental baseline work while moving forward with a multi-phase metallurgical test work program.

Professional fees were \$230,227 for the year ended December 31, 2015 compared to \$389,218 for the year ended December 31, 2014. The decrease of \$158,991 is primarily due to the Company negotiating lower rates in 2015 for various third party-provided professional fees such as legal and accounting fees.

Share-based payment charges were \$540,468 during the year ended December 31, 2015 compared to \$1,285,385 during the year ended December 31, 2014. The decrease in share-based payment charges during the period was mainly the result of more stock option granted in 2014 as compared to 2015 and a lower fair value of options in 2015. The Company granted 2,135,200 options during the year ended December 31, 2015 compared to 2,480,000 options during the year ended December 31, 2014. At December 31, 2015 there was unrecognized compensation expense of \$118,980 related to non-vested options outstanding. The cost is expected to be recognized over a weighted-average remaining period of approximately 0.82 years.

Share based payment charges were allocated as follows:

Expense category:	Year ended December 31, 2015	Year ended December 31, 2014
Consulting	\$ 113,150	\$ 91,584
Investor relations	27,223	67,923
Wages and benefits	400,095	1,125,878
	<u>\$ 540,468</u>	<u>\$ 1,285,385</u>

Excluding share-based payment charges of \$400,095 and \$1,125,878, respectively, wages and benefits decreased to \$2,159,515 for the year ended December 31, 2015 from \$2,820,873 for the year ended December 31, 2014. A decrease in severance expense of approximately \$285,000 from 2014 to 2015 along with decreased personnel as a result of the resignation of the Company's Chief Financial Officer effective December 31, 2014 and the closure of the Colorado office during 2015 contributed to lower wages and benefits expenses.

All other operating expense categories showed moderate decreases period over period reflecting the Company's efforts to reduce spending.

Other items amounted to other income of \$1,637,352 during the year ended December 31, 2015 compared to other income of \$606,192 in the year ended December 31, 2014. Total other income in 2015 resulted from the unrealized gain on the revaluation of the derivative liability of \$800,000. This unrealized gain was caused by the further decrease in the price per ounce of gold during 2015 and is compared to an unrealized gain of \$100,000 during 2014 which resulted from a lesser decrease in the price of gold during 2014. In addition to the unrealized gain on the derivative liability, the Company had a foreign exchange gain of \$990,690 during the year ended December 31, 2015 compared to a gain of \$453,161 during the year ended December 31, 2014 as a result of the impact of exchange rates on certain of the Company's U.S. dollar cash balances. The average exchange rate during the year ended December 31, 2015 was C\$1 to US\$0.7820 compared to C\$1 to US\$0.9054 for the year ended December 31, 2014.

The increase in other income was partially offset by a loss of \$219,402 related to the other than temporary impairment of certain available-for-sale securities during the year ended December 31, 2015. The available-for-sale securities were deemed to be other than temporarily impaired based on the fair market value of the securities combined with a continued lack of liquidity.

Liquidity and Capital Resources

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed through sale of its equity securities by way of private placements and the subsequent exercise of share purchase and broker warrants and options issued in connection with such private placements. However, the exercise of warrants/options is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such warrants/options (over which the Company has no control) and therefore there can be no guarantee that any existing warrants/options will be exercised. There are currently no warrants outstanding.

As at December 31, 2016, the Company reported cash and cash equivalents of \$22,466,493 compared to \$6,493,486 at December 31, 2015. Net proceeds from financing of approximately \$21.9 million partially offset by expenditures on the Livengood Gold Project of approximately \$6.5 million and a negative foreign currency translation impact of approximately \$0.5 million resulted in an increase in cash and cash equivalents of approximately \$16.0 million. The Company continues to utilize its cash resources to pursue opportunities identified in the October 2016 Study, to fund environmental activities required for preservation of baseline database and future permitting as well as to complete corporate administrative requirements.

The Company had no cash flows from investing activities during the years ended December 31, 2016 and December 31, 2015.

Financing activities during the year ended December 31, 2016 provided proceeds of \$21,853,265 from the closing of a non-brokered private placement of common shares in December 2016. Total common shares issued in the financing were 45,833,334 at a price of \$0.48 for gross proceeds of \$22.0 million. Total share issuance costs were \$146,735. The Company had no cash flows from financing activities during the year ended December 31, 2015.

As at December 31, 2016, the Company had working capital of \$7,588,867 compared to working capital of \$6,169,233 at December 31, 2015. The Company expects that it will operate at a loss for the foreseeable future, but believes the current cash and cash equivalents will be sufficient for it to complete its anticipated 2017 work plan at the Livengood Gold Project and satisfy its currently

anticipated general and administrative costs through the 2017 fiscal year. To advance the Livengood Gold Project towards permitting and development, the Company anticipates maintaining certain essential development activities for the fiscal year ending December 31, 2017. These essential activities include maintaining environmental baseline data that in its absence could materially delay future permitting of the Livengood Gold Project.

The Company will require significant additional financing to continue its operations (including general and administrative expenses) in connection with advancing activities at the Livengood Gold Project and the development of any mine that may be determined to be built at the Livengood Gold Project, and there is no assurance that the Company will be able to obtain the additional financing required on acceptable terms, if at all. In addition, any significant delays in the issuance of required permits for the ongoing work at the Livengood Gold Project, or unexpected results in connection with the ongoing work, could result in the Company being required to raise additional funds to advance permitting efforts. The Company's review of its financing options includes pursuing a future strategic alliance to assist in further development, permitting and future construction costs, although there can be no assurance that any such strategic alliance will, in fact, be realized.

Despite the Company's success to date in raising significant equity financing to fund its operations, there is significant uncertainty that the Company will be able to secure any additional financing in the current or future equity markets. See "Risk Factors – We will require additional financing to fund exploration and, if warranted, development and production. Failure to obtain additional financing could have a material adverse effect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern." The quantity of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes. Due to this uncertainty, if the Company is unable to secure additional financing, it may be required to reduce all discretionary activities at the Project to preserve its working capital to fund anticipated non-discretionary expenditures beyond the 2017 fiscal year.

Other than cash held by its subsidiaries for their immediate operating needs in the United States, all of the Company's cash reserves are on deposit with a major Canadian chartered bank. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions.

Contractual Obligations and Commitments

The following table discloses, as of December 31, 2016, the Company's contractual obligations, including anticipated mineral property payments and work commitments. Under the terms of the Company's mineral property purchase agreements, mineral leases and the terms of the unpatented mineral claims held by it, the Company is required to make certain scheduled acquisition payments, incur certain levels of expenditures, make lease or advance royalty payments, make payments to government authorities and incur assessment work expenditures as summarized in the table below in order to maintain and preserve the Company's interests in the related mineral properties. If the Company is unable or unwilling to make any such payments or incur any such expenditures, it is likely that the Company would lose or forfeit its rights to acquire or hold the related mineral properties. The following table assumes that the Company retains the rights to all of its current mineral properties, but does not exercise any lease purchase or royalty buyout options:

	Payments Due by Year						Total
	2017	2018	2019	2020	2021	2022 and beyond	
Livengood Property Purchase ⁽¹⁾	\$ 14,694,169	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,694,169
Mineral Property Leases ⁽²⁾	416,678	426,653	431,703	436,829	442,031	447,311	2,601,205
Mining Claim Government Fees	114,925	114,925	114,925	114,925	114,925	114,925	689,550
Total	\$ 15,225,772	\$ 541,578	\$ 546,628	\$ 551,754	\$ 556,956	\$ 562,236	\$ 17,984,924

1. The amount payable in January 2017 of \$14,694,169 represents the fair value of the Company's derivative liability as at December 31, 2016 based on the five-year average daily gold price for the period of December 13, 2011 through December 12, 2016. On January 12, 2017, this amount was paid by the Company for the timely and full satisfaction of the final derivative payment.
2. Does not include required work expenditures, as it is assumed that the required expenditure level is significantly below the work which will actually be carried out by the Company. Does not include potential royalties that may be payable (other than annual minimum royalty payments).

Off-Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

Critical Accounting Policies

Mineral properties and exploration and evaluation expenditures

The Company's mineral project is currently in the exploration and evaluation phase. Mineral property acquisition costs are capitalized when incurred. Mineral property exploration costs are expensed as incurred. At such time that the Company determines that a mineral property can be economically developed, subsequent mineral property expenses will be capitalized during the development of such property.

The Company assesses interests in exploration properties for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. Impairment analysis includes assessment of the following circumstances: a significant decrease in the market price of a long-lived asset or asset group; a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50%.

Derivatives

Derivative financial liabilities include the Company's future contingent payment based on the five-year average daily gold price from the date of the acquisition on December 13, 2011 through December 12, 2016. Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit and loss. Fluctuations in the Company's derivative liability are driven by the price of gold during the term of the liability. On January 12, 2017, the Company paid \$14,694,169 for the timely and full satisfaction of the final derivative payment due with respect to the acquisition of certain mining claims and related rights in the vicinity of the Livengood Gold Project. On January 17, 2017, the Full Deed of Reconveyance releasing the Deed of Trust on the acquired property was recorded and the Company is now in full ownership and has no further liability with respect to this acquisition.

Stock-based compensation

The Company follows the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification Section 718 "Compensation - Stock Compensation", which establishes accounting for equity based compensation awards to be accounted for using the fair value method. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of the awards. Compensation expense is measured at the grant date and recognized over the requisite service period, which is generally the vesting period.

Recently Adopted Accounting Policies

For a description of recently adopted accounting policies, please see Note 2 – *Summary Of Significant Accounting Policies* within our Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company has exposure to market risk in areas of interest rate risk, foreign currency exchange rate risk, concentration of credit risk and other price risk.

Interest Rate Risk

Interest rate risk consists of 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's cash and cash equivalents consists of cash and cash equivalents held in bank accounts in the United States and Canada and short term deposit certificates or Guaranteed Investment Certificates with a major Canadian financial institution that earn interest at variable interest rates. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

At December 31, 2016, the Company held a total of \$22,466,493 in cash and cash equivalents which include interest bearing accounts and Guaranteed Investment Certificates.

The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. The Company's sensitivity analysis suggests that a 0.5% change in interest rates would affect interest income by approximately \$32,500.

Foreign Currency Risk

The Company is exposed to foreign currency risk to the extent that certain monetary financial instruments and other assets are denominated in Canadian dollars. As the majority of the Company's assets are denominated in U.S. dollars, currency risk is limited to those Canadian cash balances. The Company has not entered into any foreign currency contracts to mitigate this risk. Over the past twelve months, the U.S. to Canadian dollar exchange rate has fluctuated as much as 8%. The Company's sensitivity analysis suggests that a consistent 8% change in the absolute rate of exchange for the Canadian dollar would affect net assets by approximately \$36,000. Furthermore, depending on the amount of cash held by the Company in Canadian dollars at the end of each reporting period using the period end exchange rate, significant changes in the exchange rates could cause significant changes to the currency translation amounts recorded to accumulated other comprehensive income.

As at December 31, 2016, Canadian dollar balances were converted at a rate of C\$1 to \$0.7448.

Credit Risk

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at one major Canadian financial institution. Credit risk with regard to cash held in the United States at U.S. subsidiaries is mitigated as the amount held in the United States is only sufficient to cover short-term cash requirements. With respect to receivables at December 31, 2016, the Company is not exposed to significant credit risk as the receivables are principally interest accruals.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company's investment in marketable securities is exposed to such risk.