CONSOLIDATED FINANCIAL STATEMENTS (AMENDED)

(Expressed in US Dollars)

Years Ended December 31, 2016, 2015 and 2014

<u>Corporate Head Office</u>

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INTERNATIONAL TOWER HILL MINES LTD.

December 31, 2016, 2015 and 2014

March 14, 2017

Independent Auditor's Report

To the Shareholders of
International Tower Hill Mines Ltd.

We have audited the accompanying consolidated financial statements of International Tower Hill Mines Ltd. which comprise the consolidated balance sheets as of December 31, 2016 and December 31, 2015 and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information. Management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Tower Hill Mines Ltd. as of December 31, 2016 and December 31, 2015 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

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INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
As at December 31, 2016 and 2015
(Expressed in U.S. Dollars)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 22,466,493	$ 6,493,486
Prepaid expenses and other		206,221	192,226
Total current assets		22,672,714	6,685,712
Property and equipment		24,800	30,083
Capitalized acquisition costs	4	55,204,041	55,204,041
Total assets		$ 77,901,555	$ 61,919,836
Current liabilities			
Accounts payable		$ 179,496	$ 122,043
Accrued liabilities		210,182	394,436
Derivative liability	6	14,694,169	-
Total current liabilities		15,083,847	516,479
Non-current liabilities			
Derivative liability	6	-	13,900,000
Total liabilities		15,083,847	14,416,479
Shareholders' equity			
Share capital, no par value; authorized 500,000,000 shares; 162,186,972 and 116,313,638 shares issued and outstanding at December 31, 2016 and 2015, respectively	8	265,569,796	243,692,185
Contributed surplus		34,079,301	33,979,717
Accumulated other comprehensive income		1,344,219	816,435
Deficit accumulated during the exploration stage		(238,175,608)	(230,984,980)
Total shareholders' equity		62,817,708	47,503,357
Total liabilities and shareholders' equity		$ 77,901,555	$ 61,919,836

Nature of operations (Note 1)
Commitments (Note 10)
Subsequent events (Note 6)

The accompanying notes are an integral part of these consolidated financial statements.

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the Years Ended December 31, 2016, 2015 and 2014
(Expressed in U.S. Dollars)

	Note	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**
Operating Expenses				
Consulting fees		$ 263,334	$ 418,424	$ 333,145
Depreciation		5,283	7,047	15,779
Insurance		267,863	259,753	270,724
Investor relations		90,749	132,305	221,665
Mineral property exploration	4	2,648,631	2,381,868	2,631,974
Office		38,381	33,643	68,941
Other		18,976	19,789	28,792
Professional fees		222,605	230,227	389,218
Regulatory		130,871	160,503	119,154
Rent		141,444	153,178	225,405
Travel		89,160	93,829	121,740
Wages and benefits		2,196,591	2,559,610	3,946,751
Total operating expenses		(6,113,888)	(6,450,176)	(8,373,288)
Other income (expense)				
Gain/(loss) on foreign exchange		(340,551)	990,690	453,161
Interest income		17,490	43,670	56,670
Impairment of available-for-sale securities		-	(219,402)	-
Unrealized gain/(loss) on derivative	6	(794,169)	800,000	100,000
Other		40,490	22,394	(3,639)
Total other income (expense)		(1,076,740)	1,637,352	606,192
Net loss for the year		(7,190,628)	(4,812,824)	(7,767,096)
Other comprehensive income (loss)				
Unrealized loss on marketable securities		(10,794)	(5,838)	(24,717)
Impairment of available-for-sale securities		-	219,402	-
Exchange difference on translating foreign operations		538,578	(1,593,381)	(800,312)
Total other comprehensive loss for the year		527,784	(1,379,817)	(825,029)
Comprehensive loss for the year		$ (6,662,844)	$ (6,192,641)	$(8,592,125)
Basic and fully diluted net loss per share		$ (0.06)	$ (0.04)	$ (0.08)
Weighted average number of shares outstanding		116,708,228	116,313,638	99,068,364

The accompanying notes are an integral part of these consolidated financial statements.

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2016, 2015 and 2014
(Expressed in U.S. Dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income/(loss)	Deficit	Total
Balance, December 31, 2013	98,068,638	$ 236,401,096	$ 32,153,864	$ 3,021,281	$ (218,405,060)	$ 53,171,181
Private placement	18,245,000	7,315,917	-	-	-	7,315,917
Share issuance costs	-	(24,828)	-	-	-	(24,828)
Stock based compensation	-	-	1,285,385	-	-	1,285,385
Unrealized loss on available-for-sale securities	-	-	-	(24,717)	-	(24,717)
Exchange difference on translating foreign operations	-	-	-	(800,312)	-	(800,312)
Net loss	-	-	-	-	(7,767,096)	(7,767,096)
Balance, December 31, 2014	116,313,638	243,692,185	33,439,249	2,196,252	(226,172,156)	53,155,530
Stock based compensation	-	-	540,468	-	-	540,468
Unrealized loss on available-for-sale securities	-	-	-	(5,838)	-	(5,838)
Impairment of available-for-sale securities	-	-	-	219,402	-	219,402
Exchange difference on translating foreign operations	-	-	-	(1,593,381)	-	(1,593,381)
Net loss	-	-	-	-	(4,812,824)	(4,812,824)
Balance, December 31, 2015	116,313,638	243,692,185	33,979,717	816,435	(230,984,980)	47,503,357
Private placement	45,833,334	22,000,000	-	-	-	22,000,000
Share issuance costs	-	(146,735)	-	-	-	(146,735)
Stock based compensation	-	-	108,526	-	-	108,526
Unrealized loss on available-for-sale securities	-	-	-	(10,794)	-	(10,794)
Exchange difference on translating foreign operations	-	-	-	538,578	-	538,578
Exercise of options	40,000	15,404	-	-	-	15,404
Reallocation from contributed surplus	-	8,942	(8,942)	-	-	-
Net loss	-	-	-	-	(7,190,628)	(7,190,628)
Balance, December 31, 2016	162,186,972	$ 265,569,796	$ 34,079,301	$ 1,344,219	$ (238,175,608)	$ 62,817,708

The accompanying notes are an integral part of these consolidated financial statements.

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016, 2015 and 2014
(Expressed in U.S. Dollars)

	December 31, 2016	December 31, 2015	December 31, 2014
Operating Activities			
Loss for the year	$ (7,190,628)	$ (4,812,824)	$ (7,767,096)
Add items not affecting cash:			
Depreciation	5,283	7,047	15,779
Share-based payments	108,526	540,468	1,285,385
Unrealized (gain)/loss on derivative liability	794,169	(800,000)	(100,000)
Impairment of available-for-sale securities	-	219,402	-
Other	-	-	15,004
Changes in non-cash items:			
Accounts receivable	40,522	115,527	44,744
Prepaid expenses	4,635	(27,786)	25,727
Advance to contractors	-	30,682	(30,682)
Accounts payable and accrued liabilities	(127,452)	(612,304)	(332,439)
Cash used in operating activities	(6,364,945)	(5,339,788)	(6,843,578)
Financing Activities			
Issuance of share capital	22,015,404	-	7,315,917
Share issuance costs	(146,735)	-	(24,828)
Cash provided by financing activities	21,868,669	-	7,291,089
Investing Activities			
Change in restricted cash	-	-	30,477
Capitalized acquisition costs	-	-	(30,477)
Cash used in investing activities	-	-	-
Effect of foreign exchange on cash	469,283	(1,688,199)	(851,639)
Increase/(decrease) in cash and cash equivalents	15,973,007	(7,027,987)	(404,128)
Cash and cash equivalents, beginning of year	6,493,486	13,521,473	13,925,601
Cash and cash equivalents, end of year	$ 22,466,493	$ 6,493,486	$ 13,521,473

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION, NATURE OF OPERATIONS

International Tower Hill Mines Ltd. ("ITH" or the "Company") is incorporated under the laws of British Columbia, Canada. The Company's head office address is 2300-1177 West Hastings Street, Vancouver, British Columbia, Canada.

International Tower Hill Mines Ltd. consists of ITH and its wholly owned subsidiaries Tower Hill Mines, Inc. ("TH Alaska") (an Alaska corporation), Tower Hill Mines (US) LLC ("TH US") (a Colorado limited liability company), Livengood Placers, Inc. ("LPI") (a Nevada corporation), and 813034 Alberta Ltd. (an Alberta corporation). The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At December 31, 2016, the Company was in the exploration stage and controls a 100% interest in its Livengood Gold Project in Alaska, U.S.A.

These consolidated financial statements have been prepared on a going-concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Company will require significant additional financing to continue its operations in connection with advancing activities at the Livengood Gold Project and for the development of any mine that may be determined to be built at the Livengood Gold Project. There is no assurance that the Company will be able to obtain the additional financing required on acceptable terms, if at all.

As of December 31, 2016, the amount of the contingent payment was $14,694,169. 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.

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.

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. The amount 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). On March 14, 2017, the Board approved the consolidated financial statements dated December 31, 2016.

Basis of consolidation

These consolidated financial statements include the accounts of ITH and its wholly owned subsidiaries TH Alaska, TH US, LPI and 813034 Alberta Ltd. All intercompany transactions and balances have been eliminated.

Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. These judgments, estimates and assumptions are regularly evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. While management believes the estimates to be reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

The areas which require significant judgment and estimates that management has made at the financial reporting date, that could result in a material change to the carrying amounts of assets and liabilities, in the event actual results differ from the assumptions made, relate to, but are not limited to the following:

Significant judgments

- the determination of functional currencies;
- quantitative and qualitative factors used in the assessment of impairment of the Company's capitalized acquisition costs; and
- the analysis of resource calculations, drill results, labwork, etc. which can impact the Company's assessment of impairment, and provisions, if any, for environmental rehabilitation and restoration.

Cash and cash equivalents

Cash equivalents include highly liquid investments with original maturities of twelve months or less, and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Marketable securities

Marketable securities held in companies with an active market are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value in the financial statements with unrealized gains and losses recorded in accumulated other comprehensive income. Accumulated unrealized gains and losses are recognized in the statement of operations upon the sale of the security or if the security is determined to be impaired.

Property and equipment

On initial recognition, property and equipment are valued at cost. Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recorded over the estimated useful life of the assets at the following annual rates:

Computer equipment - 30% declining balance;
Computer software - 3 years straight line;
Furniture and equipment - 20% declining balance; and
Leasehold improvements - straight-line over the lease term.

Additions during the year are depreciated at one-half the annual rates. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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%.

Asset retirement obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or contractually required to remediate. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports and accreted to full value over time through periodic charges to income. The Company does not have any material provisions for environmental rehabilitation as of December 31, 2016.

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.

Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

Net loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or contracts that may require the issuance of common shares in the future were converted, unless the impact is anti-dilutive.

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

In August 2015, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosures Related to Uncertainties About Going Concern ("ASU 2014-15"). ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosure. The new standard incorporates some of the principles of the current auditing standards and builds upon them, as follows:

- Requires an assessment each annual and interim reporting period.
- Defines substantial doubt.
- Sets a look-forward period of one year from the financial statement issuance date.
- Requires disclosures even when an initially-identified substantial doubt is alleviated by management's plans.

The amendments in ASU 2014-15 are effective for years ending after December 15, 2016 and for years and interim periods thereafter.

The Company adopted ASU 2014-15 for the year ended December 31, 2016 and implementation has had minimal impact.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

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 for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
- Level 3 – Inputs that are not based on observable market data.

	Fair value as at December 31, 2016	
	Level 1	Level 2
Financial assets:		
Marketable securities	$ 22,754	$ -
	$ 22,754	$ -
Financial liabilities:		
Derivative liability (Note 6)	$ -	$ 14,694,169
	$ -	$ 14,694,169

	Fair value as at December 31, 2015	
	Level 1	Level 2
Financial assets:		
Marketable securities	$ 11,741	$ -
	$ 11,741	$ -
Financial liabilities:		
Derivative liability (Note 6)	$ -	$ 13,900,000
	$ -	$ 13,900,000

4. CAPITALIZED ACQUISITION COSTS

The Company had the following activity related to capitalized acquisition costs:

Capitalized acquisition costs	Amount
Balance, December 31, 2014	$ 55,204,041
Additions	-
Balance, December 31, 2015	$ 55,204,041
Additions	-
Balance, December 31, 2016	$ 55,204,041

The following table presents costs incurred for exploration and evaluation activities for the years ended December 31, 2016 and 2015:

	Year ended December 31, 2016	Year ended December 31, 2015
Exploration costs:		
Aircraft services	$ 6,511	$ 4,185
Assay	-	9,984
Environmental	287,629	639,172
Equipment rental	42,755	44,514
Field costs	107,166	186,661
Geological/geophysical	1,665,296	945,390
Land maintenance & tenure	498,635	501,321
Legal	31,745	21,887
Transportation and travel	8,894	28,754
Total expenditures for the year	$ 2,648,631	$ 2,381,868

Properties acquired from AngloGold, Alaska

Pursuant to an Asset Purchase and Sale and Indemnity Agreement dated June 30, 2006, as amended on July 26, 2007 (the "AngloGold Agreement"), among the Company, AngloGold Ashanti (U.S.A.) Exploration Inc. ("AngloGold") and TH Alaska, the Company acquired all of AngloGold's interest in a portfolio of seven mineral exploration projects in Alaska and referred to as the Livengood, Chisna, Gilles, Coffee Dome, West Pogo, Blackshell, and Caribou properties (the "Sale Properties") in exchange for a cash payment of $50,000 on August 4, 2006, and the issuance of 5,997,295 common shares, representing approximately 19.99% of the Company's issued shares following the closing of the acquisition and two private placement financings raising an aggregate of C$11,479,348. AngloGold had the right to maintain its percentage equity interest in the Company, on an ongoing basis, provided that such right terminated if AngloGold's interest was reduced below 10% at any time after January 1, 2009.

As further consideration for the transfer of the Sale Properties, the Company granted to AngloGold a 90 day right of first offer with respect to the Sale Properties and any additional mineral properties in Alaska in which the Company acquires an interest and which interest the Company proposes to farm out or otherwise dispose of. Upon AngloGold's equity interest in the Company being reduced to less than 10%, this right of first offer would then terminate. On December 11, 2014 the Company closed a private placement financing in which AngloGold elected not to participate. As a result of the shares issued in this private placement, AngloGold's ownership in the Company was reduced to less than 10% and thus both AngloGold's right to maintain its ownership percentage interest and its right of first offer on the Company's Alaskan properties terminated upon the closing of the December 2014 private placement.

Details of the Livengood Property (being the only Sale Property still held by the Company) are as follows:

Livengood Property:

The Livengood property is located in the Tintina gold belt approximately 113 kilometers (70 miles) north of Fairbanks, Alaska. The property consists of land leased from the Alaska Mental Health Trust, a number of smaller private mineral leases, Alaska state mining claims purchased or located by the Company and patented ground held by the Company.

Details of the leases are as follows:

a) a lease of the Alaska Mental Health Trust mineral rights having a term beginning July 1, 2004 and extending 19 years until June 30, 2023, subject to further extensions beyond June 30, 2023 by either commercial production or payment of an advance minimum royalty equal to 125% of the amount paid in year 19 and diligent pursuit of development. The lease requires minimum work expenditures and advance minimum royalties which escalate annually with inflation. A net smelter return ("NSR") production royalty of between 2.5% and 5.0% (depending upon the price of gold) is payable to the lessor with respect to the lands subject to this lease. In addition, an NSR production royalty of l% is payable to the lessor with respect to the unpatented federal mining claims subject to the lease described in b) below and an NSR production royalty of between 0.5% and 1.0% (depending upon the price of gold) is payable to the lessor with respect to the lands acquired by the Company as a result of the purchase of Livengood Placers, Inc. in December 2011. As of December 31, 2016 the Company has paid $2,302,666 from the inception of this lease.

b) a lease of federal unpatented lode mining claims having an initial term of ten years commencing on April 21, 2003 and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of $50,000 on or before each anniversary date (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of between 2% and 3% (depending on the price of gold) is payable to the lessors. The Company may purchase 1% of the royalty for $1,000,000. As of December 31, 2016, the Company has paid $630,000 from the inception of this lease.

c) a lease of patented lode claims having an initial term of ten years commencing January 18, 2007, and continuing for so long thereafter as advance minimum royalties are paid. The lease requires an advance minimum royalty of $20,000 on or before each anniversary date through January 18, 2017 and $25,000 on or before each subsequent anniversary (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of 3% is payable to the lessors. The Company may purchase all interests of the lessors in the leased property (including the production royalty) for $1,000,000 (less all minimum and production royalties paid to the date of purchase), of which $500,000 is payable in cash over four years following the closing of the purchase and the balance of $500,000 is payable by way of the 3% NSR production royalty. As of December 31, 2016, the Company has paid $165,000 from the inception of this lease.

d) a lease of unpatented federal lode mining and federal unpatented placer claims having an initial term of ten years commencing on March 28, 2007, and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of $15,000 on or before each anniversary date (all of which minimum royalties are recoverable from production royalties). The Company is required to pay the lessor the sum of $250,000 upon making a positive production decision, payable $125,000 within 120 days of the decision and $125,000 within a year of the decision (all of which are recoverable from production royalties). An NSR production royalty of 2% is payable to the lessor. The Company may purchase all of the interest of the lessor in the leased property (including the production royalty) for $1,000,000. As of December 31, 2016, the Company has paid $113,000 from the inception of this lease.

Title to mineral properties

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps to verify title to mineral properties in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

5. ACCRUED LIABILITIES

The following table presents the accrued liabilities balances at December 31, 2016 and 2015.

	December 31, 2016	December 31, 2015
Accrued liabilities	$ 41,682	$ 247,034
Accrued severance	-	19,900
Accrued salaries and benefits	168,500	127,502
Total accrued liabilities	$ 210,182	$ 394,436

Accrued liabilities at December 31, 2016 include accruals for general corporate costs and project costs of $13,406 and $28,276, respectively. Accrued liabilities at December 31, 2015 include accruals for general corporate costs and project costs of $27,535 and $219,499, respectively.

6. DERIVATIVE LIABILITY

During 2011, the Company acquired certain mining claims and related rights in the vicinity of the Livengood Gold Project located near Fairbanks, Alaska. The aggregate consideration for the claims and rights was $13,500,000 in cash plus an additional payment based on the five-year average daily gold price ("Average Gold Price") from the date of the acquisition ("Additional Payment"). The Additional Payment will equal $23,148 for every dollar that the Average Gold Price exceeds $720 per troy ounce. If the Average Gold Price is less than $720, there will be no additional consideration due.

At initial recognition on December 13, 2011 the derivative liability was valued at $23,100,000. As at December 12, 2016, the five-year average daily gold price was $1,354.79 resulting in a derivative liability of $14,694,169. The obligation to make the contingent payment was secured by a Deed of Trust over the rights of the Company in the purchased claims in favor of the vendors. On December 28, 2016, the Company closed a non-brokered private placement financing of 45,833,334 common shares at a price of $0.48 per share for gross proceeds of $22.0 million. 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.

The fair value of the derivative liability and the calculated Average Gold Price are as follows:

	Fair value	Average Gold Price/oz.
Derivative value at December 31, 2014	$ 14,700,000	$ 1,356
Unrealized gain for the year	(800,000)	
Derivative value at December 31, 2015	13,900,000	$ 1,320
Unrealized gain for the year	794,169	
Derivative value at December 31, 2016	$ 14,694,169	$ 1,355

7. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Loss before income taxes	$ (7,190,628)	$ (4,812,824)
Statutory Canadian corporate tax rate	25.00%	25.00%
Income tax recovery at statutory rates	$ (1,797,657)	$ (1,203,207)
Share-based payments	27,132	135,117
Unrecognized items for tax purposes	173,684	(172,870)
Difference in tax rates in other jurisdictions	(1,073,449)	(756,235)
Change in valuation allowance	2,670,290	1,997,195
Income tax recovery	$ -	$ -

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	December 31, 2016	December 31, 2015
Deferred income tax assets (liabilities):		
Mineral properties	$ 57,243,323	$ 57,243,323
Derivative liability	(1,824,065)	(1,996,400)
Donations	92,160	92,160
Other	55,582	55,349
Share issue costs	31,830	31,438
Non-capital losses available for future periods	35,997,950	33,462,392
	91,596,780	88,888,262
Valuation allowance	(91,596,780)	(88,888,262)
Deferred income tax asset	$ -	$ -

At December 31, 2016, the Company has available net operating losses for Canadian income tax purposes of approximately $19,325,000 and net operating losses for US income tax purposes of approximately $71,813,000 available for carry-forward to reduce future years' taxable income, if not utilized, expiring as follows:

	Canada	United States
2025	$ 65,000	$ -
2026	78,000	-
2027	907,000	1,252,000
2028	1,253,000	1,350,000
2029	2,074,000	2,600,000
2030	2,829,000	5,691,000
2031	4,180,000	14,730,000
2032	2,629,000	18,371,000
2033	1,827,000	11,962,000
2034	1,694,000	5,901,000
2035	406,000	4,910,000
2036	1,383,000	5,046,000
	19,325,000	71,813,000

In addition, the Company has available mineral resource related expenditure pools for Canadian income tax purposes totaling approximately $2,628,000 which may be deducted against future taxable income in Canada on a discretionary basis. The

Company also has available mineral resource expenses that are related to the Company's exploration activities in the United States of approximately $185,999,000 which may be deductible for U.S. tax purposes. Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts due to the uncertainty of future taxable income.

8. SHARE CAPITAL

Authorized

500,000,000 common shares without par value. At December 31, 2015 and 2016, there were 116,313,638 and 162,186,972 shares issued and outstanding, respectively.

Share issuances

During the third quarter of 2016, the Company issued 40,000 common shares pursuant to the exercise of stock options for total proceeds of $15,404 and transferred related contributed surplus of $8,942. During the fourth quarter of 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. The financing closed on December 28, 2016. Total share issuance costs for this non-brokered private placement financing amounted to $146,735.

Stock options

The Company adopted an incentive stock option plan in 2006, as amended September 19, 2012 and re-approved on May 28, 2015 at the Company's Annual General Meeting (the "2006 Plan"). The essential elements of the 2006 Plan provide that the aggregate number of common shares of the Company's capital stock that may be made issuable pursuant to options granted under the 2006 Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the 2006 Plan will have a maximum term of ten years. The exercise price of options granted under the 2006 Plan shall be fixed in compliance with the applicable provisions of the TSX Company Manual in force at the time of grant and, in any event, shall not be less than the closing price of the Company's common shares on the TSX on the trading day immediately preceding the day on which the option is granted, or such other price as may be agreed to by the Company and accepted by the Toronto Stock Exchange. Options granted under the 2006 Plan vest immediately, unless otherwise determined by the directors at the date of grant.

During the year ended December 31, 2016, there were no incentive stock options granted by the Company. During the year ended December 31, 2015, the Company granted incentive stock options to certain officers, employees and consultants of the Company to purchase a total of 2,135,200 common shares in the capital stock of the Company. All options granted during the year ended December 31, 2015 vest as to one-third on the grant date, one-third on the first anniversary, and one-third on the second anniversary.

A summary of the status of the stock option plan as of December 31, 2016 and 2015 and changes during the period is presented below:

	Year Ended December 31, 2016		**Year Ended December 31, 2015**	
	Number of Options	Weighted Average Exercise Price (C$)	Number of Options	Weighted Average Exercise Price (C$)
Balance, beginning of the year	6,066,200	$ 1.60	5,854,000	$ 2.68
Granted	-	$ -	2,135,200	$ 0.80
Exercised	40,000	$ 0.50	-	$ -
Cancelled	-	$ -	(1,923,000)	$ 4.01
Balance, end of the year	6,026,200	$ 1.61	6,066,200	$ 1.60

The weighted average remaining life of options outstanding at December 31, 2016 was 4.0 years.

Stock options outstanding are as follows:

	December 31, 2016			December 31, 2015		
Expiry Date	Exercise Price (C$)	Number of Options	Exercisable	Exercise Price (C$)	Number of Options	Exercisable
August 24, 2017	$ 3.17	1,675,000	1,675,000	$ 3.17	1,675,000	1,675,000
March 14, 2018	$ 2.18	319,000	319,000	$ 2.18	319,000	319,000
February 25, 2022	$ 1.11	1,030,000	1,030,000	$ 1.11	1,030,000	686,666
February 25, 2022	$ 0.73	594,000	594,000	$ 0.73	594,000	396,000
March 10, 2022	$ 1.11	430,000	430,000	$ 1.11	430,000	286,666
March 16, 2023	$ 1.00	1,260,000	839,999	$ 1.00	1,260,000	419,999
March 16, 2023	$ 0.50	688,200	445,466	$ 0.50	728,200	242,733
June 9, 2023	$ 1.00	30,000	20,000	$ 1.00	30,000	10,000
		6,026,200	5,353,465		6,066,200	4,036,064

A summary of the non-vested options as of December 31, 2016 and 2015 and changes during the fiscal years ended December 31, 2016 and 2015 is as follows:

Non-vested options:	Number of options	Weighted average grant-date fair value (C$)
Outstanding at December 31, 2014	1,809,674	$0.49
Granted	2,135,200	$0.25
Vested	(1,914,738)	$0.39
Outstanding at December 31, 2015	2,030,136	$0.34
Granted	-	-
Vested	(1,357,401)	$0.38
Outstanding at December 31, 2016	672,735	$0.25

At December 31, 2016 there was unrecognized compensation expense of C$17,381 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 payments

During the year ended December 31, 2016, the Company granted no stock options. The Company recognized share-based payment expense of $108,526, $540,468, and $1,285,385 during the years ended December 31, 2016, 2015 and 2014, respectively.

The following weighted average assumptions were used for the Black-Scholes option pricing model calculations:

	Year ended December 31, 2015
Expected life of options	6 years
Risk-free interest rate	0.97%
Expected volatility	80.60%
Dividend rate	0.00%
Exercise price (C$)	$0.80

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares.

9. SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in a single reportable operating segment, being the exploration and development of mineral properties. The following tables present selected financial information by geographic location:

	Canada	United States	Total
December 31, 2016			
Capitalized acquisition costs	$ -	$ 55,204,041	$ 55,204,041
Property and equipment	8,944	15,856	24,800
Current assets	22,289,678	383,036	22,672,714
Total assets	$ 22,298,622	$ 55,602,933	$ 77,901,555
December 31, 2015			
Capitalized acquisition costs	$ -	$ 55,204,041	$ 55,204,041
Property and equipment	9,563	20,520	30,083
Current assets	6,106,135	579,577	6,685,712
Total assets	$ 6,115,698	$ 55,804,138	$ 61,919,836

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Net loss for the year - Canada	$ (1,356,670)	$ (702,851)	$ (1,936,065)
Net loss for the year - United States	(5,833,958)	(4,109,973)	(5,831,031)
Net loss for the year	$ (7,190,628)	$ (4,812,824)	$ (7,767,096)

10. 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						
	2017	2018	2019	2020	2021	2022 and beyond	Total
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. See Note 6.
2. Does not include required work expenditures, as it is assumed that the required expenditure level is significantly below the work for which will actually be carried out by the Company. Does not include potential royalties that may be payable (other than annual minimum royalty payments). See Note 4.

11. RELATED PARTY TRANSACTIONS

In December 2011, in accordance with a Stock and Asset Purchase Agreement (the "Agreement") between the Company, Alaska/Nevada Gold Mines, Ltd. ("AN Gold Mines") and the Heflinger Group, the Company acquired certain mining claims and related rights in the vicinity of the Livengood Gold Project located near Fairbanks, Alaska. The Company's derivative liability, as described in Note 6 above, represented the remaining consideration for the purchase of these claims and related rights and was paid in January 2017. Under the Agreement, the payment was made 70% to AN Gold Mines and 30% to the Heflinger Group.

Mr. Hanneman was appointed Chief Operating Officer of the Company on March 26, 2015 and subsequently appointed Chief Executive Officer of the Company effective January 31, 2017. Mr. Hanneman is a partner of the general partner, as well as a limited partner, of AN Gold Mines and holds an 11.9% net interest in AN Gold Mines.

In December 2016, the Company closed a non-brokered private placement financing through the issuance of 32,429,842 shares to Paulson & Co. Inc., 9,041,554 shares to Tocqueville Asset Management, L.P., and 4,361,938 shares to AngloGold Ashanti (U.S.A.) Exploration Inc at a price of USD 0.48 per share. As at December 31, 2016, Paulson, Tocqueville, and AngloGold beneficially owns approximately 34.2%, 19.4%, and 9.5% respectively of the Company's 162,186,972 common shares.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2016, an evaluation was carried out under the supervision of and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2016, the Company’s disclosure controls and procedures were effective in ensuring that: information required to be disclosed in reports filed or submitted to the SEC under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, in a manner that allows for timely decisions regarding required disclosures.

The effectiveness of our or any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable assurance that the objectives of the system will be met and is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating controls and procedures and the assumptions used in identifying the likelihood of future events.

Management’s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of internal control over financial reporting as of December 31, 2016. In conducting this evaluation, management used the framework established by the Committee of Sponsoring Organizations of the Treadway Commission as set forth in Internal Control – Integrated Framework (2013). Based on this evaluation under the framework in Internal Control – Integrated Framework (2013), management concluded that internal control over financial reporting was effective as of December 31, 2016**.**

Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will achieve its stated objectives under all future conditions.

This Annual Report on Form 10-K does not include an attestation report of the Company’s independent public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in internal controls over financial reporting during the fourth quarter ended December 31, 2016 that have materially, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.