

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, 2019 and to the date of this Annual Report on Form 10-K, the Company continued to evaluate opportunities with the potential for optimizing gold recovery 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 flowsheet. Approximately 2,000 kg of metallurgical composites were processed during 2019 at SGS Vancouver to evaluate optimum grind size and to determine whether different recovery parameters should be applied to different areas of the orebody. The engineering firm of BBA Inc. ("BBA") was retained to continue to guide the metallurgical program. During 2019, the Company also completed work to advance the environmental baseline efforts needed to support future permitting.

Director Changes

At the 2019 Annual General Meeting of shareholders in Vancouver, B.C. on May 30, 2019, with Messrs. John Ellis and Thomas Irwin not standing for re-election as directors, the shareholders fixed the size of the board at seven.

Other Developments

During 2019, the Company purchased an undivided 40% interest in the patented mining claims that are subject to the Griffin lease, resulting in the Company owning a direct interest in that portion of the Livengood gold resource rather than a leasehold interest.

2020

Outlook

On November 6, 2019, the Board approved a 2020 budget of \$2.6 million. The 2019 work program will build upon the previous metallurgical studies to continue to define and refine the project flowsheet. BBA will be retained to continue to guide the metallurgical program. The work program will also advance the baseline environmental data collection in critical areas of hydrology and waste rock geochemical characterization needed to support future permitting as well as advance community engagement.

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.

Results of Operations

Summary of Quarterly Results

Description	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Net loss	\$ (1,025,184)	\$ (959,976)	\$ (1,226,360)	\$ (614,887)
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

Description	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Net loss	\$ (901,767)	\$ (1,269,636)	\$ (955,415)	\$ (1,065,220)
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

Significant fluctuations in the Company's quarterly net loss have mainly been the result of operating cost changes.

Year ended December 31, 2019 compared to Year ended December 31, 2018

The Company had cash and cash equivalents of \$6,937,621 at December 31, 2019 compared to \$10,228,964 at December 31, 2018. The Company incurred a net loss of \$3,826,407 for the year ended December 31, 2018, compared to a net loss of \$4,192,038 for the year ended December 31, 2018. The following discussion highlights certain selected financial information and changes in operations between the year ended December 31, 2019 and the year ended December 31, 2018.

Mineral property expenditures were \$1,689,228 for the year ended December 31, 2019 compared to \$1,576,251 for the year ended December 31, 2018. The increase of \$112,977 is due to increased expenditures for metallurgical studies and engineering and increased federal and State of Alaska claim rentals, 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 \$405,857 during the year ended December 31, 2019 compared to \$603,818 during the year ended December 31, 2018. The \$197,961 decrease in share-based payment charges during the period was mainly the result of fewer incentive options granted to certain officers and employees of the Company and fewer deferred share units ("DSUs") issued to certain members of the Board of Directors. The Company granted 488,235 DSUs and 187,232 options during the year ended December 31, 2019 compared to 708,540 DSUs and 420,085 options granted during the year ended December 31, 2018. The incentive options and the DSUs were fully vested upon issuance. At December 31, 2019, there was no unrecognized compensation expense related to non-vested options outstanding.

Share based payment charges were allocated as follows:

Expense category:	Year ended December 31, 2019	Year ended December 31, 2018
Consulting	\$ 316,717	\$ 414,422
Investor relations	-	5,967
Wages and benefits	89,140	183,429
	<u>\$ 405,857</u>	<u>\$ 603,818</u>

Excluding share-based payment charges of \$89,140 and \$183,429, respectively, wages and benefits decreased to \$689,084 for the year ended December 31, 2019 from \$1,706,182 for the year ended December 31, 2018. The reduction of \$1,017,098 is primarily due to staff reductions and one-time severance payments during the year ended December 31, 2018.

Consulting costs, excluding share-based payment charges of \$316,717 and \$414,422, respectively, were \$167,829 for the year ended December 31, 2019 compared to \$138,870 for the year ended December 31, 2018. The increase of \$28,959 is primarily due to community and investor relations services being transferred to an external contractor (increase of \$66,600), the Board of Directors reducing from nine members to seven members (decrease of \$34,367), and reduced janitorial and IT services (decrease of \$3,274).

Insurance costs were \$123,997 for the year ended December 31, 2019 compared to \$169,036 for the year ended December 31, 2018. The decrease of \$45,039 resulted after the Company completed a review of coverage requirements.

Professional fees were \$192,339 for the year ended December 31, 2019 compared to \$227,082 for the year ended December 31, 2018. The decrease of \$34,743 is due primarily to decreased accounting and tax services (decrease of \$18,615) and decreased legal fees related to property matters (decrease of \$16,128).

Travel costs were \$33,045 for the year ended December 31, 2019 compared to \$59,192 for the year ended December 31, 2018. The decrease of \$26,147 is due primarily to reduced travel requirements.

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

Other items amounted to expense of \$175,938 during the year ended December 31, 2019 compared to income of \$676,186 in the year ended December 31, 2018. The Company had a foreign exchange loss of \$406,454 during the year ended December 31, 2019 compared to a gain of \$522,248 during the year ended December 31, 2018 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, 2019 was C\$1 to US\$0.7537 compared to C\$1 to US\$0.7721 for the year ended December 31, 2018.

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, 2019, the Company reported cash and cash equivalents of \$6,937,621 compared to \$10,228,964 at December 31, 2018. The decrease of approximately \$3.3 million resulted mainly from operating expenditures on the Livengood Gold Project of approximately \$3.2 million and a negative foreign currency translation impact of approximately \$0.4 million partially offset by interest and other income of \$0.3 million. As at March 9, 2020, management believes that the Company has sufficient financial resources to maintain its operations for the next twelve months.

Financing activities during the year ended December 31, 2019 included the exercise of stock options. Proceeds of \$64,254 were received on the issuance of 121,174 shares pursuant to the exercise of stock options.

Financing activities during the year ended December 31, 2018 included completion of a non-brokered private placement pursuant to which the Company issued 24,000,000 common shares at \$0.50 per share for gross proceeds of \$12.0 million. Share issuance costs included \$111,379 related to the March 2018 private placement. Following the resignation of director Mark Hamilton on November 6, 2017, the Company recognized an obligation to issue 129,687 common shares, with a value of \$63,593. On March 27, 2018, the Company issued the common shares in full satisfaction of the obligation. As a result of the exercise of stock options, \$181,026 in proceeds was received during the year in connection with the issuance of 468,000 common shares.

Investing activities of \$101,692 during the year ended December 31, 2019 were comprised of capitalized acquisition costs for land acquisitions of \$31,189 that closed in the second quarter and \$70,503 that closed in the third quarter.

Investing activities during the year ended December 31, 2018 were comprised of capitalized acquisition costs for land acquisitions of \$69,391 that closed in the third quarter and proceeds of \$14,519 from the sale of marketable securities.

As at December 31, 2019, the Company had working capital of \$6,840,418 compared to working capital of \$9,884,979 at December 31, 2018. 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 2020 work plan at the Livengood Gold Project and satisfy its currently anticipated general and administrative costs through the 2021 fiscal year.

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 2020 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.

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; or 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%.

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

Not applicable.