



CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

**Years Ended December 31, 2013 and 2012
Seven Months Ended December 31, 2011
Year Ended May 31, 2011**

Corporate Head Office

2300-1177 West Hastings Street
Vancouver, BC
Canada
V6E 2K3
Tel: 604-683-6332

INTERNATIONAL TOWER HILL MINES LTD.

December 31, 2013 and December 31, 2012

| <u>INDEX</u> | <u>Page</u> |
|---|--------------------|
| Audited Consolidated Financial Statements | |
| Report of Independent Registered Public Accounting Firms | 3 - 5 |
| Consolidated Balance Sheets | 6 |
| Consolidated Statements of Operations and Comprehensive Loss | 7 |
| Consolidated Statement of Changes in Shareholders' Equity | 8 - 12 |
| Consolidated Statements of Cash Flows | 13 |
| Notes to the Consolidated Financial Statements | 14 - 25 |
| Disclosure Controls and Procedures | 26 |
| Management's Annual Report on Internal Control over Financial Reporting | 26 |
| Changes in Internal Control over Financial Reporting | 26 |

Report of Independent Registered Public Accounting Firm

To the Shareholders of International Tower Hill Mines Ltd.

We have completed integrated audits of International Tower Hill Mines Ltd.'s December 31, 2013 and December 31, 2012 consolidated financial statements and its internal control over financial reporting as at December 31, 2013. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of International Tower Hill Mines Ltd., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flow for each of the two years in the period ended December 31, 2013 and cumulatively for the period from January 1, 2012 to December 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and 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 from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of International Tower Hill Mines Ltd. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for each of the two years in the period ended December 31, 2013 and cumulatively for the period from January 1, 2012 to December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Other matters

We did not audit the cumulative statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the period from June 1, 1997 (date of inception) to December 31, 2011. These statements were audited by other auditors who expressed unqualified opinions on the cumulative amounts.

Report on internal control over financial reporting

We have also audited International Tower Hill Mines Ltd.'s internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Managements' Report on Internal Control over Financial Reporting.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, International Tower Hill Mines Ltd. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by COSO.

/s/ PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia

March 12, 2014

Report of Independent Registered Public Accounting Firm

To the Shareholders of
International Tower Hill Mines Ltd.

We have audited the accompanying consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows of International Tower Hill Mines Ltd. (the "Company") for the period ended December 31, 2011 and for the period June 1, 1997 (date of inception) to December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (US). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the results of International Tower Hill Mines Ltd. operations and their cash flows for the period ended December 31, 2011 and for the period June 1, 1997 (date of inception) to December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Without modifying our opinion, we draw attention to Note 1 that states the Company has no source of revenue, and has significant cash requirements that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MacKay LLP

Vancouver, Canada
March 16, 2012

Chartered Accountants

INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

As at December 31, 2013 and 2012

(Expressed in US Dollars)

| | Note | December 31, 2013 | December 31, 2012 |
|--|------|----------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 13,925,601 | \$ 30,170,905 |
| Marketable securities | | 55,002 | 180,415 |
| Accounts receivable | | 11,589 | 262,516 |
| Advance to contractors | | - | 582,009 |
| Prepaid expenses | | 200,731 | 228,221 |
| Total current assets | | 14,192,923 | 31,424,066 |
| Restricted cash | | 30,477 | - |
| Property and equipment | | 67,913 | 89,714 |
| Capitalized acquisition costs | 4 | 55,173,564 | 55,173,564 |
| Total assets | | \$ 69,464,877 | \$ 86,687,344 |
| Current liabilities | | | |
| Accounts payable | | \$ 42,469 | \$ 1,198,771 |
| Accrued liabilities | | 1,451,227 | 2,548,498 |
| Total current liabilities | | 1,493,696 | 3,747,269 |
| Non-current liabilities | | | |
| Derivative liability | 6 | 14,800,000 | 22,400,000 |
| Total liabilities | | 16,293,696 | 26,147,269 |
| Shareholders' equity | | | |
| Share capital, no par value; authorized 500,000,000 shares; 98,068,638 shares issued and outstanding at December 31, 2013 and 2012 | 8 | 236,401,096 | 236,401,096 |
| Contributed surplus | | 32,153,864 | 28,589,591 |
| Accumulated other comprehensive income | | 3,021,281 | 4,101,968 |
| Deficit accumulated during the exploration stage | | (218,405,060) | (208,552,580) |
| Total shareholders' equity | | 53,171,181 | 60,540,075 |
| Total liabilities and shareholders' equity | | \$ 69,464,877 | \$ 86,687,344 |

Nature and continuance of operations (note 1)**Commitments** (note 10)

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, 2013 and 2012, the Seven-Month Period Ended December 31, 2011 and the Year Ended May 31, 2011

(Expressed in US Dollars)

| | Note | December 31, 2013 | December 31, 2012 | December 31, 2011 | May 31, 2011 | From Inception |
|--|------|------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Operating Expenses | | | | | | |
| Consulting fees | | \$ 1,344,578 | \$ 3,310,425 | \$ 1,811,004 | \$ 1,559,270 | \$14,968,635 |
| Depreciation | | 21,800 | 31,660 | 21,830 | 42,081 | 265,631 |
| Insurance | | 284,993 | 310,549 | 129,600 | 213,737 | 1,201,170 |
| Investor relations | | 304,797 | 479,836 | 323,391 | 1,230,624 | 4,705,501 |
| Mineral property exploration | 4 | 8,188,995 | 36,253,519 | 32,550,518 | 37,749,156 | 152,218,044 |
| Office | | 97,560 | 160,047 | 133,431 | 279,888 | 994,817 |
| Other | | 52,518 | 73,145 | 25,257 | 147,398 | 1,787,033 |
| Professional fees | | 467,510 | 613,056 | 651,000 | 651,078 | 3,569,895 |
| Regulatory | | 125,019 | 174,542 | 134,084 | 186,818 | 1,079,717 |
| Rent | | 226,477 | 251,835 | 144,935 | 166,535 | 1,077,465 |
| Travel | | 196,811 | 283,708 | 200,531 | 208,736 | 1,391,067 |
| Wages and benefits | | 6,863,713 | 13,643,058 | 10,000,236 | 5,467,453 | 45,274,271 |
| Write-down of mineral properties | | - | - | - | - | 1,605,522 |
| Total operating expenses | | (18,174,771) | (55,585,380) | (46,125,817) | (47,902,774) | (230,138,768) |
| Other income (expense) | | | | | | |
| Gain on foreign exchange | | 917,301 | 68,113 | 72,762 | 90,918 | 1,239,926 |
| Interest income | | 103,759 | 183,253 | 592,038 | 670,469 | 2,607,056 |
| Income from mineral property earn-in | | - | 290,552 | - | 216,152 | 660,744 |
| Impairment of available-for-sale securities | | (298,769) | - | - | - | (298,769) |
| Spin-out cost | 11 | - | - | (148,940) | (496,638) | (775,249) |
| Unrealized (loss)/gain on derivative | 6 | 7,600,000 | (1,600,000) | 2,300,000 | - | 8,300,000 |
| Total other income (expense) | | 8,322,291 | (1,058,082) | 2,815,860 | 480,901 | 11,733,708 |
| Loss from continuing operations | | (9,852,480) | (56,643,462) | (43,309,957) | (47,421,873) | (218,405,060) |
| Loss from discontinued operations | | - | - | - | (1,037,912) | (19,630,113) |
| Net loss for the period | | (9,852,480) | (56,643,462) | (43,309,957) | (48,459,785) | (238,035,173) |
| Other comprehensive income (loss) | | | | | | |
| Unrealized (loss)/gain on marketable securities | | (118,917) | (163,176) | (357,473) | 172,164 | (487,616) |
| Impairment of available-for-sale securities | | 298,769 | - | - | - | 298,769 |
| Exchange difference on translating foreign operations | | (1,260,539) | 741,019 | (3,644,910) | 6,481,530 | 3,210,128 |
| Total other comprehensive income (loss) for the period | | (1,080,687) | 577,843 | (4,002,383) | 6,653,694 | 3,021,281 |
| Comprehensive loss for the period | | \$ (10,933,167) | \$(56,065,619) | \$(47,312,340) | \$(41,806,091) | \$(235,013,892) |
| Basic and fully diluted net loss per share from continuing operations | | \$ (0.10) | \$ (0.62) | \$ (0.50) | \$ (0.61) | |
| Basic and fully diluted net loss per share from discontinued operations | | \$ - | \$ - | \$ - | \$ (0.01) | |
| Basic and fully diluted net loss per share | | \$ (0.10) | \$ (0.62) | \$ (0.50) | \$ (0.62) | |
| Weighted average number of shares outstanding | | 98,068,638 | 91,112,934 | 86,683,919 | 77,550,644 | |

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 Cumulative Period From Inception to December 31, 2013

(Expressed in US Dollars)

| | Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive income/(loss) | Deficit | Total |
|--|---------------------|---------------|------------------------|---|----------------|------------|
| Balance, at June 1, 1997 | 6,693,432 | \$ 2,141,309 | \$ - | \$ - | \$ (1,420,902) | \$ 720,407 |
| Exchange difference on translating foreign operations | - | - | - | (69,021) | - | (69,021) |
| Net loss | - | - | - | - | (607,831) | (607,831) |
| Balance, May 31, 1998 | 6,693,432 | 2,141,309 | - | (69,021) | (2,028,733) | 43,555 |
| Shares issued for debt settlement | 235,418 | 62,376 | - | - | - | 62,376 |
| Private placement | 300,000 | 79,488 | - | - | - | 79,488 |
| Exercise of warrants | 300,000 | 79,488 | - | - | - | 79,488 |
| Exchange difference on translating foreign operations | - | - | - | 2,930 | - | 2,930 |
| Net loss | - | - | - | - | (75,739) | (75,739) |
| Balance, May 31, 1999 | 7,528,850 | 2,362,661 | - | (66,091) | (2,104,472) | 192,098 |
| Private placement | 750,000 | 152,843 | - | - | - | 152,843 |
| Exercise of warrants | 250,000 | 50,947 | - | - | - | 50,947 |
| Exchange difference on translating foreign operations | - | - | - | (11,103) | - | (11,103) |
| Net income | - | - | - | - | 115,174 | 115,174 |
| Balance, May 31, 2000 | 8,528,850 | 2,566,451 | - | (77,194) | (1,989,298) | 499,959 |
| Exercise of warrants | 483,333 | 95,729 | - | - | - | 95,729 |
| Exchange difference on translating foreign operations | - | - | - | (12,447) | - | (12,447) |
| Net loss | - | - | - | - | (124,066) | (124,066) |
| Balance, May 31, 2001 | 9,012,183 | 2,662,180 | - | (89,641) | (2,113,364) | 459,175 |
| Exchange difference on translating foreign operations | - | - | - | 1,490 | - | 1,490 |
| Net loss | - | - | - | - | (83,882) | (83,882) |
| Balance, May 31, 2002 | 9,012,183 | 2,662,180 | - | (88,151) | (2,197,246) | 376,783 |
| Exchange difference on translating foreign operations | - | - | - | 40,884 | - | 40,884 |
| Net loss | - | - | - | - | (51,193) | (51,193) |
| Balance, May 31, 2003 | 9,012,183 | 2,662,180 | - | (47,267) | (2,248,439) | 366,474 |
| Exchange difference on translating foreign operations | - | - | - | 2,517 | - | 2,517 |
| Net loss | - | - | - | - | (126,247) | (126,247) |
| Balance, May 31, 2004 | 9,012,183 | 2,662,180 | - | (44,750) | (2,374,686) | 242,744 |
| Exchange difference on translating foreign operations | - | - | - | 20,667 | - | 20,667 |
| Net loss | - | - | - | - | (159,000) | (159,000) |
| Balance, May 31, 2005 | 9,012,183 | \$2,662,180 | \$ - | \$(24,083) | \$(2,533,686) | \$104,411 |

INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (cont'd)

(Expressed in US Dollars)

| | Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive income/(loss) | Deficit | Total |
|--|---------------------|---------------|------------------------|--|----------------|--------------|
| Balance, May 31, 2005 | 9,012,183 | \$2,662,180 | \$ - | \$(24,083) | \$(2,533,686) | \$104,411 |
| Private placement | 1,000,000 | 170,420 | - | - | - | 170,420 |
| Exchange difference on translating foreign operations | - | - | - | 17,977 | - | 17,977 |
| Net loss | - | - | - | - | (108,900) | (108,900) |
| Balance, May 31, 2006 | 10,012,183 | 2,832,600 | - | (6,106) | (2,642,586) | 183,908 |
| Private placement (brokered) | 11,704,105 | 19,452,055 | - | - | - | 19,452,055 |
| Private placement (non-brokered) | 9,199,718 | 6,577,908 | - | - | - | 6,577,908 |
| Agent's commission | 561,365 | 847,600 | - | - | - | 847,600 |
| Agent's compensation options | - | - | 1,045,359 | - | - | 1,045,359 |
| Shares issues for property acquisition | 5,997,295 | 6,651,750 | - | - | - | 6,651,750 |
| Exercise of warrants | 420,751 | 456,460 | - | - | - | 456,460 |
| Exercise of options | 348,812 | 382,762 | - | - | - | 382,762 |
| Stock based compensation | - | - | 5,046,421 | - | - | 5,046,421 |
| Reallocation from contributed surplus | - | 217,813 | (217,813) | - | - | - |
| Share issuance costs | - | (2,718,443) | - | - | - | (2,718,443) |
| Exchange difference on translating foreign operations | - | - | - | 946,575 | - | 946,575 |
| Net loss | - | - | - | - | (12,242,684) | (12,242,684) |
| Balance, May 31, 2007 | 38,244,229 | 34,700,505 | 5,873,967 | 940,469 | (14,885,270) | 26,629,671 |
| Exercise of warrants | 1,685,542 | 1,046,032 | - | - | - | 1,046,032 |
| Exercise of options | 14,121 | 15,495 | - | - | - | 15,495 |
| Stock based compensation | - | - | 367,957 | - | - | 367,957 |
| Reallocation from contributed surplus | - | 9,657 | (9,657) | - | - | - |
| Share issuance costs | - | 15,710 | - | - | - | 15,710 |
| Exchange difference on translating foreign operations | - | - | - | 1,889,868 | - | 1,889,868 |
| Net loss | - | - | - | - | (11,801,240) | (11,801,240) |
| Balance, May 31, 2008 | 39,943,892 | \$35,787,399 | \$6,232,267 | \$2,830,337 | \$(26,686,510) | \$18,163,493 |

INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (cont'd)

(Expressed in US Dollars)

| | Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive income/(loss) | Deficit | Total |
|---|---------------------|----------------|------------------------|--|-----------------|---------------|
| Balance, May 31, 2008 | 39,943,892 | \$35,787,399 | \$6,232,267 | \$2,830,337 | \$(26,686,510) | \$18,163,493 |
| Private placement | 4,200,000 | 8,225,700 | - | - | - | 8,225,700 |
| Exercise of warrants | 11,017,044 | 23,110,910 | - | - | - | 23,110,910 |
| Exercise of options | 792,037 | 1,715,816 | - | - | - | 1,715,816 |
| Stock based compensation | - | - | 3,576,425 | - | - | 3,576,425 |
| Agents compensation warrants | - | - | 250,092 | - | - | 250,092 |
| Reallocation from contributed surplus | - | 1,041,230 | (1,041,230) | - | - | - |
| Shares issues for property acquisition | 505,000 | 679,054 | - | - | - | 679,054 |
| Share issuance costs | - | (1,017,639) | - | - | - | (1,017,639) |
| Unrealized loss on available-for-sale securities | - | - | - | (116,194) | - | (116,194) |
| Exchange difference on translating foreign operations | - | - | - | (385,265) | - | (385,265) |
| Net loss | - | - | - | - | (17,398,008) | (17,398,008) |
| Balance, May 31, 2009 | 56,457,973 | 69,542,470 | 9,017,554 | 2,328,878 | (44,084,518) | 36,804,384 |
| Private placement | 6,286,248 | 33,175,762 | - | - | - | 33,175,762 |
| Exercise of warrants | 245,901 | 568,285 | - | - | - | 568,285 |
| Exercise of options | 2,907,800 | 6,708,853 | - | - | - | 6,708,853 |
| Stock based compensation | - | - | 9,294,081 | - | - | 9,294,081 |
| Reallocation from contributed surplus | - | 5,519,172 | (5,519,172) | - | - | - |
| Shares issued for property acquisition | 220,000 | 760,672 | - | - | - | 760,672 |
| Share issuance costs | - | (1,256,173) | - | - | - | (1,256,173) |
| Unrealized gain on available-for-sale securities | - | - | - | 95,980 | - | 95,980 |
| Exchange difference on translating foreign operations | - | - | - | (1,552,044) | - | (1,552,044) |
| Net loss | - | - | - | - | (35,684,971) | (35,684,971) |
| Balance, May 31, 2010 | 66,117,922 | \$ 115,019,041 | \$ 12,792,463 | \$ 872,814 | \$ (79,769,489) | \$ 48,914,829 |

INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (cont'd)

(Expressed in US Dollars)

| | Number of shares (old) | Share capital (old) | Number of shares (new) | Share capital (new) | Contributed surplus | Accumulated other comprehensive income/(loss) | Deficit | Total |
|--|------------------------------|------------------------|------------------------------|------------------------|------------------------|--|------------------|----------------|
| Balance, May 31, 2010 | 66,117,922 | \$ 115,019,041 | - | \$ - | \$ 12,792,463 | \$ 872,814 | \$ (79,769,489) | \$ 48,914,829 |
| Exercise of warrants | 48,099 | 111,158 | - | - | - | - | - | 111,158 |
| Exercise of options | 1,062,200 | 2,584,246 | - | - | - | - | - | 2,584,246 |
| Stock based compensation | - | - | - | - | 3,730,684 | - | - | 3,730,684 |
| Reallocation from contributed surplus | - | 2,162,578 | - | - | (2,162,578) | - | - | - |
| Share issuance costs | - | (8,323) | - | - | - | - | - | (8,323) |
| Transfer of Nevada and Other Alaska Business to Corvus | - | - | - | - | (23,627,103) | - | 19,630,113 | (3,996,990) |
| Working capital contribution to Corvus | - | - | - | - | (3,168,825) | - | - | (3,168,825) |
| Distribution of the common shares of Corvus to ITH shareholders as a return of capital | - | (26,795,928) | - | - | 26,795,928 | - | - | - |
| Exchange of old shares of ITH for new shares of ITH at a ratio of 1:1 | (67,228,221) | (93,072,772) | 67,228,221 | 93,072,772 | - | - | - | - |
| Adjustment due to rounding | - | - | (107) | - | - | - | - | - |
| Private placement | - | - | 17,505,805 | 109,190,595 | - | - | - | 109,190,595 |
| Exercise of options | - | - | 1,915,000 | 5,808,797 | - | - | - | 5,808,797 |
| Stock based compensation | - | - | - | - | 508,322 | - | - | 508,322 |
| Reallocation of contributed surplus | - | - | - | 3,037,959 | (3,037,959) | - | - | - |
| Share issuance costs | - | - | - | (4,237,980) | - | - | - | (4,237,980) |
| Unrealized gain on available-for-sale securities | - | - | - | - | - | 172,164 | - | 172,164 |
| Exchange difference on translating foreign operations | - | - | - | - | - | 6,481,530 | - | 6,481,530 |
| Net loss | - | - | - | - | - | - | (48,459,785) | (48,459,785) |
| Balance, May 31, 2011 | - | \$ - | 86,648,919 | \$ 206,872,143 | \$ 11,830,932 | \$ 7,526,508 | \$ (108,599,161) | \$ 117,630,422 |

INTERNATIONAL TOWER HILL MINES LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (cont'd)

(Expressed in US Dollars)

| | Number of shares | Share capital | Contributed surplus | Accumulated other comprehensive income/(loss) | Deficit | Total |
|---|---------------------|----------------|------------------------|--|------------------|----------------|
| Balance, May 31, 2011 | 86,648,919 | \$ 206,872,143 | \$ 11,830,932 | \$ 7,526,508 | \$ (108,599,161) | \$ 117,630,422 |
| Exercise of options | 35,000 | 221,119 | - | - | - | 221,119 |
| Stock based compensation | - | - | 7,645,269 | - | - | 7,645,269 |
| Reallocation from contributed surplus | - | 93,585 | (93,585) | - | - | - |
| Unrealized loss on available-for-sale securities | - | - | - | (357,473) | - | (357,473) |
| Exchange difference on translating foreign operations | - | - | - | (3,644,910) | - | (3,644,910) |
| Net loss | - | - | - | - | (43,309,957) | (43,309,957) |
| Balance, December 31, 2011 | 86,683,919 | 207,186,847 | 19,382,616 | 3,524,125 | (151,909,118) | 78,184,470 |
| Private placement | 11,384,719 | 29,768,529 | - | - | - | 29,768,529 |
| Share issuance costs | - | (554,280) | - | - | - | (554,280) |
| Stock based compensation | - | - | 9,206,975 | - | - | 9,206,975 |
| Unrealized loss on available-for-sale securities | - | - | - | (163,176) | - | (163,176) |
| Exchange difference on translating foreign operations | - | - | - | 741,019 | - | 741,019 |
| Net loss | - | - | - | - | (56,643,462) | (56,643,462) |
| Balance, December 31, 2012 | 98,068,638 | 236,401,096 | 28,589,591 | 4,101,968 | (208,552,580) | 60,540,075 |
| Private placement | - | - | - | - | - | - |
| Share issuance costs | - | - | - | - | - | - |
| Stock based compensation | - | - | 3,564,273 | - | - | 3,564,273 |
| Unrealized loss on available-for-sale securities | - | - | - | (118,917) | - | (118,917) |
| Impairment of available-for-sale securities | - | - | - | 298,769 | - | 298,769 |
| Exchange difference on translating foreign operations | - | - | - | (1,260,539) | - | (1,260,539) |
| Net loss | - | - | - | - | (9,852,480) | (9,852,480) |
| Balance, December 31, 2013 | 98,068,638 | \$ 236,401,096 | \$ 32,153,864 | \$ 3,021,281 | \$ (218,405,060) | \$ 53,171,181 |

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, 2013 and 2012, the Seven-Month Period Ended December 31, 2011 and the Year Ended May 31, 2011

(Expressed in US Dollars)

| | December 31, 2013 | December 31, 2012 | December 31, 2011 | May 31, 2011 | From Inception |
|---|----------------------|----------------------|----------------------|-----------------------|----------------------|
| Operating Activities | | | | | |
| Loss for the period from continuing operations | \$ (9,852,480) | \$ (56,643,462) | \$ (43,309,957) | \$ (47,421,873) | \$(218,405,060) |
| Add items not affecting cash: | | | | | |
| Depreciation | 21,800 | 31,660 | 21,830 | 42,081 | 265,631 |
| Share-based payments | 3,564,273 | 9,206,975 | 7,645,269 | 3,450,477 | 36,878,983 |
| Unrealized (gain) loss on derivative liability | (7,600,000) | 1,600,000 | (2,300,000) | - | (8,300,000) |
| Spin-out recovery | - | - | - | (119,169) | (254,339) |
| Gain on foreign exchange | - | - | (72,762) | (90,918) | (254,512) |
| Impairment of available-for-sale securities | 298,769 | - | - | - | 298,769 |
| Write-down of advance to contractors | 482,009 | - | - | - | 482,009 |
| Write-down of mineral properties | - | - | - | - | 1,605,522 |
| Other | - | (42,017) | - | - | (285,323) |
| Changes in non-cash items: | | | | | |
| Accounts receivable | 393,437 | 174,537 | (283,612) | (74,996) | 121,224 |
| Prepaid expenses | 18,193 | (42,512) | 184,143 | (108,188) | (346,295) |
| Advance to contractors | 100,000 | (102,009) | 689,730 | (274,639) | 413,082 |
| Accounts payable and accrued liabilities | (2,246,348) | (6,582,823) | 6,801,773 | 2,254,754 | 1,492,735 |
| Cash used in operating activities of continuing operations | (14,820,347) | (52,399,651) | (30,623,586) | (42,342,471) | (186,287,574) |
| Cash provided by (used in) operating activities of discontinued operations | - | - | - | 401,805 | (12,786,324) |
| Financing Activities | | | | | |
| Issuance of share capital | - | 29,768,529 | 221,119 | 117,694,796 | 251,751,411 |
| Share issuance costs | - | (554,280) | - | (4,246,303) | (7,643,229) |
| Cash provided by financing activities of continuing operations | - | 29,214,249 | 221,119 | 113,448,493 | 244,108,182 |
| Cash used in financing activities of discontinued operations | - | - | - | (3,902,947) | (3,902,947) |
| Investing Activities | | | | | |
| Proceeds from sale of available-for-sale securities | - | - | - | - | 172,734 |
| Change in restricted cash | (30,477) | - | - | - | (30,477) |
| Capitalized acquisition costs | - | (2,127,693) | (25,317,690) | (30,215) | (27,781,245) |
| Expenditures on property and equipment, net | - | 3,635 | (2,968) | (105,172) | (332,415) |
| Cash used in investing activities of continuing operations | (30,477) | (2,124,058) | (25,320,658) | (135,387) | (27,971,403) |
| Cash used in investing activities of discontinued operations | - | - | - | - | (312,593) |
| Effect of foreign exchange on cash of continuing operations | (1,394,480) | 768,292 | (4,331,678) | 5,547,747 | 1,613,136 |
| Effect of foreign exchange on cash of discontinued operations | - | - | - | 101,608 | (534,876) |
| (Decrease) increase in cash and cash equivalents | (16,245,304) | (24,541,168) | (60,054,803) | 73,118,848 | 13,925,601 |
| Cash and cash equivalents, beginning of period | 30,170,905 | 54,712,073 | 114,766,876 | 41,648,028 | - |
| Cash and cash equivalents, end of period | \$ 13,925,601 | \$ 30,170,905 | \$ 54,712,073 | \$ 114,766,876 | \$ 13,925,601 |

Supplemental cash flow information (note 12)

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

INTERNATIONAL TOWER HILL MINES LTD.
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

1. GENERAL INFORMATION, NATURE AND CONTINUANCE 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, 2013, 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 business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral property interests. The recoverability of amounts shown for capitalized acquisition costs is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of capitalized acquisition costs. The success of the above initiatives cannot be assured. In the event that the Company is unable to obtain the necessary financing in the short-term, it may be necessary to defer certain discretionary expenditures and other planned activities.

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 ("US GAAP").

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 US 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 estimates

- the fair value determination and inputs used in the valuation of the derivative liability.

Significant judgments

- the determination of functional currencies; and
- the analysis of resource calculations, drill results, labwork, etc. which can impact the Company's assessment of impairments, and provisions, if any, for environmental rehabilitation and restoration.

Cash and cash equivalents

Cash equivalents include highly liquid investments with original maturities of three 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%.

The Company's assessment of impairment related to its capitalized acquisition costs at December 31, 2013 was based on estimated undiscounted future cash flows expected to result from the use and eventual disposition of these assets. The assessment took into account the Company's expectation for the price of gold as well as the probability of achieving certain opportunities to enhance the economics of the Livengood Gold Project as set out in the Company's Feasibility Study issued in September 2013. Based on this assessment, no impairments were recorded at December 31, 2013.

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 and recorded at the time environmental disturbance occurs. 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, 2013.

Derivatives

Derivative financial liabilities include the Company's future contingent mineral property payment valued using estimated future gold prices. 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 the statement of operations.

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 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 Issued Accounting Pronouncements

In July 2013, FASB issued Accounting Standards Update No. 2013-11, "Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 is not expected to have a material impact on our financial position, results of operations or cash flows.

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, 2013 | | |
|------------------------------------|-------------------|----------------------|
| | Level 1 | Level 2 |
| Financial assets: | | |
| Marketable securities | \$ 55,002 | \$ - |
| | <u>\$ 55,002</u> | <u>\$ -</u> |
| Financial liabilities: | | |
| Derivative liability (note 6) | \$ - | \$ 14,800,000 |
| | <u>\$ -</u> | <u>\$ 14,800,000</u> |
| | | |
| Fair value as at December 31, 2012 | | |
| | Level 1 | Level 2 |
| Financial assets: | | |
| Marketable securities | \$ 180,415 | \$ - |
| | <u>\$ 180,415</u> | <u>\$ -</u> |
| Financial liabilities: | | |
| Derivative liability (note 6) | \$ - | \$ 22,400,000 |
| | <u>\$ -</u> | <u>\$ 22,400,000</u> |

4. CAPITALIZED ACQUISITION COSTS

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

| Capitalized acquisition costs | Amount |
|-------------------------------|----------------------|
| Balance, December 31, 2012 | \$ 55,173,564 |
| Additions | - |
| Balance, December 31, 2013 | <u>\$ 55,173,564</u> |

The Company's restricted cash balance of \$30,477 at December 31, 2013 represents cash in escrow related to land acquisitions closed during January 2014.

The following table presents costs incurred for exploration and evaluation activities for the years ended December 31, 2013 and 2012:

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|--|---------------------------------|---------------------------------|
| Exploration costs: | | |
| Aircraft services | \$ 68,577 | \$ 1,841,674 |
| Assay | 21,712 | 1,015,387 |
| Drilling | 451,286 | 9,138,130 |
| Environmental | 2,235,287 | 4,241,728 |
| Equipment rental | 344,063 | 1,536,794 |
| Field costs | 825,642 | 6,626,782 |
| Geological/geophysical | 3,367,799 | 10,958,255 |
| Land maintenance & tenure | 470,489 | 426,914 |
| Legal | 256,965 | 250,234 |
| Surveying and mapping | 95,638 | 145,967 |
| Transportation and travel | 51,537 | 71,654 |
| Total expenditures for the period | \$ 8,188,995 | \$36,253,519 |

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 has the right to maintain its percentage equity interest in the Company, on an ongoing basis, provided that such right will terminate if AngloGold’s interest falls 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. If AngloGold’s equity interest in the Company is reduced to less than 10%, then this right of first offer will terminate. Details of the Livengood Property (being the only Sale Property still held by the Company – see Note 11) 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 1% 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 in December 2011. As of December 31, 2013 the Company has paid \$1,326,363 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, 2013, the Company has paid \$480,000 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, 2013, the Company has paid \$95,000 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, 2013, the Company has paid \$68,000 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, 2013 and 2012.

| | December 31, 2013 | December 31, 2012 |
|----------------------------------|------------------------------|------------------------------|
| Accrued liabilities | \$ 540,486 | \$ 2,042,222 |
| Accrued severance | 719,375 | 219,915 |
| Accrued salaries and benefits | 191,366 | 286,361 |
| Total accrued liabilities | \$ 1,451,227 | \$ 2,548,498 |

Accrued liabilities at December 31, 2013 include accruals for general corporate costs and project costs of \$115,020 and \$425,466, respectively. Accrued liabilities at December 31, 2012 include accruals for general corporate costs and project costs of \$66,367 and \$1,975,855, 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 contingent payment based on the five-year average daily gold price ("Average Gold Price") from the date of the acquisition. The contingent 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 contingent payment.

At initial recognition on December 13, 2011 the derivative liability was valued at \$23,100,000. The key assumption used in the valuation of the derivative is the estimate of the future Average Gold Price. The estimate of the future Average Gold Price was determined using a forward curve on future gold prices as published by the CME Group. The CME Group

represents the merger of the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT), the New York Mercantile Exchange (NYMEX) and its commodity exchange division, Commodity Exchange, Inc. (COMEX). Using this forward curve, the Company estimated an Average Gold Price based on actual gold prices to December 31, 2013 and projected gold prices from December 31, 2013 to the end of the five year period in December 2016 of \$1,360 per ounce of gold.

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

| | Fair value | Average Gold Price/oz. |
|--|---------------|------------------------|
| Derivative value at December 31, 2011 | \$ 20,800,000 | \$ 1,619 |
| Unrealized (gain) loss for the year | 1,600,000 | |
| Derivative value at December 31, 2012 | 22,400,000 | \$ 1,688 |
| Unrealized (gain) loss for the year | (7,600,000) | |
| Derivative value at December 31, 2013 | \$ 14,800,000 | \$ 1,360 |

7. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows for the years ended December 31, 2013 and 2012:

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Loss from continuing operations before income taxes | \$ (9,852,480) | \$ (56,643,462) |
| Statutory Canadian corporate tax rate | 25.00% | 25.00% |
| Income tax recovery at statutory rates | \$ (2,463,120) | \$ (14,160,866) |
| Share-based payments | 891,068 | 2,301,744 |
| Unrecognized items for tax purposes | (1,634,335) | (131,503) |
| Difference in tax rates in other jurisdictions | (1,036,959) | (8,473,936) |
| Unrecognized amounts | 4,243,346 | 20,464,561 |
| Income tax recovery | \$ - | \$ - |

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

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Deferred income tax assets (liabilities): | | |
| Mineral properties | \$ 57,243,322 | \$ 56,693,975 |
| Derivative liability | (1,801,100) | (151,900) |
| Other | 63,539 | 51,515 |
| Share issue costs | 409,503 | 732,798 |
| Non-capital losses available for future periods | 28,245,574 | 22,597,296 |
| | 84,160,838 | 79,923,684 |
| Valuation allowance | (84,160,838) | (79,923,684) |
| Deferred income tax asset | \$ - | \$ - |

At December 31, 2013, the Company has available net operating losses for Canadian income tax purposes of approximately \$15,842,000 and net operating losses for US income tax purposes of approximately \$55,956,000 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 |
| | 15,842,000 | 55,956,000 |

In addition, the Company has available mineral resource related expenditure pools for Canadian income tax purposes totalling 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 US 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, 2013 and 2012 there were 98,068,638 shares issued and outstanding.

Share issuances

During the third quarter of 2012, the Company closed a non-brokered private placement financing through the issuance of 11,384,719 common shares. The shares were issued in two stages. The first stage closed on August 3, 2012 and consisted of 9,458,308 common shares issued at C\$2.60 per share for gross proceeds of \$24,626,029. The second stage of the offering closed on September 17, 2012 and consisted of 1,926,411 common shares issued at C\$2.5955 per share for gross proceeds of \$5,142,500. The Company paid a cash finder's fee of 4% of gross proceeds in connection with C\$10,000,000 of the total offering. Total share issuance costs for this non-brokered private placement financing amounted to \$554,280.

Stock options

The Company has adopted an incentive stock option plan (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 will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the issuance of a news release announcing the granting of the options, less the maximum discount permitted under applicable stock exchange policies), 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. All options granted during the years ended December 31, 2013 and 2012 vest as to one-third on the date of grant, one-third on the first anniversary, and the balance on the second anniversary.

A summary of the status of the stock option plan as of December 31, 2013 and 2012 and changes during the periods is presented below:

| | Year Ended December 31, 2013 | | Year Ended December 31, 2012 | |
|----------------------------------|---------------------------------|---|---------------------------------|---|
| | Number of Options | Weighted Average Exercise Price (C\$) | Number of Options | Weighted Average Exercise Price (C\$) |
| Balance, beginning of the period | 8,570,000 | \$ 4.73 | 7,215,000 | \$ 7.48 |
| Granted | 613,000 | \$ 2.18 | 6,380,000 | \$ 3.26 |
| Expired | (1,040,000) | \$ 7.78 | (4,050,000) | \$ 7.16 |
| Forfeited | (1,550,000) | \$ 3.27 | - | \$ - |
| Cancelled | (1,100,000) | \$ 8.27 | (975,000) | \$ 5.42 |
| Balance, end of the period | 5,493,000 | \$ 3.57 | 8,570,000 | \$ 4.73 |

The weighted average remaining life of options outstanding at December 31, 2013 was 3.6 years.

Stock options outstanding are as follows:

| Expiry Date | December 31, 2013 | | | December 31, 2012 | | |
|--------------------|-------------------------|----------------------|-------------|-------------------------|----------------------|-------------|
| | Exercise Price (C\$) | Number of Options | Exercisable | Exercise Price (C\$) | Number of Options | Exercisable |
| January 10, 2013 | - | - | - | \$ 9.15 | 190,000 | 190,000 |
| July 28, 2013 | - | - | - | \$ 7.47 | 950,000 | 950,000 |
| May 9, 2016 | - | - | - | \$ 8.35 | 1,000,000 | 666,666 |
| August 23, 2016 | \$ 8.07 | 600,000 | 600,000 | \$ 8.07 | 600,000 | 400,000 |
| November 15, 2016 | - | - | - | \$ 5.64 | 100,000 | 66,666 |
| January 9, 2017 | \$ 4.60 | 30,000 | 20,000 | \$ 4.60 | 30,000 | 10,000 |
| August 24, 2017 | \$ 3.17 | 3,350,000 | 2,233,322 | \$ 3.17 | 4,700,000 | 1,566,655 |
| September 19, 2017 | \$ 2.91 | 1,000,000 | 666,666 | \$ 2.91 | 1,000,000 | 333,333 |
| March 14, 2018 | \$ 2.18 | 513,000 | 170,995 | - | - | - |
| | | 5,493,000 | 3,690,983 | | 8,570,000 | 4,183,320 |

A summary of the non-vested options as of December 31, 2013 and 2012 and changes during the fiscal years ended December 31, 2013 and 2012 is as follows:

| | Number of options | Weighted average grant- date fair value (C\$) |
|----------------------------------|----------------------|--|
| Non-vested options: | | |
| Outstanding at December 31, 2011 | 1,232,918 | \$4.97 |
| Granted | 6,380,000 | \$1.68 |
| Vested | (3,226,238) | \$2.43 |
| Outstanding at December 31, 2012 | 4,386,680 | \$2.05 |
| Granted | 613,000 | \$0.50 |
| Vested | (2,547,660) | \$2.27 |
| Forfeited | (650,003) | \$1.57 |
| Outstanding at December 31, 2013 | 1,802,017 | \$1.38 |

At December 31, 2013 there was unrecognized compensation expense of C\$822,458 related to non-vested options outstanding. The cost is expected to be recognized over a weighted-average remaining period of approximately 0.68 years.

Share-based payments

During the year ended December 31, 2013, the Company granted 613,000 stock options with a fair value of C\$304,585, calculated using the Black-Scholes option pricing model. The Company recognized share-based payment expense of \$3,564,273 during the year ended December 31, 2013 (year ended December 31, 2012 – \$9,206,975; seven months ended December 31, 2011 – \$7,645,269; year ended May 31, 2011 – \$3,450,477).

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

| | Year ended December 31, 2013 | Year ended December 31, 2012 |
|--------------------------|------------------------------------|------------------------------------|
| Expected life of options | 4 years | 4 years |
| Risk-free interest rate | 1.29% | 1.32% |
| Expected volatility | 59.48% | 67.68% |
| Dividend rate | 0.00% | 0.00% |
| Exercise price (C\$) | \$2.18 | \$3.26 |

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, 2013 | | | |
| Capitalized acquisition costs | \$ - | \$ 55,173,564 | \$ 55,173,564 |
| Restricted cash | - | 30,477 | 30,477 |
| Property and equipment | 11,994 | 55,919 | 67,913 |
| Current assets | 13,289,752 | 903,171 | 14,192,923 |
| Total assets | \$ 13,301,746 | \$ 56,163,131 | \$ 69,464,877 |

| | | | |
|-------------------------------|----------------------|----------------------|----------------------|
| December 31, 2012 | | | |
| Capitalized acquisition costs | \$ - | \$ 55,173,564 | \$ 55,173,564 |
| Property and equipment | 14,317 | 75,397 | 89,714 |
| Current assets | 29,046,485 | 2,377,581 | 31,424,066 |
| Total assets | \$ 29,060,802 | \$ 57,626,542 | \$ 86,687,344 |

| | Year ended December 31, 2013 | Year ended December 31, 2012 | Seven months ended December 31, 2011 | Year ended May 31, 2011 |
|--|------------------------------------|------------------------------------|---|----------------------------|
| Net loss from continuing operations for the period – Canada | \$ (4,216,835) | \$ (10,589,464) | \$ (8,145,704) | \$ (4,682,363) |
| Net loss from continuing operations for the period - United States | (5,635,645) | (46,053,998) | (35,164,253) | (42,739,510) |
| Net loss from discontinued operations for the period – Canada | - | - | - | (811,232) |
| Net loss from discontinued operations for the period - United States | - | - | - | (226,680) |
| Net loss for the period | \$ (9,852,480) | \$ (56,643,462) | \$ (43,309,957) | \$ (48,459,785) |

10. COMMITMENTS

The following table discloses, as of December 31, 2013, the Company's contractual obligations including anticipated mineral property payments and work commitments and committed office and equipment lease obligations. 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 no other lease purchase or royalty buyout options:

| | Payments Due by Year | | | | | | Total |
|--|----------------------|------------|---------------|------------|------------|-----------------|---------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 and beyond | |
| Livengood Property Purchase ⁽¹⁾ | \$ - | \$ - | \$ 14,800,000 | \$ - | \$ - | \$ - | \$ 14,800,000 |
| Mineral Property Leases ⁽²⁾ | 401,236 | 405,979 | 410,794 | 415,681 | 425,641 | 430,676 | 2,490,007 |
| Mining Claim Government Fees | 89,110 | 89,110 | 89,110 | 89,110 | 89,110 | 89,110 | 534,660 |
| Office and Equipment Lease Obligations | 226,727 | 78,597 | - | - | - | - | 305,324 |
| Total | \$ 717,073 | \$ 573,686 | \$ 15,299,904 | \$ 504,791 | \$ 514,751 | \$ 519,786 | \$ 18,129,991 |

1. The amount payable in December 2016 of \$14,800,000 represents the fair value of the Company's derivative liability as at December 31, 2013 and will be revalued at each subsequent reporting period. 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. DISCONTINUED OPERATIONS AND TRANSFER OF EXPLORATION AND EVALUATION ASSETS

On August 26, 2010, the Company completed a Plan of Arrangement (the "Arrangement") under the British Columbia Business Corporation Act pursuant to which it indirectly transferred all of its existing Alaska assets (other than the Livengood Gold Project and associated assets), being the Chisna, West Pogo, Terra and LMS properties and related assets, and its Nevada assets, being the North Bullfrog property and related assets (collectively, the "Nevada and Other Alaska Business") to a new public company, Corvus Gold Inc. ("Corvus"). Under the Arrangement, each shareholder of ITH received (as a return of capital) one Corvus common share for every two ITH common shares held as at the effective date of the Arrangement and exchanged each old common share of ITH for a new common share of ITH. As part of the Arrangement, ITH transferred its wholly-owned subsidiaries, Raven Gold Alaska Inc. ("Raven Gold"), incorporated in Alaska, United States, and Corvus Gold Nevada Inc. (formerly "Talon Gold Nevada Inc."), incorporated in Nevada, United States (which held the North Bullfrog property) to Corvus. As a consequence of the completion of the Arrangement, Corvus now holds the Terra, Chisna, LMS, West Pogo and North Bullfrog properties (the "Spin-out Properties").

The Company did not realize any gain or loss on the transfer of the Nevada and Other Alaska Business, which was comprised of a working capital contribution of \$3,168,825 and the other Nevada and Other Alaska Business assets and liabilities as at the effective date of the Arrangement. Costs of the Arrangement, comprised principally of tax, legal and regulatory expenses, amounted to \$148,940 and \$496,638 during the fiscal years ended December 31, 2011 and May 31, 2011, respectively.

The Arrangement was approved by a favorable vote of ITH's shareholders at a special meeting held on August 12, 2010.

The Company has accounted for the financial results associated with the Nevada and Other Alaska Business up to the date of the Arrangement as discontinued operations in these consolidated financial statements and has reclassified the related amounts for the prior years.

The following table shows the results related to discontinued operations for the year ended May 31, 2011.

| | May 31, 2011 |
|------------------------------|---------------------|
| Consulting fees | \$ 255,159 |
| Foreign exchange (gain) loss | (19,510) |
| Insurance | 9,698 |
| Investor relations | 125,540 |
| Mineral property exploration | 140,888 |
| Office | 6,927 |
| Other | 9,508 |
| Professional fees | 39,122 |
| Regulatory | 3,664 |
| Rent | 5,091 |
| Travel | 5,401 |
| Wages and benefits | 456,424 |
| | \$ 1,037,912 |

The transfer of the assets is summarized in the table below:

| | August 25, 2010 |
|----------------------------------|------------------------|
| Cash and cash equivalents | \$ 1,128,158 |
| Accounts receivable | 187 |
| Prepaid expenses | 3,000 |
| Capitalized acquisition costs | 3,590,657 |
| Accounts payable | (725,012) |
| Net assets transferred to Corvus | \$ 3,996,990 |

12. SUPPLEMENTAL CASH FLOW INFORMATION

| | December 31, 2013 | December 31, 2012 | December 31, 2011 | May 31, 2011 |
|---|------------------------------|------------------------------|------------------------------|-------------------------|
| Income taxes paid | \$ - | \$ 150,607 | \$ - | \$ - |
| Non-cash investing and financing transactions – continuing operations: | | | | |
| Derivative liability included in capitalized acquisition costs | \$ - | \$ - | \$ 23,100,000 | \$ - |

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2013, 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, 2013, 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 judgement 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, 2013. 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 (1992). Based on this evaluation under the framework in Internal Control – Integrated Framework (1992), management concluded that internal control over financial reporting was effective as of December 31, 2013.

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.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. PricewaterhouseCoopers LLP's report on the Company's internal control over financial reporting is included as part of Part II, Item 8, Financial Statements and Supplementary Data 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, 2013 that have materially, or are reasonably likely to materially affect, the Company's internal control over financial reporting.