

Condensed consolidated interim financial statements of

Ivanhoe Mines Ltd.

September 30, 2016
(Stated in U.S. dollars)

(Unaudited)

Ivanhoe Mines Ltd.

September 30, 2016

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Ivanhoe Mines Ltd.

Condensed consolidated interim statements of comprehensive loss

(stated in thousands of U.S. dollars, except for share and per share amounts)

(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Expenses					
Exploration and project expenditure		7,769	8,553	22,919	30,480
Salaries and benefits		2,228	1,495	5,934	4,599
Share-based payments	17	1,750	1,655	4,535	5,377
Travel		811	510	2,183	1,531
Office and administration		422	579	1,575	1,718
Professional fees		629	349	1,407	1,290
Other expenditure		363	374	1,015	1,429
Legal		144	109	292	330
Foreign exchange (gains) losses		(384)	1,014	(843)	714
Loss from operating activities		13,732	14,638	39,017	47,468
Other income	20	(1,933)	228	(5,450)	(478)
Finance income	18	(7,239)	(273)	(23,075)	(1,013)
Finance costs	19	454	36	1,327	118
Share of losses from joint venture	6	6,306	-	15,842	-
Mark-to-market gain on revaluation of warrants	14(c)	-	(970)	-	(6,516)
Loss before income taxes		11,320	13,659	27,661	39,579
Income tax expense					
Current		-	-	-	189
Deferred tax recovery		78	-	433	-
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		11,398	13,659	28,094	39,768
Subsidiaries held for partial sale					
Gain from subsidiary held for partial sale	11	-	(7,958)	-	(5,074)
LOSS FOR THE PERIOD		11,398	5,701	28,094	34,694
Other comprehensive loss					
Items that may subsequently be reclassified to loss:					
Exchange (gains) losses on translation of foreign operations - continuing operations		(10,813)	7,157	(10,358)	11,745
Other comprehensive (gain) loss for the period, net of tax		(10,813)	7,157	(10,358)	11,745
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		585	12,858	17,736	46,439
Loss attributable to:					
Owners of the Company - continuing operations		7,987	10,740	18,231	30,098
Owners of the Company - subsidiary held for partial sale		-	(7,932)	-	(5,074)
Non-controlling interest		3,411	2,893	9,863	9,670
		11,398	5,701	28,094	34,694
Total comprehensive loss attributable to:					
Owners of the Company - continuing operations		(1,860)	17,351	8,911	41,012
Owners of the Company - subsidiary held for partial sale		-	(7,932)	-	(5,074)
Non-controlling interest	16	2,445	3,439	8,825	10,501
		585	12,858	17,736	46,439
Basic and diluted (gain) loss per share - continuing operations	21	(0.00)	0.02	0.01	0.05
Basic and diluted (gain) loss per share - subsidiary held for partial sale	21	-	(0.01)	-	(0.01)
Weighted average number of basic and diluted shares outstanding	21	778,996,196	778,959,807	778,971,937	747,663,984

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of financial position as at

(stated in thousands of U.S. dollars)
(Unaudited)

	Notes	September 30, 2016 \$	December 31, 2015 \$
ASSETS			
Non-current assets			
Property, plant and equipment	4	115,114	77,386
Mineral properties	5	6,940	6,940
Investment in joint venture	6	455,784	411,984
Purchase price receivable	6	-	70,072
Promissory note receivable	7	10,729	9,076
Deferred tax asset		1,346	1,621
Other assets		3,919	6,462
Total non-current assets		593,832	583,541
Current assets			
Purchase price receivable	6	113,445	121,784
Other receivables	8	9,672	15,627
Prepaid expenses		9,876	6,651
Financial assets at fair value through profit or loss	9	3,456	1,027
Cash and cash equivalents	10	275,885	293,948
Total current assets		412,334	439,037
Total assets		1,006,166	1,022,578
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	1,124,219	1,124,032
Share option reserve	14	135,111	131,129
Foreign currency translation reserve	15	(21,338)	(30,658)
Accumulated deficit		(145,736)	(127,505)
Equity attributable to owners of the Company		1,092,256	1,096,998
Non-controlling interest	16	(126,999)	(118,174)
Total equity		965,257	978,824
Non-current liabilities			
Borrowings	12	26,670	26,021
Deferred tax liabilities		2,082	2,082
Total non-current liabilities		28,752	28,103
Current liabilities			
Financial Liability		1,693	1,204
Trade and other payables	13	10,414	14,327
Current tax liabilities		50	120
Total current liabilities		12,157	15,651
Total liabilities		40,909	43,754
Total equity and liabilities		1,006,166	1,022,578

Continuing operations (Note 1)

Commitments and contingencies (Note 25)

(Signed) Oyvind Hushovd

Oyvind Hushovd, Director

(Signed) Livia Mahler

Livia Mahler, Director

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of changes in equity

(stated in thousands of dollars, except for share amounts)

(Unaudited)

	Share capital		Share option reserve	Foreign currency translation reserve	Accumulated deficit	Equity attributable to owners	Non-controlling interest	Total
	Number of shares	Amount						
		\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2015	702,142,787	1,038,868	124,179	(11,549)	(827,888)	323,610	(121,207)	202,403
Loss for the period	-	-	-	-	(25,024)	(25,024)	(9,670)	(34,694)
Other comprehensive income	-	-	-	(10,914)	-	(10,914)	(831)	(11,745)
Total comprehensive loss	-	-	-	(10,914)	(25,024)	(35,938)	(10,501)	(46,439)
<i>Transactions with owners</i>								
Share based payments								
charged to operations (Note 17)	-	-	5,377	-	-	5,377	-	5,377
Shares issued (Note 14)	76,817,020	85,164	-	-	-	85,164	-	85,164
Balance at September 30, 2015	778,959,807	1,124,032	129,556	(22,463)	(852,912)	378,213	(131,708)	246,505
Balance at January 1, 2016	778,959,807	1,124,032	131,129	(30,658)	(127,505)	1,096,998	(118,174)	978,824
Loss for the period	-	-	-	-	(18,231)	(18,231)	(9,863)	(28,094)
Other comprehensive income	-	-	-	9,320	-	9,320	1,038	10,358
Total comprehensive loss	-	-	-	9,320	(18,231)	(8,911)	(8,825)	(17,736)
<i>Transactions with owners</i>								
Share based payments								
charged to operations (Note 17)	-	-	4,047	-	-	4,047	-	4,047
Options exercised (Note 14)	162,500	187	(65)	-	-	122	-	122
Balance at September 30, 2016	779,122,307	1,124,219	135,111	(21,338)	(145,736)	1,092,256	(126,999)	965,257

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of cash flows

(stated in thousands of U.S. dollars)

(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Cash flows from operating activities					
Loss before income taxes including loss from subsidiaries held for sale and partial sale		(11,320)	(5,701)	(27,661)	(34,505)
Items not involving cash					
Share of losses from joint venture	6	6,306	-	15,842	-
Share-based payments	17	1,750	1,844	4,535	5,974
Depreciation and amortization		1,069	1,368	3,251	4,160
Transfer from other assets		-	-	990	-
Profit on disposal of property, plant and equipment		-	(2)	(7)	(15)
Promissory note fair value adjustment		(266)	-	(702)	-
Unrealized foreign exchange (gain) loss		(820)	921	(949)	2,064
Increase in fair value of financial asset		(1,109)	-	(2,430)	-
Finance income	18	(7,239)	(273)	(23,075)	(1,013)
Finance costs	19	454	36	1,327	118
Borrowing costs capitalized		-	(701)	-	-
Mark-to-market gain on revaluation of warrants	14(c)	-	(970)	-	(6,516)
Loss on sale of subsidiary held for sale		-	-	-	309
		(11,175)	(3,478)	(28,879)	(29,424)
Change in non-cash working capital items	23	2,165	(8,748)	2,343	(10,177)
Income taxes paid		-	-	(238)	(374)
Interest received		741	273	2,081	1,013
Interest paid		(27)	1,034	(93)	952
Net cash used in operating activities		(8,296)	(10,919)	(24,786)	(38,010)
Cash flows from investing activities					
Property, plant and equipment acquired		(10,855)	(20,936)	(32,392)	(63,971)
Investment in joint venture		(39,326)	-	(47,051)	-
Other assets acquired		(57)	153	(2,402)	(3,049)
Proceeds from sale of property, plant and equipment		31	6	66	58
Decrease in investment in other assets		-	-	-	1,272
Increase in investment in short-term deposits		-	(20)	-	(42)
Net cash used in investing activities		(50,207)	(20,797)	(81,779)	(65,732)
Cash flows from financing activities					
Cash received from partial sale of subsidiary		41,200	-	93,147	-
Transaction costs paid on partial sale of subsidiary		(2,542)	-	(5,228)	-
Cash paid on behalf of joint venturer		(795)	-	(951)	-
Options exercised		122	-	122	-
Issue of units, net of issue costs		-	-	-	85,164
Net cash generated from financing activities		37,985	-	87,090	85,164
Effect of foreign exchange rate changes on cash		2,043	(2,657)	1,412	(5,209)
Net cash outflow		(18,475)	(34,373)	(18,063)	(23,787)
Cash and cash equivalents, beginning of period		294,360	119,739	293,948	110,983
Cash included in assets held for sale		-	65	-	(1,765)
Cash and cash equivalents, end of period		275,885	85,431	275,885	85,431
Cash and cash equivalents consists of					
Cash		275,885	78,683	275,885	78,683
Short-term fixed deposits		-	6,748	-	6,748
		275,885	85,431	275,885	85,431

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

1. Basis of presentation and continuing operations

Ivanhoe Mines Ltd. is a Canadian mining development and exploration company incorporated in Canada which, together with its subsidiaries (collectively referred to as the Company), is focused on the exploration, development and recovery of minerals and precious gems from its property interests located primarily in Africa.

The registered and records office of the Company are located at Suite 654-999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1. The Company is listed on the Toronto Stock Exchange ("TSX") under the ticker symbol IVN.

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are also prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

The Company has an accumulated deficit of \$145.7 million at September 30, 2016. Continuation of the Company as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties. Although the Company has been successful in raising funds in the past, there can be no assurance that it will be able to raise sufficient funds in the future. The Company's total current assets exceeds the Company's total liabilities and spending plan for 2016. As at September 30, 2016, the Company's total assets exceeds its total liabilities by \$965.3 million and current assets exceeds current liabilities by \$400.2 million. The Company therefore believes it has sufficient resources to continue as a going concern for the foreseeable future.

2. Significant accounting policies

(a) *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board.

These condensed consolidated interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes. Results for the period ended September 30, 2016, are not necessarily indicative of future results. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its most recent annual consolidated financial statements as at and for the year ended December 31, 2015 except for the adoption of the new and amended accounting policies mentioned in Note 3.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

2. Significant accounting policies (continued)

(b) Significant accounting estimates and judgements

The preparation of condensed consolidated interim financial statements in conformity with IAS 34 requires the Company's management to make estimates and assumptions concerning the future. The resulting accounting estimates can, by definition, only approximate the actual results. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

Significant accounting estimates and judgments include, amongst other things, the recoverability of assets, share-based payment assumptions, the determination of the functional currency, technical feasibility and commercial viability of projects, the classification of Kamoia Holding Limited as a joint venture and the preparation of the financial statements on a going concern basis.

(c) Future accounting changes

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ending September 30, 2016:

- Amendment to IAS 12 – Income taxes. The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. (i)

The Company has considered the change and assessed that it will have no material impact on adoption.

- Amendment to IAS 7 – Cash flow statements. In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. (i)

The Company has considered the change and assessed that it will have no material impact on adoption.

- IFRS 15 – Revenue from contracts with customers. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. (ii)

The Company has considered the change and assessed that it will have no material impact on adoption.

- IFRS 9 – Financial Instruments (2009 & 2010). IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. (ii)

The Company has considered the change and assessed that it will have no material impact on adoption.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
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2. Significant accounting policies (continued)

(c) Future accounting changes (continued)

- Amendment to IFRS 9 - 'Financial instruments', on general hedge accounting. The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. (ii)

The Company has considered the change and assessed that it will have no material impact on adoption.

- IFRS 16 – Leases. The standard requires lessees to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. (iii)

The Company has considered the change and assessed that it will have no material impact on adoption.

- (i) Effective for annual periods beginning on or after January 1, 2017
- (ii) Effective for annual periods beginning on or after January 1, 2018
- (iii) Effective for annual periods beginning on or after January 1, 2019

The Company has not yet adopted these new and amended standards.

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Notes to the condensed consolidated interim financial statements September 30, 2016

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3. Application of new and revised standards

(a) *Newly adopted accounting standards*

- The following standards became effective for annual periods beginning on or after January 1, 2016. The Company adopted these standards in the current period and they did not have a material impact on its consolidated financial statements.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets. Those changes affect how an entity should determine any gain or loss it recognizes when assets are sold or contributed between the entity and an associate or joint venture in which it invests.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation. In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative. In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- Amendments to IAS 27, 'Separate financial statements' on equity accounting. In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance as at December 31, 2014	2,005	14,768	6,673	6,857	19,128	18,778	68,209
Additions	555	3,629	552	2	1,099	81,678	87,515
Disposals	-	(21)	(233)	(287)	(57)	-	(598)
Partial sale of subsidiary	(90)	(1,136)	(1,849)	(4,253)	(5,238)	(38,542)	(51,108)
Foreign exchange translation	(556)	(1,663)	(825)	(310)	(325)	(11,049)	(14,728)
Balance as at December 31, 2015	1,914	15,577	4,318	2,009	14,607	50,865	89,290
Additions	161	162	652	8	1,737	29,672	32,392
Disposals	-	-	(20)	(63)	(22)	-	(105)
Foreign exchange translation	254	(887)	267	115	91	9,135	8,975
Balance as at September 30, 2016	2,329	14,852	5,217	2,069	16,413	89,672	130,552
Accumulated depreciation and impairment							
Balance as at December 31, 2014	-	892	4,064	4,339	8,055	-	17,350
Depreciation	-	555	1,085	631	3,194	-	5,465
Disposals	-	(14)	(207)	(287)	(20)	-	(528)
Partial sale of subsidiary	-	(249)	(1,479)	(3,691)	(3,956)	-	(9,375)
Foreign exchange translation	-	(177)	(637)	(26)	(168)	-	(1,008)
Balance as at December 31, 2015	-	1,007	2,826	966	7,105	-	11,904
Depreciation	-	363	452	187	2,249	-	3,251
Disposals	-	-	(12)	(29)	(6)	-	(47)
Foreign exchange translation	-	43	218	43	26	-	330
Balance as at September 30, 2016	-	1,413	3,484	1,167	9,374	-	15,438
Carrying value							
December 31, 2015	1,914	14,570	1,492	1,043	7,502	50,865	77,386
September 30, 2016	2,329	13,439	1,733	902	7,039	89,672	115,114

Assets under construction

Assets under construction includes development costs capitalised as property, plant and equipment which are costs incurred to obtain access and to provide facilities for extracting, treating, gathering, transporting and storing the minerals.

Assets pledged as security

Buildings with a carrying amount of \$10.0 million (December 31, 2015: \$10.6 million) have been pledged to secure borrowings of the Company (see Note 12). The buildings have been pledged as security for bank loans under a mortgage. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
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5. Mineral properties

The following table summarizes the carrying values of the Company's mineral property interests as described below:

	September 30, 2016	December 31, 2015
	\$	\$
Platreef property, South Africa	6,940	6,940
	6,940	6,940

Direct costs related to the acquisition of mineral properties are capitalized on a property by property basis. Exploration costs are expensed in the period incurred, until such time as the Company determines that a property is technically feasible and commercially viable, where after development costs are capitalized as property, plant and equipment in the assets under construction category (see Note 4).

Platreef property

The Platreef Project is located in the northern limb of the Bushveld Complex approximately 11 km from Mokopane and 280 km northeast of Johannesburg, South Africa.

In November 2014 the mining right for the development and operation of the Company's Platreef mining project was granted and executed. The mining right, authorizes the Company to mine and process platinum-group metals, nickel, copper, gold, silver, cobalt, iron, vanadium and chrome at its Platreef discovery. The mining right was issued for an initial period of 30 years and may be renewed for further periods, each of which may not exceed 30 years at a time, in accordance with the terms of section 24 of the Mineral and Petroleum Resources Development Act.

Itochu Corporation, together with other Japanese-based investors, holds an effective 10% interest in the Platreef Project. The Company transferred an additional 26% of Platreef to a broad-based black economic empowerment (B-BBEE) special purpose vehicle in compliance with South African ownership requirements.

6. Joint arrangements

Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The buildings have a carrying value of \$10.0 million (December 31, 2015: \$10.6 million) and are included in Property, Plant and Equipment (see Note 4).

The Company has a 25% interest in the RK1 consortium ("RK1") through its subsidiaries Gardner and Barnard Mining (UK) Limited ("GBUK") and RKR Mining (UK) Ltd. and their subsidiaries, the remainder of which is held 50% by Aquarius Platinum Limited and 25% by Sylvania Resources Limited, operating at the Aquarius Kroondaal platinum mine on the western limb of the Bushveld Complex in South Africa's North West Province. The RK1 Consortium is currently undergoing care and maintenance which is managed by a subsidiary of Aquarius Platinum Limited.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

6. Joint arrangements (continued)

Joint venture

Partial sale of Kamoa Holding Limited

On December 8, 2015 the Company sold a 50.5% stake in Kamoa Holding Limited ("Kamoa Holding"), the company that owns 95% of the Kamoa project. Upon closing of the transaction, each shareholder is required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest.

(a) Consideration received

Zijin Mining Group Co., Ltd. ("Zijin") – through its subsidiary, Gold Mountains (H.K.) International Mining Company Limited – bought a 49.5% share interest in Kamoa Holding for an aggregate consideration of \$412.0 million. In addition, the Company sold 1% of its share interest in Kamoa Holding to Crystal River Global Limited ("Crystal River") for \$8.32 million, which Crystal River will pay through a non-interest-bearing, 10 year promissory note (see Note 7). The consideration received, net of transaction costs, was discounted using a risk free rate adjusted for country risk premium of 8.3% on the date of closing, resulting in a purchase price receivable of \$390.4 million.

Zijin paid \$206.0 million of the purchase consideration on closing and the remaining \$206.0 million will be received in five equal instalments, payable every 3.5 months from the date of closing. The first two installments of \$41.2 million were received in March 2016 and July 2016 respectively. The present value of the remaining consideration receivable, net of transaction costs, is \$ 113.4 million as at September 30, 2016 (December 31, 2015: \$ 191.9 million).

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Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

6. Joint arrangements (continued)

Joint venture (continued)

(b) Assets and liabilities over which the Company lost control

	December 8, 2015
	\$
Non-current assets	
Property, plant and equipment	41,731
Current assets	
Prepaid expenses	4,154
Cash and cash equivalents	9,143
Current liabilities	
Trade and other payables	(6,254)
	<u>48,774</u>

(c) Gain on partial sale of subsidiary

	December 8, 2015
	\$
Present value of consideration received (net of transaction costs)	390,382
Fair value of interest retained	408,213
	<u>798,595</u>
Net assets disposed of	(48,774)
Non-controlling interest	(16,002)
Re-measurement to fair value of the interest retained in joint venture	(376,148)
Gain on partial sale of subsidiary	<u>357,671</u>

Non-controlling interest of \$16.0 million relating to Kamo Holding up until the date of partial sale was re-allocated to the statement of comprehensive income as part of the gain on the partial sale of subsidiary.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

6. Joint arrangements (continued)

Joint venture (continued)

Assets, liabilities and share of losses from joint venture

The following table summarizes the Company's share of the comprehensive loss of Kamo Holding for the period ending September 30, 2016.

	Three months ended September 30, 2016	Nine months ended September 30, 2016
	\$	\$
Interest expense	8,338	23,011
Exploration costs	4,949	10,204
Foreign exchange loss	90	347
Loss for the period	13,377	33,562
Non-controlling interest	(638)	(1,558)
Loss for the period	12,739	32,004
Share of losses from joint venture (49.5%)	6,306	15,842

The assets and liabilities of the joint venture were as follows:

	September 30, 2016		December 31, 2015	
	100%	49.5%	100%	49.5%
	\$	\$	\$	\$
Assets				
Property, plant and equipment	96,157	47,598	44,281	21,919
Other assets	4,975	2,463	3,133	1,551
Mineral property	802,022	397,001	802,022	397,001
Prepaid expenses	2,873	1,422	3,537	1,751
Cash and cash equivalents	39,056	19,333	9,836	4,869
Liabilities				
Shareholder's loans	(479,491)	(237,348)	(377,905)	(187,063)
Accruals and payables	(19,876)	(9,839)	(5,376)	(2,661)
Non-controlling interest	(23,584)	(11,674)	(25,143)	(12,446)
Company's share of net assets in joint venture	422,132	208,955	454,385	224,921

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6. Joint arrangements (continued)

Joint venture (continued)

Investment in Joint Venture

	September 30, 2016	December 31, 2015
	\$	\$
Company's share of net assets in joint venture	208,955	224,921
Loan advanced to joint venture	246,829	187,063
	455,784	411,984

Commitments in respect of joint venture

The Company is required to fund its Kamoa joint venture in an amount equivalent to its proportionate shareholding interest. The following table summarizes the Company's proportionate share of the joint venture's commitments:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$	\$	\$	\$	\$
Advancement of interest free loan	126,250	-	-	-	126,250
	126,250	-	-	-	126,250

On March 21, 2014, a financing agreement was entered into between a subsidiary of Kamoa Holding and La Société Nationale d'Electricité SARL ("SNEL") relating to the first stage upgrade of two existing hydroelectric power plants in the DRC to feed up to 113 MW into the national power supply grid and for the supply of electricity to the Kamoa project.

Under the agreement, the subsidiary of Kamoa Holding agreed to provide a loan relating to the power upgrade, which is estimated to be \$141.0 million (including a \$4.5 million pre-finance loan), but is capped at a maximum commitment of \$250.0 million.

The loan advanced as at September 30, 2016 by the subsidiary of Kamoa Holding amounted to \$3.4 million (December 31, 2015: \$3.1 million) and is included in the investment in joint venture. The term for repayment of accrued interest and future costs is estimated to be 15 years, beginning after the expiry of a two year grace period from the signing date of the agreement. The actual repayment period will ultimately depend on the amount actually financed and on the amounts deducted from electricity bills based on a fixed percentage of the actual bill as per the terms of the loan repayment. The interest rate is 6 month LIBOR + 3%.

The Kamoa project will be given a priority electricity right by which SNEL commits to make available as per an agreed power requirements schedule, sufficient energy from its grid to meet the energy needs of the Kamoa project, and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the production and mine expansion scenarios.

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7. Promissory notes receivable

The Company has the following promissory notes receivable:

	September 30, 2016	December 31, 2015
	\$	\$
A\$3 million promissory note receivable (a)	2,046	1,827
Promissory note receivable from Crystal River (b)	8,683	7,249
	10,729	9,076

(a) The promissory note receivable with a carrying value of \$2.0 million is a A\$3 million promissory note which bears no interest and is receivable on March 31, 2018. This note was received as part of the purchase consideration received when the Company sold its Australian subsidiaries.

(b) The promissory note receivable with a carrying value of \$8.7 million is a \$9.5 million non-interest-bearing, 10 year promissory note, of which \$8.32 million was received by the Company as the purchase consideration for selling 1% of its share in Kamoā Holding (see Note 6). The promissory note is payable on the earlier of 8 December 2025 or the next business day following the completion of the sale, transfer or disposition of the shares held by Crystal River in Kamoā Holding Limited.

8. Other receivables

	September 30, 2016	December 31, 2015
	\$	\$
Administration consulting receivable from joint venture	3,938	1,462
Refundable taxes (a)	1,347	9,587
Advances	1,061	1,046
Other	3,326	3,532
	9,672	15,627

(a) Refundable taxes are net of an impairment provision for value-added taxes receivable in foreign jurisdictions where recoverability of those taxes are uncertain.

9. Financial assets at fair value through profit or loss

On March 31, 2015, the Company disposed of its Australian subsidiaries. The Company received listed shares with a value of \$0.8 million as part of the acquisition consideration at the time, which has been classified as financial assets at fair value through profit or loss. The trading value of the listed shares as at September 30, 2016 is \$3.5 million (December 31, 2015: \$1.0 million).

10. Cash and cash equivalents

As at September 30, 2016, the cash and cash equivalents of \$275.9 million (December 31, 2015: \$293.9 million) included \$29.1 million (December 31, 2015: \$57.1 million) which are subject to contractual restrictions as to their use and are reserved for the Platreef Project and were not available for the Company's general corporate purposes.

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11. Subsidiaries held for partial sale

Kamoa Holding Limited and subsidiaries

On May 26, 2015, the Company agreed to sell a 49.5% stake in Kamoa Holding, to Zijin through its subsidiary, Gold Mountains (H.K.) International Mining Company Limited and agreed to a strategic co-development of the Kamoa copper discovery in the Democratic Republic of Congo. In addition, the Company agreed to sell 1% of its share interest in Kamoa Holding to Crystal River (see Note 6).

Kamoa Holding Limited and subsidiaries' comprehensive loss up until December 8, 2015, the date of the eventual sale, have been included in the comprehensive loss from the subsidiaries held for partial sale. After December 8, 2015, Kamoa Holding Limited and its subsidiaries have been accounted for as a joint venture (see Note 6).

The comprehensive income from the subsidiaries held for partial sale is set out in the table below:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Kamoa Holding Limited and subsidiaries</i>				
Exploration and project expenditure	-	945	-	3,788
Professional fees	-	137	-	147
Foreign exchange (gains) losses	-	(22)	-	22
Other expenses	-	60	-	60
Other income	-	(9,078)	-	(9,091)
Profit for the period	-	(7,958)	-	(5,074)

The effect of the subsidiaries held for partial sale on the statement of cash flows is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Kamoa Holding Limited and subsidiaries</i>				
Cash used in operating activities	-	(908)	-	(10,189)
Cash used in investing activities	-	(7,443)	-	(23,204)
Cash generated from financing activities	-	8,287	-	34,278
Net cash inflow (outflow)	-	(64)	-	885

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12. Borrowings

	September 30, 2016	December 31, 2015
	\$	\$
<i>Unsecured - at amortised cost</i>		
(a) Loans from other entities	22,469	21,235
<i>Secured - at amortised cost</i>		
(b) Citi bank loan	3,068	3,495
(c) Citi bank loan	1,133	1,291
	26,670	26,021

- (a) On June 6, 2013, the Company became party to a \$28.0 million loan payable to ITC Platinum Development Limited, through its subsidiary Ivanplats (Pty) Ltd ("Ivanplats") the owner of the Platreef Project. The loan is repayable only once Ivanplats has residual cashflow, which is defined in the loan agreement as gross revenue generated by Ivanplats, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not compounded. Using prevailing market interest rates for an equivalent loan of LIBOR plus 7% at June 6, 2013, the fair value of the loan at September 30, 2016 was estimated at \$22.5 million. The difference of \$7.7 million on between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan. An interest expense of \$1.1 million (December 31, 2015: \$1.4 million) was recognised during the nine months ended September 30, 2016.
- (b) The Citi bank loan of \$3.1 million (£2.36 million) is secured by the Rhenfield property acquired during May, 2007 (see Note 4), is an interest only term loan repayable at June 30, 2020, and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears.
- (c) The Citi bank loan of \$1.1 million (£0.87 million) is a five year mortgage bond, in which the first three years only interest will be payable. The loan is secured by the Rhenfield property purchased in June, 2013 (see Note 4) and incurs interest at a rate of LIBOR plus 2.5% payable monthly in arrears.

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13. Trade and other payables

	September 30, 2016	December 31, 2015
	\$	\$
Trade payables	2,933	8,384
Trade accruals	6,301	3,720
Indirect taxes payable	234	280
Other payables	946	1,943
	10,414	14,327

The Company has policies in place to ensure trade and other payables are paid within agreed terms.

14. Share capital

(a) Shares issued

The Company is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares (together with the Class A Shares, the "common shares") and an unlimited number of Preferred Shares. As at September 30, 2016, 779,122,307 (December 31, 2015: 778,959,807) Class A Shares, nil Class B Shares and nil Preferred Shares were issued and outstanding. As at September 30, 2016, nil shares were subject to a lock-up, pursuant to lock-up agreements.

In April 2015, the Company concluded a private placement for 76,817,020 Class A Shares, which were sold at a price of C\$1.36 per unit for gross proceeds of C\$104 million (\$85 million). Issue costs amounted to \$0.2 million.

(b) Options

Share options are granted at an exercise price equal to the estimated value of the Company's common shares on the date of the grant.

As at September 30, 2016, 38,937,500 share options have been granted and exercised, and 32,112,500 have been granted and are outstanding.

All share options granted prior to December 31, 2012, vest in five equal stages with the first stage vesting on the date of the grant, and the remainder in four equal annual stages commencing on the first anniversary of the date of the grant. The Company established a new equity incentive plan for all options granted after December 31, 2012. Options granted under this plan vest in four equal parts, commencing on the one year anniversary of the date of grant and on each of the three anniversaries thereafter. The maximum term of options awarded is five years.

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(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
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14. Share capital (continued)

(b) Options

A summary of changes in the Company's outstanding share options is presented below:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of year	40,825,000	1.68	40,190,000	1.92
Granted	-	-	6,350,000	0.47
Exercised	(162,500)	0.86	-	-
Expired	(7,330,000)	2.40	(4,690,000)	1.80
Forfeited	(1,220,000)	1.07	(1,025,000)	2.95
Balance, end of year	32,112,500	1.53	40,825,000	1.68

No options were granted in the nine months ended September 30, 2016. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions was used for the share option grants in 2015 and 2014:

	2015	2014
Risk free interest rate	1.17%	1.17%
Expected volatility (i)	67%	63%
Expected life	3.75 years	3.75 years
Expected dividends	\$Nil	\$Nil
Forfeiture rate	1.0%	1.0%

(i) Expected volatility was based on the historical volatility of a peer company analysis.

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14. Share capital (continued)

(b) Options (continued)

The following table summarizes information about share options outstanding and exercisable as at September 30, 2016:

Expiry date	Options outstanding		Options exercisable	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
March 22, 2017	100,000	3.00	100,000	3.00
April 1, 2017	1,000,000	3.00	1,000,000	3.00
April 20, 2017	2,500,000	3.00	2,500,000	3.00
May 31, 2017	300,000	2.29	300,000	2.29
January 11, 2018	1,550,000	4.90	1,162,500	4.90
February 1, 2018	100,000	4.81	75,000	4.81
April 1, 2018	530,000	4.45	397,500	4.45
May 17, 2018	30,000	2.44	22,500	2.44
August 14, 2018	100,000	1.44	75,000	1.44
August 16, 2018	750,000	1.45	562,500	1.45
December 13, 2018	5,860,000	1.86	2,930,000	1.86
March 31, 2019	200,000	1.57	100,000	1.57
June 16, 2019	500,000	1.20	250,000	1.20
August 15, 2019	1,000,000	1.33	500,000	1.33
December 8, 2019	11,412,500	0.86	2,853,125	0.86
December 15, 2020	6,180,000	0.47	-	0.47
	32,112,500	1.53	12,828,125	2.29

(c) Warrants

The Company's warrants issued on June 10, 2014, remained unexercised and expired on December 10, 2015.

(d) Restricted share units

The Company started issuing restricted share units ("RSUs") as a security based compensation arrangement during December 2015. Each restricted share unit represents the right of an eligible participant to receive one Class A Share or a cash payment equal to the equivalent thereof.

RSUs vest in three equal parts, commencing on the one year anniversary of the date of grant and on each of the two anniversaries thereafter, subject to the satisfaction of any performance conditions.

During December 2015, a total of 7,277,081 restricted share units were issued to senior executives and some employees as a performance reward. An expense of \$3.4 million for the RSUs granted during the year ended December 31, 2015, using the fair value of a common share at time of grant, will be amortized over the vesting period, of which \$0.9 million was recognized in the nine months ended September 30, 2016 (see Note 17).

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Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
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15. Foreign currency translation reserve

	September 30, 2016	December 31, 2015
	\$	\$
Balance at the beginning of the year	(30,658)	(11,549)
Exchange differences arising on translation of the foreign operations	9,320	(19,109)
Balance at the end of the period	(21,338)	(30,658)

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency are recognized directly in other comprehensive loss and accumulated in the foreign currency translation reserve.

16. Non-controlling interests

	September 30, 2016	December 31, 2015
	\$	\$
Balance at beginning of the year	(118,174)	(121,207)
Share of comprehensive loss for the period	(8,825)	(12,969)
Change in non-controlling interest on partial sale of subsidiary	-	16,002
Balance at end of the period	(126,999)	(118,174)

Non-controlling interest of \$16.0 million relating to Kamoia Holding up until the date of the partial sale of the subsidiary on December 8, 2015 was re-allocated to the statement of comprehensive income as part of the gain on the partial sale of subsidiary in December 2015.

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17. Share-based payments

The share-based payment expense of the Company is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Equity settled share-based payments</i>				
Options granted (note 14(b))	988	1,655	3,195	5,377
Restricted share unit expense (note 14(d))	589	-	852	-
<i>Cash settled share-based payments</i>				
B-BBEE transaction expense	173	189	488	597
	1,750	1,844	4,535	5,974

Of the share-based payment expense recognised for the nine months ended September 30, 2016, \$0.5 million (2015: \$0.6 million) related to the B-BBEE transaction, with the remaining \$4.0 million (2015: \$5.4 million) being the expense for options and restricted share units granted to employees recognised over the vesting period.

18. Finance income

Finance income is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest from joint venture	(4,212)	-	(11,487)	-
Unwinding discount	(2,288)	-	(9,508)	-
Other interest income	(739)	273	(2,080)	1,013
	(7,239)	273	(23,075)	1,013

The unwinding discount is the unwinding of the purchase price receivable from Zijin (see Note 6).

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19. Finance costs

The finance costs of the Company are summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on non-current borrowings	362	35	1,234	101
Other financing costs	92	1	93	17
	454	36	1,327	118

20. Other income

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Fair valuation of financial asset (a)	1,108	(121)	2,429	292
Administration consulting fee	397	-	1,945	-
Promissory notes unwinding discount (b)	266	-	702	-
Other	162	(107)	374	186
	1,933	(228)	5,450	478

(a) The Company owns shares in a listed company. The shares are carried at fair value through profit and loss (see Note 9).

(b) The unwinding discount relates to the unwinding of the promissory notes (see Note 7).

21. Loss per share

The basic loss per share is computed by dividing the loss attributable to the owners of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. All outstanding stock options and share purchase warrants were anti-dilutive for the nine months ended September 30, 2016.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Basic diluted (gain) loss per share	(0.00)	0.02	0.01	0.05
Weighted average number of basic and diluted shares outstanding	778,996,196	778,959,807	778,971,937	747,663,984

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22. Related party transactions

The financial statements include the financial statements of Ivanhoe Mines Ltd. and its subsidiaries, joint ventures and joint operations listed in the following table:

Name	Country of Incorporation	% equity interest as at	
		September 30, 2016	December 31, 2015
Ivanhoe Mines (Barbados) Limited	Barbados	100%	100%
Ivanplats Holding SARL	Luxembourg	97%	97%
Ivanplats Finance Limited	Ireland	100%	100%
Gabon Holding Company Ltd.	Barbados	100%	100%
Ivanhoe (Zambia) Ltd.	Zambia	100%	100%
Kipushi Holding Limited	Barbados	100%	100%
Ivanhoe DRC Holding Ltd.	Barbados	100%	100%
Kipushi Corporation SA	Democratic Republic of Congo	68%	68%
Ivanhoe Mines Exploration DRC SARL	Democratic Republic of Congo	100%	100%
Ivanhoe Mines DRC SARL	Democratic Republic of Congo	100%	100%
Africa Consolidated Mineral Exploration (Pty) Ltd.	South Africa	100%	100%
Ivanplats (Pty) Ltd.	South Africa	64%	64%
Ivanhoe Mines SA (Pty) Ltd.	South Africa	100%	100%
GB Mining & Exploration (SA) (Pty) Ltd.	South Africa	100%	100%
RK Mining (SA) (Pty) Ltd.	South Africa	100%	100%
Ivanhoe Mines UK Limited	United Kingdom	100%	100%
Ivanhoe (Namibia) (Pty) Ltd.	Namibia	100%	100%
Ivanhoe Gabon SA	Gabon	100%	100%
Joint ventures			
Kamoa Holding Limited	Barbados	49.5%	49.5%
Joint operations			
Rhenfield Limited	British Virgin Islands	50%	50%
RK1 Consortium	South Africa	25%	25%

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22. Related party transactions (continued)

The following tables summarize related party expenses incurred by the Company, primarily on a cost-recovery basis, with companies related by way of directors or shareholders in common. The tables summarize the transactions with related parties and the types of expenditures incurred with related parties:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Global Mining Management Corporation (a)	320	525	1,887	1,882
Ivanhoe Capital Aviation LLC (b)	500	300	1,300	900
Ivanhoe Capital Services Ltd. (c)	97	130	401	399
HCF International Advisors (d)	113	46	282	137
Ivanhoe Capital Pte Ltd (e)	21	100	147	211
Global Mining Services Ltd. (f)	16	(1)	31	111
Ivanhoe Capital Corporation (UK) Ltd (g)	-	9	1	14
	1,067	1,109	4,049	3,654
Salaries and benefits	385	655	1,864	2,306
Travel	539	374	1,477	1,064
Consulting	170	58	361	192
Office and administration	(27)	22	347	92
	1,067	1,109	4,049	3,654

The above noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at September 30, 2016, trade and other payables included \$0.5 million (December 31, 2015: \$0.4 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

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22. Related party transactions (continued)

- (a) Global Mining Management Corporation ("Global") is a private company based in Vancouver. The Company holds an equity interest in Global, and has each of a director and significant shareholder in common therewith. Global provides administration, accounting and other services to the Company on a cost-recovery basis.
- (b) Ivanhoe Capital Aviation LLC ("Aviation") is a private company 100% owned by a director of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.
- (c) Ivanhoe Capital Services Ltd. ("Services") is a private company 100% owned by a director of the Company. Services provide for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.
- (d) HCF International Advisers ("HCF") is a corporate finance adviser specialising in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. HCF has a director in common with the Company and provides financial advisory services to the Company on an arm's length basis.
- (e) Ivanhoe Capital Pte Ltd. ("Capital") is a private company 100% owned by a director of the Company. Capital provides administration, accounting and other services in London on a cost-recovery basis.
- (f) Global Mining Services Ltd. ("Mining") is a private company incorporated in Delaware 100% owned by Global. Mining provides administration and other services to the Company on a cost-recovery basis.
- (g) Ivanhoe Capital Corporation (UK) Ltd. ("UK") is a private company 100% owned by a director of the Company. UK provides administration, accounting and other services in Singapore on a cost-recovery basis.

23. Cash flow information

Net change in non-cash working capital items:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net decrease (increase) in				
Other receivables	3,764	(9,418)	9,481	(7,272)
Prepaid expenses	(3,787)	279	(3,224)	303
Net (decrease) increase in				
Trade and other payables	2,188	391	(3,914)	(3,208)
	2,165	(8,748)	2,343	(10,177)

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24. Financial instruments

(a) Fair value of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

Financial instrument	Level	September 30, 2016	December 31, 2015
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	3,456	1,027
<i>Loans and receivables</i>			
Purchase price receivable	Level 2	113,445	191,856
Promissory note receivable	Level 2	10,729	9,076
Financial liabilities			
Borrowings	Level 2	26,670	26,021
Option liability	Level 2	1,693	1,204

IFRS 13 - "Fair value measurement", requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and established a hierarchy into which these assets and liabilities must be grouped based on whether inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. The two types of inputs create the following fair value hierarchy:

- Level 1: observable inputs such as quoted prices in active markets;
- Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and
- Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore require an entity to develop its own assumptions.

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited (see Note 12 (a)) was originally determined assuming repayment occurs on August 31, 2022 and using an interest rate of LIBOR plus 7%. The carrying value of borrowings is not significantly different to their fair value.

The fair value of the Company's remaining financial instruments were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

24. Financial instruments (continued)

(b) Financial risk management objectives and policies

The risks associated with the Company's financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Foreign exchange risk

The Company incurs certain of its expenses in currencies other than the U.S. dollar. As such, the Company is subject to foreign exchange risk as a result of fluctuations in exchange rates. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations, however, management monitors foreign exchange exposure.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities at the respective statement of financial position dates are as follows:

	September 30, 2016	December 31, 2015
	\$	\$
Assets		
Canadian dollar	2,175	1,786
Australian dollar	-	-
South African rand	19,267	22,266
British pounds	906	1,316
Liabilities		
Canadian dollar	(224)	(246)
Australian dollar	(28)	(21)
South African rand	(4,792)	(4,262)
British pounds	(83)	(92)

Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 5% increase and decrease in the U.S. dollar against the foreign currencies presented. The sensitivity analysis includes only outstanding foreign currency denominated monetary items not denominated in the functional currency of the Company or the relevant subsidiary and adjusts their translation at the end of the period for a 5% change in foreign currency rates. A positive number indicates a decrease in loss for the year where the foreign currencies strengthen against the U.S. dollar. The opposite number will result if the foreign currencies depreciate against the U.S. dollar.

	Nine months ended September 30,	
	2016	2015
	\$	\$
Canadian dollar	97	453
Australian dollar	(1)	(2)
South African rand	(31)	(260)
British pounds	1	(2)

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

24. Financial instruments (continued)

(b) *Financial risk management objectives and policies (continued)*

(ii) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Credit risk for the Company is primarily associated with trade and other receivables and cash equivalents as well as long term loan receivables.

The Company reviews the recoverable amount of their receivables at each statement of financial position date to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Company considers that the credit risk is significantly reduced. The credit risk on cash equivalents is limited because the cash equivalents are composed of financial instruments with major banks who have investment grade credit ratings assigned by international credit rating agencies and have low risk of default. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference historical information about counterparty default rates. The Company has a purchase price receivable from Zijin which will be received in five equal instalments, payable every 3.5 months from the date of closing. The first two instalments were received in March 2016 and July 2016. The installment payments owing from Zijin are secured by a pledge of shares of Kamoa Holding Limited owned by Zijin and which originally represented 24.75% of the outstanding shares of that entity. Should Zijin default on any installment payment, a subsidiary of the Company is entitled to enforce on the pledge of shares, including by requiring the re-transfer of ownership of 1/5th of the pledged shares back to a subsidiary of the Company, which, if it occurred, would result in a reduction in the share ownership of Kamoa Holding Limited by Zijin.

Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

24. Financial instruments (continued)

(b) Financial risk management objectives and policies (continued)

(iii) Liquidity risk

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

The following table details the Company's expected remaining contractual maturities for its financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total un- discounted cash flows
	\$	\$	\$	\$	\$
As at September 30, 2016					
Trade and other payables	9,118	247	1,049	-	10,414
Current income tax liabilities	50	-	-	-	50
Non-current borrowings	-	-	-	34,350	34,350
As at December 31, 2015					
Trade and other payables	10,335	3,185	10	797	14,327
Current income tax liabilities	120	-	-	-	120
Non-current borrowings	-	-	-	34,460	34,460

(iv) Cash flow and fair value interest rate risk

The Company's main interest rate risk arises from long term borrowings. Interest rate risk is not considered to be significant for the Company. The risk is managed by borrowing at fixed rates.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

25. Commitments and contingencies

The commitments in respect of the joint venture is set out in Note 6.

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements for the Company.

As at September 30, 2016, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$	\$	\$	\$	\$
Shaft 1 construction Platreef project	15,828	4,000	-	-	19,828
Operating leases	405	936	963	-	2,304
	16,233	4,936	963	-	22,132

The Company contracted Aveng Mining for the sinking of shaft 1 at the Platreef Project. The contract will conclude once the shaft reaches the contracted depth of 777 metres below surface, which is expected in late 2017.

26. Segmented information

At September 30, 2016, the Company has four reportable segments, being the Platreef property, Kamoa property and joint venture, Kipushi property and the Company's treasury offices.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

For these four reportable segments, the Company receives discrete financial information that is used by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

(Unaudited)

26. Segmented information (continued)

The reportable segments are principally engaged in the exploration and development of mineral properties in South Africa, the Democratic Republic of Congo ("DRC") and the restoration of a mine in the DRC respectively. The following is an analysis of the non-current assets by geographical area and reconciled to the Company financial statements:

	South Africa	DRC	Other	Total
	\$	\$	\$	\$
Non-current assets				
As at September 30, 2016	101,107	464,995	27,730	593,832
As at December 31, 2015	62,150	429,577	91,814	583,541
		September 30,	December 31,	
		2016	2015	
		\$	\$	
Segment assets				
Kamoa Holding Limited joint venture		455,784	414,521	
Treasury (i)		373,474	438,976	
Platreef properties		136,887	120,822	
Kipushi properties		13,508	22,173	
Unallocated (ii)		26,513	26,086	
Total		1,006,166	1,022,578	
Segment liabilities				
Platreef properties		27,419	25,799	
Treasury (i)		3,884	6,475	
Kipushi properties		3,170	3,720	
Kamoa Holding Limited joint venture		892	101	
Treasury (i)		3,884	6,475	
Unallocated (ii)		5,544	7,659	
Total		40,909	50,229	

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements September 30, 2016

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
(Unaudited)

26. Segmented information (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Segment losses (profits)				
Kipushi properties	30,004	7,223	44,748	21,796
Kamoa Holding Limited joint venture	6,306	(8,229)	15,842	(8,232)
Platreef properties	2,158	191	3,078	(997)
Treasury (i)	(3,351)	3,581	(12,230)	28,654
Unallocated (ii)	(23,719)	2,935	(23,344)	(6,527)
Total	11,398	5,701	28,094	34,694
Capital expenditures				
Platreef properties	10,398	12,845	29,997	38,202
Kamoa Holding Limited joint venture	-	7,434	-	23,952
Kipushi properties	265	59	1,605	323
Unallocated (i)	192	598	790	1,494
Total	10,855	20,936	32,392	63,971
Exploration and project expenditure				
Kipushi properties	6,608	7,192	19,770	21,710
Platreef properties	55	-	133	-
Kamoa Holding Limited joint venture	-	652	-	659
Unallocated (i)	1,106	709	3,016	8,111
Total	7,769	8,553	22,919	30,480

The Company's other divisions that do not meet the quantitative thresholds of IFRS 8 Operating segments, are included in the segmental analysis under the unallocated column.

27. Subsequent event

On October 25, 2016, the Company received the third of 5 equal installments of \$41.2 million from Zijin in accordance with the terms in the share acquisition agreement.

28. Approval of the financial statements

The condensed consolidated interim financial statements of Ivanhoe Mines Ltd., for the three and nine months ended September 30, 2016 were approved and authorized for issue by the Board of Directors on November 8, 2016.

IVANHOE MINES

NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2016**

DATED: NOVEMBER 8, 2016

INTRODUCTION

This management's discussion and analysis (MD&A) should be read in conjunction with the unaudited condensed consolidated interim financial statements of Ivanhoe Mines Ltd. ("Ivanhoe", "Ivanhoe Mines" or the "Company"), for the three and nine months ended September 30, 2016, which have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) and the audited consolidated financial statements of Ivanhoe for the years ended December 31, 2015 and 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar figures stated herein are in U.S. dollars, unless otherwise specified. References to "C\$" mean Canadian dollars and references to "R" mean South African Rands.

The effective date of this MD&A is **November 8, 2016**. Additional information relating to the Company is available on SEDAR. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. See "*Forward-Looking Statements*" and "*Risk Factors*".

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws, including without limitation, the timing and results of: (i) statements regarding Shaft 1 providing initial access for early underground development at the Platreef Deposit; (ii) statements regarding the station development of Shaft 1 at the 450, 750, 850 and 950 metre levels; (iii) statements regarding the sinking of Shaft 1, including that a sinking rate of 45 metres per month is expected; statements regarding Shaft 1 reaching the planned, final depth at 980 metres below surface in 2018; (iv) statements regarding the timing of the commencement of Shaft 2 development, including that construction is to commence in 2017; (v) statements regarding the operational and technical capacity of Shaft 1; (vi) statements regarding the internal diameter and hoisting capacity of Shaft 2; (vii) statements regarding the Company's plans to develop the Platreef Mine in three phases: an initial annual rate of four million tonnes per annum (Mtpa) to establish an operating platform to support future expansions; followed by a doubling of production to eight Mtpa; and then a third expansion phase to a steady-state 12 Mtpa; (viii) statements regarding the planned underground mining methods of the Platreef Project; (ix) statements regarding peak water use of 10 million litres per day at the Platreef Project and development of the Pruisen Pipeline Project; (x) statements regarding the Platreef Project's electricity requirement of 100 million volt-amperes; (xi) statements regarding the completion of a feasibility study at the Platreef Project in the first half of 2017; (xii) statements regarding the declines having been designed to intersect the high-grade copper mineralization in the Kansoko Sud area during the first quarter of 2017; (xiii) statements regarding the timing, size and objectives of drilling and other exploration programs for 2016 and future periods; (xiv) statements regarding the expectation to have an preliminary economic assessment (PEA) of the Kakula Discovery at the Kamoakakula Project completed before the end of 2016; (xv) statements regarding the implementation of Social and Labour Plan at the Platreef Project; (xvi) statements that the expanded 60,000 metres of drilling at the Kakula Discovery will run through Q2 2017; and (xvii) statements regarding expected further expenditure in 2016 of \$14 million on further development at the Platreef Project; \$8 million at the Kipushi Project; and \$5 million on corporate overheads – as well as its proportionate funding of the Kamoakakula Project for Q1 2017 expected to be advanced in December 2016.

Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect the Company's current expectations regarding future events, performance and results and speak only as of the date of this MD&A.

As well, the results of the pre-feasibility study of the Kamo-a-Kakula Project, the pre-feasibility study of the Platreef Project and the preliminary economic assessment of the Kipushi Project constitute forward-looking information, and include future estimates of internal rates of return, net present value, future production, estimates of cash cost, proposed mining plans and methods, mine life estimates, cash flow forecasts, metal recoveries, estimates of capital and operating costs and the size and timing of phased development of the projects. Furthermore, with respect to this specific forward-looking information concerning the development of the Kamo-a-Kakula, Platreef and Kipushi Projects, the Company has based its assumptions and analysis on certain factors that are inherently uncertain. Uncertainties include: (i) the adequacy of infrastructure; (ii) geological characteristics; (iii) metallurgical characteristics of the mineralization; (iv) the ability to develop adequate processing capacity; (v) the price of copper, nickel, zinc, platinum, palladium, rhodium and gold; (vi) the availability of equipment and facilities necessary to complete development; (vii) the cost of consumables and mining and processing equipment; (viii) unforeseen technological and engineering problems; (ix) accidents or acts of sabotage or terrorism; (x) currency fluctuations; (xi) changes in regulations; (xii) the compliance by joint venture partners with terms of agreements, (xiii) the availability and productivity of skilled labour; (xiv) the regulation of the mining industry by various governmental agencies; and (xiv) political factors.

This MD&A also contains references to estimates of Mineral Resources and Mineral Reserves. The estimation of Mineral Resources is inherently uncertain and involves subjective judgments about many relevant factors. Estimates of Mineral Reserves provide more certainty but still involve similar subjective judgements. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgments used in engineering and geological interpretation (including estimated future production from the Company's projects, the anticipated tonnages and grades that will be mined and the estimated level of recovery that will be realized), which may prove to be unreliable and depend, to a certain extent, upon the analysis of drilling results and statistical inferences that ultimately may prove to be inaccurate. Mineral Resource or Mineral Reserve estimates may have to be re-estimated based on: (i) fluctuations in copper, nickel, zinc, platinum group elements (PGE), gold or other mineral prices; (ii) results of drilling; (iii) metallurgical testing and other studies; (iv) proposed mining operations, including dilution; (v) the evaluation of mine plans subsequent to the date of any estimates and/or changes in mine plans; (vi) the possible failure to receive required permits, approvals and licenses; and (vii) changes in law or regulation.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results and will not necessarily be accurate indicators of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed below and under "Risk Factors", as well as unexpected changes in laws, rules or regulations, or their enforcement by applicable authorities; the failure of parties to contracts with the Company to perform as agreed; social or labour unrest; changes in commodity prices; and the failure of exploration programs or studies to deliver anticipated results or results that would justify and support continued exploration, studies, development or operations.

Although the forward-looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Subject to applicable securities laws, the Company does not assume any obligation to update or revise the forward-looking statements contained herein to reflect events or circumstances occurring after the date of this MD&A.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors set forth below in the "Risk Factors" section beginning on page 37 and elsewhere in this MD&A.

REVIEW OF OPERATIONS

Ivanhoe Mines is a mineral exploration and development company. The Company's financial performance is primarily affected by ongoing exploration and development activities being conducted at its three material properties. The Company has no producing properties and does not have operating revenues. The Company expects to fund all of its exploration and development activities through debt and equity financing until operating revenues commence. The Company's material properties consist of:

- **The Platreef Project.** Construction of the planned Platreef mine now is underway on the Company's discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of South Africa's Bushveld Complex. Ivanhoe holds a 64% interest in Platreef, the South African beneficiaries of a broad-based, black economic empowerment structure have a combined 26% stake in the Platreef Project and the remaining 10% is owned by a Japanese consortium of ITOCHU Corporation and its affiliate, ITC Platinum Development Ltd.; Japan Oil, Gas and Metals Corporation; and Japan Gas Corporation. (See "*Platreef Project*".)
- **The Kipushi Project.** The existing Kipushi Mine is located on the Central African Copperbelt in the Democratic Republic of Congo's (DRC) southern Haut-Katanga province, one of Africa's major mining hubs. The mine, which operated between 1924 and 1993, is approximately 30 kilometres southwest of the provincial capital, Lubumbashi, and less than one kilometre from the DRC-Zambia border. Ivanhoe holds a 68% interest in Kipushi; the state-owned mining company, Gécamines, holds the remaining 32% interest. (See "*Kipushi Project*".)
- **The Kamoa-Kakula Copper Project.** A joint venture between Ivanhoe Mines and Zijin Mining Group Co., Ltd., ("Zijin" or "Zijin Mining") within the Central African Copperbelt in the Democratic Republic of Congo's southern Lualaba province. The Kamoa-Kakula Project is independently demonstrated as the largest copper discovery ever made in the history of mining on the African continent and already ranks among the 10 largest copper deposits in the world (See "*Kamoa-Kakula Project*".)

PLATREEF PROJECT

The Platreef Project is owned by Ivanplats (Pty) Ltd, which is 64%-owned by Ivanhoe Mines. A 26% interest is held by Ivanplats' historically-disadvantaged broad-based, black economic empowerment (B-BBEE) partners, which include 20 local host communities with a total of approximately 150,000 people, project employees and local entrepreneurs. Ivanplats reconfirmed its Level 3 status in its second verification assessment on a B-BBEE scorecard. A Japanese consortium of ITOCHU Corporation and its affiliate, ITC Platinum, plus Japan Oil, Gas and Metals National Corporation and JGC Corporation, owns a 10% interest in Ivanplats, which it acquired in two tranches for a total investment of \$290 million.

The Platreef Project hosts an underground deposit of thick, platinum-group metals, nickel, copper and gold mineralization in the Northern Limb of the Bushveld Igneous Complex, approximately 280 kilometres northeast of Johannesburg and eight kilometres from the town of Mokopane in Limpopo Province.

On the Northern Limb, platinum-group metals mineralization is hosted primarily within the Platreef, a mineralized sequence that is traced more than 30 kilometres along strike. Ivanhoe's Platreef Project, within the Platreef's southern sector, is comprised of three contiguous properties: Turfspruit, Macalacaskop and Rietfontein. Turfspruit, the northernmost property, is contiguous with, and along strike from, Anglo Platinum's Mogalakwena group of mining operations and properties.

Since 2007, Ivanhoe has focused its exploration activities on defining and advancing the down-dip extension of its original discovery at Platreef, now known as the Flatreef Deposit, which is amenable to highly mechanized, underground mining methods. The Flatreef area lies entirely on the Turfspruit and Macalacaskop properties, which form part of the Company's mining right.

Platreef Mineral Resources

On May 11, 2016, Ivanhoe Mines announced a substantial increase in Indicated and Inferred Mineral Resources at the Platreef Project. The updated Mineral Resource estimate, which included updated UMT_TCU Mineral Resources, Bikkuri Mineral Resources and the Mineral Resources in the immediate footwall of the TCU, was prepared by Ivanhoe Mines under the direction of Dr. Harry Parker, RM SME, of Amec Foster Wheeler E&C Services Inc. Dr. Parker and Timothy Kuhl, RM SME, also of Amec Foster Wheeler, have independently confirmed the Mineral Resource estimate and are the Qualified Persons for the estimate, which has an effective date of April 22, 2016.

The Flatreef Mineral Resource, with a strike length of 6.5 kilometres, lies predominantly within a flat-to-gently-dipping portion of the Platreef mineralized belt at relatively shallow depths of approximately 500 metres to 1,350 metres below the surface. The Flatreef Deposit is characterized by its very large vertical thicknesses of high-grade mineralization and a platinum-to-palladium ratio of approximately 1:1, which is significantly higher than other recent PGM discoveries on the Bushveld's Northern Limb.

The Platreef Indicated Mineral Resources for all mineralized zones are 346 million tonnes at a grade of 3.77 grams per tonne (g/t) 3PE+gold (1.68 g/t platinum, 1.70 g/t palladium, 0.11 g/t rhodium, 0.28 g/t gold), 0.32% nickel and 0.16% copper at a 2.0 g/t 3PE+gold cut-off. The average thickness of the 2.0 g/t 3PE+gold grade shell used to constrain the T2MZ resources for the indicated area is 19 metres.

Inferred mineral resources for all mineralized zones are 506 million tonnes at a grade of 3.24 g/t 3PE+gold (1.42 g/t platinum, 1.46 g/t palladium, 0.10 g/t rhodium, 0.26 g/t gold), 0.31% nickel and 0.16% copper. The average thickness of the 2.0 g/t 3PE+gold grade shell used to constrain the T2MZ resources for the inferred area is 12.7 metres.

Health and safety at Platreef

The Platreef Project reached a total of 6,331,141 million hours in terms of the Mines Health and Safety Act and the Occupational Health and Safety Act (OHSA) by the end of September 2016. The project recorded 178,552 work hours free of lost-time injuries (LTIF) up until the end of Q3 2016.

Unfortunately, the project suffered a lost-time injury during the quarter. A rock-drill operator was injured, booked off and returned to work seven days after the incident. The Platreef Project continues to strive toward its workplace objective of an environment that causes zero harm to any employees, contractors, sub-contractors or consultants.

Shaft 1 construction

Shaft 1, with an internal diameter of 7.25 metres, will provide initial access to the ore body and enable the initial underground capital development to take place during the development of Shaft 2, the main production shaft.

Following the successful commissioning and licencing of the stage and kibble winders and ancillary equipment, the permanent sinking phase started in July 2016. The initial sinking phase was completed to 107 metres below surface and the main sinking phase has been initiated.

A sinking rate of 45 metres per month is expected during the main phase, which includes a 300-millimetre concrete shaft lining and inserts. The current level is approximately 130 metres below surface; stations will be developed at the 450-, 750-, 850- and 950-metre levels. The main sinking phase is expected to reach its projected, final depth of 980 metres below surface in 2018.

Figure 1: Shaft 1 headgear and other related surface infrastructure.



The design has been completed for Platreef's Shaft 2, which will have a total hoisting capacity of six million tonnes per annum and an internal diameter of 10 metres; construction is expected to begin in 2017.

Project infrastructure

Work is complete on the internal substation, which has a capacity of five million volt-amperes (MVA). Construction is underway on the power transmission lines from Eskom, South Africa's public electricity utility, which are expected to supply the electricity for shaft sinking. Back-up generators have been

installed to ensure continued sinking operations during any interruptions in Eskom's supply of electricity. The new transmission lines also are expected to provide power to an adjacent community near the Platreef Project, which will be a major, added community benefit.

Figure 2: Eskom's 5MVA line to Platreef Project.



Other on-site work completed includes the storm-water pond management system, concrete batch plant, workshops, stores and an explosives magazine.

Construction of the intersection on the National Road (N11) highway for improved access to the Platreef mine site was completed in August 2016. The work included adding extra lanes to the existing roadway, exit and entry ramps, storm-water management and resurfacing of the intersection.

Platreef implementing a phased approach to a large, underground, mechanized mine

Ivanhoe plans to develop the Platreef Mine in phases. The initial annual rate of four million tonnes per annum (Mtpa) is designed to establish an operating platform to support future expansions. This is expected to be followed by a potential doubling of production to 8 Mtpa; and then a third expansion phase to a steady-state 12 Mtpa, which would establish Platreef among the largest platinum-group-metals mines in the world.

Ivanhoe has made good progress on advancing the feasibility study of the first phase, which began in August 2015. The study is being managed by DRA Global – with specialized sub-consultants including Stantec Consulting, Murray & Roberts Cementation, SRK, Golder Associates and Digby Wells Environmental – and is expected to be completed in the first half of 2017. There are expected to be opportunities to refine and modify the timing and capacities of subsequent phases of production to suit market conditions during the development and commissioning of the first phase.

Metallurgical testwork and processing

Metallurgical testwork has focused on maximizing the recovery of platinum-group metals and base metals, also while producing an acceptably high-grade concentrate grade for sale to third parties. The three main geo-metallurgical units and composites have produced concentrator grades of approximately 85 to 110 g/t 3PE+gold at good PGE recoveries (86% to 88% 3PE+gold).

Comminution and flotation testwork has demonstrated that the optimum grind size of 80% passing 75 micrometres, in one stage of milling is sufficient to achieve recoveries referred to above. This simplifies

the circuit and should enable Ivanhoe to optimize the capital and operating cost of the concentrator.

The flow sheet for phase one comprises a four-million-tonne-per-year, three-stage crushing circuit, which will feed into two parallel milling-flotation modules, each with a capacity of two million tonnes per year. Flotation is followed by a four-million-tonne-per-year tailings-handling and concentrate-thickening, filtration and storage circuit.

Planned mining methods to incorporate highly productive, mechanized methods

The selected mining areas in the current mine plan occur at depths ranging from approximately 700 metres to 1,200 metres below the surface. The main access to the Flatreef Deposit and ventilation system is expected to be through four vertical shafts. Shaft 2 will host the main personnel transport cage, material and ore-handling systems; Shafts 1, 3 and 4 will provide ventilation to the underground workings. Shaft 1, now under development, also will be used for initial access to the deposit and early underground development.

Planned mining of the Flatreef Deposit is expected to use highly productive, mechanized methods, including long-hole stoping and drift-and-fill mining. Mined-out areas will be backfilled with a paste mixture that utilizes tailings from the process plant and cement. The ore will be hauled from the stopes to a series of ore passes that will connect to a main haulage level at Shaft 2, from where it will be hoisted to surface for processing.

Bulk water and electricity supply

The Olifants River Water Resource Development Project (ORWRDP) is designed to deliver water to the Eastern and Northern limbs of South Africa's Bushveld Complex. The project consists of the new De Hoop Dam, the raised wall of the Flag Boshielo Dam and related pipeline infrastructure that ultimately is expected to deliver water to Pruissen, southeast of the Northern Limb. The Pruissen Pipeline Project is expected to be developed to deliver water onward from Pruissen to the municipalities, communities and mining projects on the Northern Limb. Ivanhoe is a member of the ORWRDP's Joint Water Forum. The Minister of Water & Sanitation has directed that the Trans-Caledon Tunnel Authority serve as the implementing agent for the outstanding phases of the ORWRDP scheme, which include the Phase 2B pipeline from Flag Boshielo Dam to Mokopane.

The Platreef Project's water requirement for the first phase of development is projected to peak at approximately 10 million litres per day, which is expected to be serviced by the scheme. Ivanhoe also is investigating various alternative sources of bulk water, including an allocation of bulk grey-water from the local municipality.

The Platreef Project's electricity requirement for a four-million-tonne-per-year underground mine, concentrator and associated infrastructure has been estimated at approximately 100 million volt-amperes. An agreement has been reached with Eskom for the supply of phase-one power. Ivanhoe chose a self-build option for permanent power that will enable the company to manage the construction of the distribution lines from Eskom's Burutho sub-station to the Platreef Mine. The formulation of the self-build and electrical supply agreements are in progress.

Development of human resources and job skills

Work is progressing well on the further implementation of Ivanhoe's Social and Labour Plan (SLP), to which the Company has pledged a total of R160 million (\$11 million) during the first five years, until November 2019. The approved plan includes R67 million (\$4 million) for the development of job skills among local residents and R88 million (\$6 million) for local economic development projects. Additional internal training is ongoing to provide members of the current workforce with opportunities to expand their skills.

Ivanplats recently concluded a one-year deal with the National Union of Mineworkers (NUM) for annual wage increases without any labour disruption or work stoppage during negotiations.

KIPUSHI PROJECT

The Kipushi copper-zinc-germanium-lead mine, in the Democratic Republic of Congo, is adjacent to the town of Kipushi and approximately 30 kilometres southwest of Lubumbashi. It is located on the Central African Copperbelt, approximately 250 kilometres southeast of the Kamo-a-Kakula Project and less than one kilometre from the Zambian border. Ivanhoe acquired its 68% interest in the Kipushi Project in November 2011; the balance of 32% is held by the state-owned mining company, La Générale des Carrières et des Mines (Gécamines).

Health, safety and community development at Kipushi

The Kipushi Project achieved a total of 4,674,445 work hours free of lost-time injuries, equivalent to 1,512 days, to the end of Q3 2016. Malaria remains the most frequently occurring health concern at Kipushi; in Q3 2016, there was an average of 15 cases each month among employees, which is above the dry-season norm.

In an effort to reduce the incidence of malaria in the Kipushi community, a Water Sanitation and Health (WASH) program has been initiated in cooperation with the Territorial Administrator and the local community. The main emphasis of the program's first phase is cleaning storm drains in the municipality to prevent the accumulation of ponded water, where malarial mosquitos breed.

The Fionet program to combat malaria has distributed 150 Deki electronic readers in addition to the original 37 readers provided to medical-service providers in Lualaba and Haut-Katanga provinces. The Deki technology provides automated reading of Rapid Diagnostic Tests to remove the human-error factor and prescription of unnecessary medication and uploads data to a cloud server for analysis by the Ministry of Health in planning malaria-control measures. Data gathered up until September 30, 2016, indicate that 18,818 patients have been tested using the Deki reader, with more than half those testing negative for malaria.

Road and drainage rehabilitation on the main thoroughfare through the centre of Kipushi municipality was completed by the Haut Katanga Office of Roads and Drainage (Office des Voies et Drainage), following the civils works completed by MCK on behalf of the Kipushi Project.

Kipushi Mineral Resources

Ivanhoe announced a Mineral Resource estimate for Kipushi on January 27, 2016. The estimate was prepared by MSA Group of Johannesburg in accordance with the 2014 CIM definition standards, incorporated by reference into Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

Zinc-rich Measured and Indicated Mineral Resources total 10.18 million tonnes at 34.89% zinc, 0.65% copper, 0.96% lead, 19 g/t silver, 15ppm cobalt and 51 g/t Germanium at a 7% zinc cut-off, containing 7,833 million pounds of zinc. Zinc-rich Inferred Mineral Resources total 1.87 million tonnes at 28.24% zinc, 1.18% copper, 0.88% lead, 10 g/t silver, 15ppm cobalt and 53 g/t germanium at a 7% zinc cut-off containing 1,169 pounds of zinc.

Copper-rich Measured and Indicated Mineral Resources total an additional 1.63 million tonnes at grades of 4.01% copper, 2.87% zinc and 22 g/t silver, at a 1.5% copper cut-off, containing 144 million pounds of

copper. Copper-rich Inferred Mineral Resources total an additional 1.64 million tonnes at grades of 3.30% copper, 6.97% zinc and 19 g/t silver at a 1.5% copper cut-off, containing 119 million pounds of copper.

Project development and infrastructure

The Kipushi Mine, which had been placed on care and maintenance in 1993, flooded in early 2011 due to a lack of pump maintenance over an extended period. At its peak, water reached 851 metres below the surface. A major milestone was reached in December 2013 when Ivanhoe restored access to the mine's principal haulage level at 1,150 metres below the surface. Since then, crews have been upgrading underground infrastructure to permanently stabilize the water levels.

Since completion of the drilling program, water levels have been lowered to approximately the 1,245-metre-level in Shaft 5. Engineering work has focused on upgrading of Shaft 5 conveyances and infrastructure, cleaning the shaft bottom to facilitate the installation of new hoist ropes, repairs and upgrades to the hoisting infrastructure and cleaning and stripping of the main pump station at the 1,200-metre-level.

Confirmatory and exploration drilling

The Kipushi underground drilling project focused on the Big Zinc mineralization was completed in October 2015 and no additional drilling has been undertaken since.

Figure 3: Connecting discharge pipes to one of five pumps on the 1,200-metre-level.



Pre-feasibility study underway at Kipushi

A pre-feasibility study (PFS) now underway will further refine the optimal development scenario for the existing underground mine at Kipushi. Orewin Pty. Ltd., of Australia, has been appointed the main contractor and Golder Associates, MDM, SRK, DRA and Grindrod have been engaged to complete various aspects of the PFS.

The PFS will refine the positive preliminary economic assessment (PEA) for the redevelopment of the Kipushi Project that was announced on May 2, 2016. The PEA was prepared in compliance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

Highlights of the PEA, prepared by OreWin and the MSA Group (Pty) Ltd, of Johannesburg, South Africa, include:

- After-tax net present value at an 8% real discount rate is \$533 million.
- After-tax real internal rate of return is 30.9%.
- After-tax project payback period is 2.2 years.
- Leveraging existing surface and underground infrastructure significantly lowers the redevelopment capital compared to a greenfield development project, as well as the time required to reinstate production.
- Life-of-mine average planned zinc concentrate production of 530,000 dry tonnes per annum – with a concentrate grade of 53% zinc – is expected to rank Kipushi, once in production, among the world's major zinc mines.
- Life-of-mine average cash cost of \$0.54/lb. of zinc is expected to rank Kipushi, once in production, in the bottom quartile of the cash-cost curve for zinc producers globally.

KAMOA-KAKULA PROJECT

The Kamoa-Kakula Copper Project, a joint venture between Ivanhoe Mines and Zijin Mining, is the largest copper discovery ever made on the African continent, with adjacent prospective exploration areas within the Central African Copperbelt in the Democratic Republic of Congo, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of Lubumbashi. Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited, the company that presently owns 95% of Kamoa Copper SA, the owner of the Kamoa-Kakula Project, to Zijin Mining in December 2015 for an aggregate consideration of \$412 million. In addition, Ivanhoe sold a 1% share interest in Kamoa Holding to privately-owned Crystal River Global Limited for \$8.32 million – which Crystal River will pay through a non-interest-bearing, 10-year promissory note.

A 5%, non-dilutable interest in the Kamoa-Kakula Project was transferred to the DRC government on September 11, 2012, for no consideration, pursuant to the DRC Mining Code. Ivanhoe also has offered to transfer an additional 15% interest to the DRC government on terms to be negotiated. Constructive and cordial negotiations over the offer are continuing between Ivanhoe Mines, Zijin and senior DRC government officials. Ivanhoe expects a mutually beneficial agreement to be achieved in the near future that will provide long-lasting, positive benefits to the DRC government and the Congolese people.

Subsequent to the sales to Zijin and Crystal River, Ivanhoe owns an effective 47% of the Kamo-a-Kakula Project, which will decrease to an effective 40% should the additional 15% interest be transferred to the DRC government.

Kamo-a-Kakula already ranks among the 10 largest copper deposits in the world. On October 12, 2016, an initial Mineral Resource estimate for the extremely-high-grade Kakula Discovery was issued with an effective date of October 9, 2016. Kakula's estimated resources are in addition to the Mineral Resources delineated elsewhere on the Kamo-a mining licence that were disclosed by Ivanhoe Mines in a news release on February 23, 2016. The combined Kamo-a-Kakula Indicated Mineral Resources now total 944 million tonnes grading 2.83% copper, containing 58.9 billion pounds of copper at a 1.0% copper cut-off grade and a minimum thickness of three metres. Kamo-a-Kakula now also has Inferred Mineral Resources of 286 million tonnes grading 2.31% copper and containing 14.6 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum thickness of three metres.

Kamo-a-Kakula studies

The mining portion of the feasibility study for a four-million-tonne-per-annum (4Mtpa) mine at Kansoko Sud is progressing well; the work is being carried out by a number of specialist consultants, including Stantec for the mine, DRA for the underground engineering, KGHM Cuprum for geotechnical and mining method, SRK for the mine geotechnical and Golder for geohydrology.

With the initial Kakula Mineral Resource estimate completed, Kamo-a Copper has retained OreWin, of Adelaide, Australia, to prepare a preliminary economic assessment (PEA) for the development of the Kakula Deposit. The PEA, which is expected to be completed before the end of 2016, will concentrate on establishing the economic parameters of potential mining operations at Kakula, including capital and operating costs for an underground mine.

The PEA will draw on recommendations from the Kamo-a 2016 pre-feasibility study, including the potential to increase production to up to four million tonnes per year from the proposed initial mining area.

Recent bench-scale metallurgical flotation test work carried out at XPS Consulting and Testwork Services laboratories in Falconbridge, Canada, achieved copper recoveries of 87.8% and produced a concentrate with an extremely high grade of 56% copper using the flowsheet developed during the Kamo-a pre-feasibility study. The material tested was a composite of recent, chalcocite-rich Kakula drill core, assaying 8.1% copper.

Kakula mineralization is characteristically bottom loaded. The Resource estimate demonstrates that opportunities exist to mine Kakula at much higher lateral and vertical cut-offs than at Kamo-a's Kansoko Sud. The clear zonation and grades in the central high-grade core should provide sequencing opportunities to mine at significantly elevated grades.

Health and safety at Kamo-a-Kakula

Health and safety remain key priorities for all people working at the Kamo-a-Kakula Project, where an excellent safety record has been achieved. As of September 30, 2016, a total of 5,590,040 hours had been worked without a lost-time injury.

Exploration activities lead to a substantial expansion of the Kakula Discovery

On October 12, 2016 the company released the initial Resource estimate for its Kakula Discovery at the Kamo-a-Kakula Project. Highlights of the initial Kakula Mineral Resource estimate, prepared by Ivanhoe Mines under the direction of Amec Foster Wheeler E&C Services Inc., of Reno, USA, in accordance with the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves are:

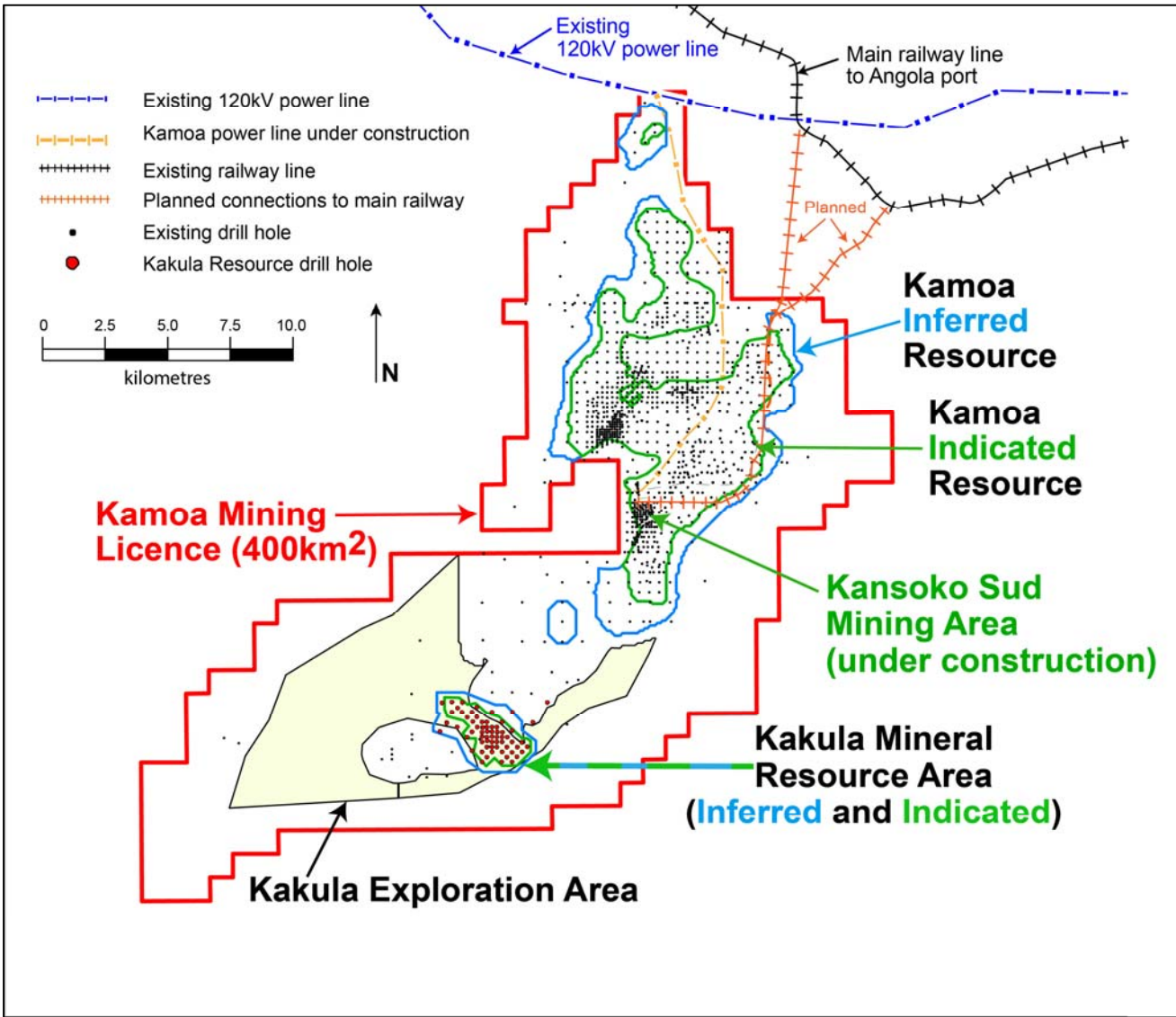
- Indicated Resources total 192 million tonnes at a grade of 3.45% copper, containing 14.6 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Indicated Resources total 115 million tonnes at a 4.80% copper grade, containing 12.1 billion pounds of copper. At a higher cut-off of 3% copper, Indicated Resources total 66 million tonnes at a grade of 6.59% copper, containing 9.6 billion pounds of copper.
- Inferred Resources total 101 million tonnes at a grade of 2.74% copper, containing 6.1 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Inferred Resources total 51 million tonnes at a 3.92% copper grade, containing 4.4 billion pounds of copper. At a higher cut-off of 3% copper, Inferred Resources total 27 million tonnes at a grade of 5.26% copper, containing 3.2 billion pounds of copper.
- The average true thickness of the selective mineralized zone (SMZ) at a 1% cut-off is 14.27 metres in the Indicated Resources area and 10.33 metres in the Inferred Resources area. At a higher 3% cut-off, the average true thickness of the SMZ is 5.91 metres in the Indicated Resources area and 5.15 metres in the Inferred Resources area.

The Kakula Mineral Resource has been defined by drilling covering a total area of 8.7 square kilometres within the larger 60-square-kilometre Kakula Exploration Area, as shown in Figure 4. The total areal extent of Indicated Resource is 4.6 square kilometres at a 1% cut-off and the areal extent of the Inferred Resource is 3.3 square kilometres at a 1% cut-off. The average dip of the mineralized zone in the Indicated Resource area is 13 degrees, while the average dip is 16 degrees in the Inferred Resource area.

The high-grade copper mineralization remains open for significant expansion along trend to the northwest. The remainder of the Kakula exploration area remains untested (see Figure 4). The Mineral Resource estimate is based on the results from approximately 24,000 metres of drilling in 65 holes. An additional 13 holes totalling more than 7,000 metres have been completed and assay results are pending.

Indicated Resources are defined when the drill-hole spacing approximates a 400-metre grid, while Inferred Resources are defined when the drill-hole spacing approximates an 800-metre grid.

Figure 4: Kamoia-Kakula Project map showing location of Kakula exploration and initial Kakula Resource outline.



The initial Mineral Resource is presented in Table 1 while sensitivity cases of the Mineral Resource to ascending cut-offs are presented in Table 2 for Indicated Resource and table 3 for Inferred Resource.

Table 1. Indicated and Inferred Mineral Resources at a 1% cut-off grade, Kakula Discovery.

Category	Tonnage (Mt)	Area (km ²)	Copper (%)	True Thickness (metres)	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Indicated	192	4.6	3.45	14.3	6,630	14.6
Inferred	101	3.3	2.74	10.3	2,763	6.1

Notes:

1. Ivanhoe's Mineral Resources Manager George Gilchrist, a Member of the Geology Society of South Africa and Professional Natural Scientist (Pr. Sci. Nat) with the South African Council for Natural Scientific Professions (SACNASP), estimated the Mineral Resources under the supervision of Dr. Harry Parker and Gordon Seibel, both RM SME, who are the Qualified Persons for the Mineral Resources. The effective date of the estimate is October 9, 2016. Mineral Resources are estimated using the CIM Definition Standards for Mineral Resources and Reserves (2014).
2. For the Kakula Discovery, Mineral Resources are reported using a total copper (TCu) cut-off grade of 1% TCu and an approximate minimum thickness of 3 metres. A 1% TCu cut-off is a natural cut-off grade on the Central African Copperbelt. There are reasonable prospects for eventual economic extraction under assumptions of a copper price of \$3.00/lb, employment of underground, mechanized, room-and-pillar and drift-and-fill mining methods, and that copper concentrates will be produced and sold to a smelter. Mining costs are assumed to be \$38/t. Concentrator and General and Administrative (G&A) costs are assumed to be \$19/t. Metallurgical recovery is assumed to be 77% at the 1% TCu cut-off and 88% at the average grade of the Mineral Resource. Ivanhoe is studying (preliminary economic assessment in progress) reducing mining costs using a convergence backfill method
3. Reported Mineral Resources contain no allowances for hanging wall or footwall contact boundary loss and dilution. No mining recovery has been applied.
4. Rounding as required by reporting guidelines may result in apparent differences between tonnes, grade and contained metal content.

Table 2. Kakula Discovery Indicated Mineral Resources, sensitivity cases.

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	True Thickness (metres-m)	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Indicated	7.0	27	1.4	8.25%	6.3 (m)	2,242	4.9
Indicated	6.0	42	2.1	7.69%	6.6 (m)	3,220	7.1
Indicated	5.0	51	2.7	7.29%	6.5 (m)	3,711	8.2
Indicated	4.0	62	3.4	6.78%	6.1 (m)	4,211	9.3
Indicated	3.0	66	3.8	6.59%	5.9 (m)	4,351	9.6
Indicated	2.5	75	4.0	6.13%	6.3 (m)	4,579	10.1
Indicated	2.0	115	4.3	4.80%	9.2 (m)	5,504	12.1
Indicated	1.5	139	4.4	4.24%	10.9 (m)	5,899	13.0
Indicated	1.0	192	4.6	3.45%	14.3 (m)	6,630	14.6

Table 3. Kakula Discovery Inferred Mineral Resources, sensitivity cases.

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	True Thickness (metres-m)	Contained Copper (ktonnes)	Contained Copper (billion lbs)
Inferred	7.0	1	0.1	7.47%	4.2 (m)	72	0.2
Inferred	6.0	8	0.4	6.50%	6.2 (m)	490	1.1
Inferred	5.0	18	0.9	5.89%	6.4 (m)	1,076	2.4
Inferred	4.0	23	1.3	5.60%	5.8 (m)	1,283	2.8
Inferred	3.0	27	1.8	5.26%	5.2 (m)	1,445	3.2
Inferred	2.5	31	2.0	4.98%	5.2 (m)	1,537	3.4
Inferred	2.0	51	2.2	3.92%	7.7 (m)	2,018	4.4
Inferred	1.5	75	2.6	3.21%	9.8 (m)	2,412	5.3
Inferred	1.0	101	3.3	2.74%	10.3 (m)	2,763	6.1

Updated Kamoa-Kakula Resource

Kakula's estimated Resources are in addition to the Mineral Resources delineated elsewhere on the Kamoa mining licence that were disclosed by Ivanhoe Mines in a news release on February 23, 2016.

The combined Kamoa-Kakula Indicated Mineral Resources now total 944 million tonnes grading 2.83% copper, containing 58.9 billion pounds of copper at a 1.0% copper cut-off grade and a minimum true thickness of three metres.

Kamoa-Kakula now also has Inferred Mineral Resources of 286 million tonnes grading 2.31% copper and containing 14.6 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum true thickness of three metres.

The total consolidated Mineral Resource for the Kamoa-Kakula Project is shown in Table 4 and the sensitivity of the resource at various cut-offs is shown in Table 5.

Table 4. Consolidated Mineral Resource Statement, Kamoa-Kakula Project – October 9, 2016, 1% copper cut-off over a minimum thickness of 3 metres.

Deposit	Category	Tonnes (millions)	Area (Sq. km)	Copper Grade	True Thickness (metres-m)	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Kamoa	Indicated	752	50.5	2.67%	5.2 (m)	20,110	44.3
	Inferred	185	16.8	2.08%	3.8 (m)	3,840	8.5
Kakula	Indicated	192	4.6	3.45%	14.3 (m)	6,630	14.6
	Inferred	101	3.3	2.74%	10.3 (m)	2,763	6.1
Total Kamoa-Kakula Project	Indicated	944	55.1	2.83%	6.0 (m)	26,740	58.9
	Inferred	286	20.1	2.31%	4.9 (m)	6,603	14.6

Notes to Accompany Kamoa Project Mineral Resource Table:

1. Ivanhoe's Mineral Resources Manager, George Gilchrist, Professional Natural Scientist (Pr. Sci. Nat) with the South African Council for Natural Scientific Professions (SACNASP), estimated the Mineral Resources under the supervision of Dr. Harry Parker and Gordon Seibel, both RM of Society of Mining, Metallurgy and Exploration (SME), who are the Qualified Persons for the Mineral Resource estimate. The effective date of the estimate is 9 October 2016. Mineral Resources are estimated using the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves.
2. Mineral Resources are estimated assuming underground mining methods, a copper price of \$3.30/lb (Kamoa) and \$3.00/lb (Kakula Discovery), a cut-off of 1% total copper, a minimum thickness of 3 m, and that concentrates will be produced and sent to a smelter.
3. Tonnage and contained-copper tonnes are reported in metric units, contained-copper pounds are reported in imperial units and grades are reported as percentages.
4. Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.

Table 5. Indicated and Inferred Mineral Resources, Kamoa-Kakula Project – October 9, 2016.

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Indicated	3.0	304	18.0	4.43%	13,471	29.7
Indicated	2.5	458	27.9	3.86%	17,669	39.0
Indicated	2.0	665	38.7	3.37%	22,384	49.3
Indicated	1.5	825	48.2	3.05%	25,179	55.5
Indicated	1.0	944	55.1	2.83%	26,740	58.9

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Inferred	3.0	47	3.5	4.50%	2,145	4.8
Inferred	2.5	83	6.1	3.74%	3,107	6.9
Inferred	2.0	144	9.8	3.12%	4,488	9.8
Inferred	1.5	211	14.5	2.67%	5,652	12.4
Inferred	1.0	286	20.1	2.31%	6,603	14.6

Exploration activities lead to significant expansion of the Kakula Discovery and a substantial increase in the planned scope of exploration activities for 2016 and 2017

During Q3 2016, a total of 19,418 metres of exploration drilling was completed at the new Kakula Discovery. A total of 17,702 metres was completed by the drilling contractor, Titan Drilling SARL, utilizing up to six drill rigs; an additional 1,716 metres was completed using company-owned drill rigs. Included in the drilling program were holes drilled for geotechnical studies as well as PQ drill holes for comminution test work.

In addition to the exploration program, 185 metres were completed for dewatering of the Kansoko Sud declines. A total of 220 metres was completed by Titan Drilling for cover drilling within the declines ahead of the mine development. This program is planned to continue for the duration of the decline development. Total drilling for 2016 now totals 33,443 metres.

As a result of the ongoing success of the Kakula drilling program and the extension along trend of the central, high-grade, chalcocite-rich core to the northwest and southeast at relatively shallow depths, the Kakula drilling program was expanded in Q2 by an additional 9,000 metres, to a total of 34,000 metres.

With the completion of the initial Mineral Resource estimate and the significance of the discovery now firmly established, the Kakula exploration program has been significantly expanded by a further 60,000 metres. The expanded program is planned to run through to the end of Q2 2017 and will consist of infill drilling, resource expansion and exploration of the Kakula Discovery area. The expanded drill program will be completed by a combination of contractor drilling and company-owned rigs.

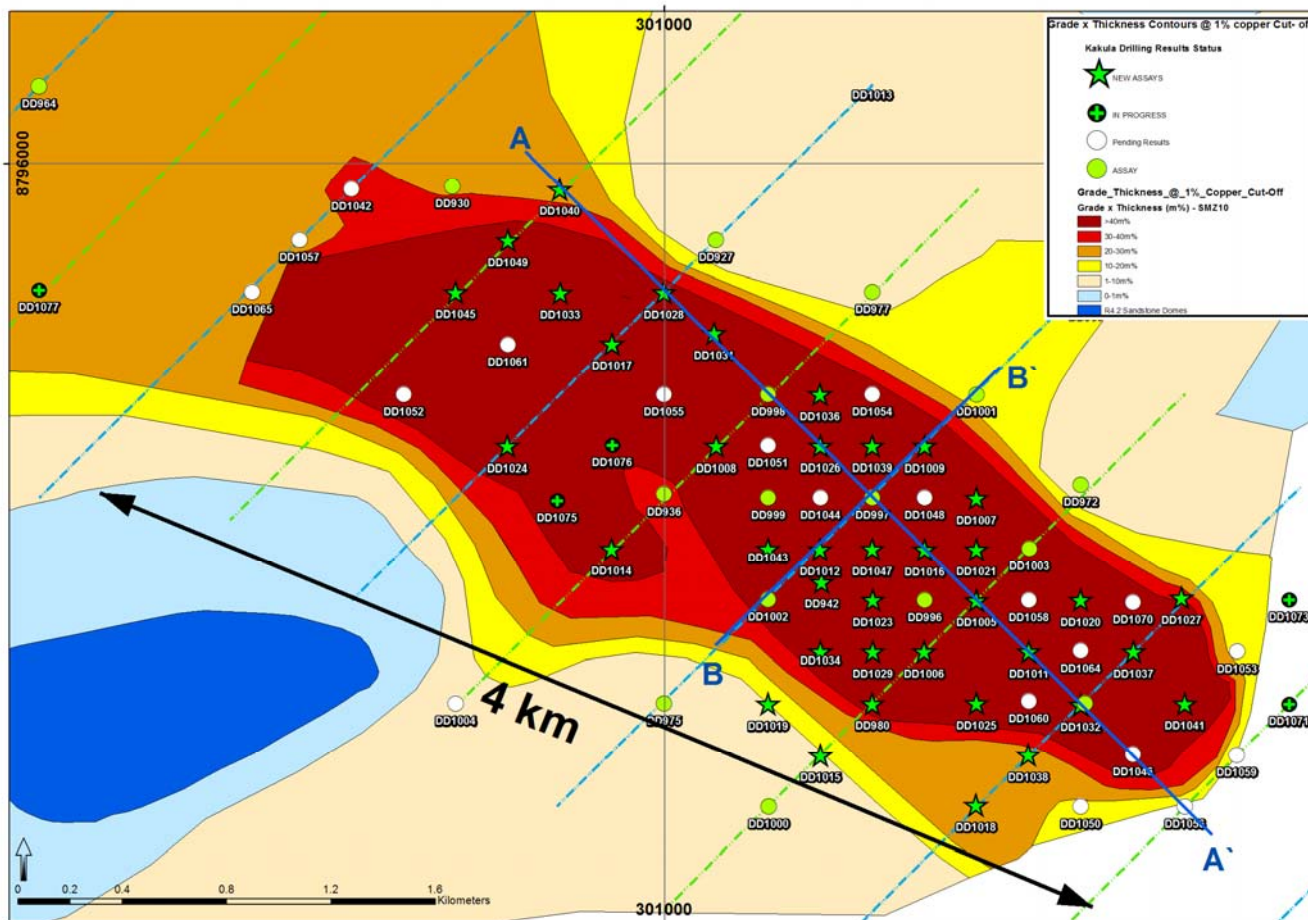
New assay results released from drill program at Kakula Discovery

The Company released updated assay results from its Kakula Exploration program on August 11th, August 24, and September 22, 2016. The results confirmed the exceptional grades and shallow, flat-lying geometry of the Kakula mineralized zone. Results from the August 11, 2016 release were included in the Q2 MD&A. In total assay results were reported for 37 new drill holes. Highlights from the results from August 24 and September 22 news releases are presented in Table 6, while the full results can be found in the individual news releases on Ivanhoe's website. The location of holes with assays returned during Q3 is shown in Figure 5.

Table 6: Significant assay results from the Kakula Discovery released in Q3 2016.

Drill Hole ID	1 % Cut off			2 % Cut off			2.5% cut-off			3% Cut-off		
	From	True Width (m)	Copper Grade (%)	From	True Width (m)	Copper Grade (%)	From	True Width (m)	Copper Grade (%)	From	True Width (m)	Copper Grade (%)
DKMC_DD1016	351.00	18.78	5.32	360.00	10.22	8.49	361.00	9.27	9.11	362.00	8.75	9.84
DKMC_DD1020	422.50	7.61	7.81	423.00	6.29	9.15	423.00	6.29	9.15	424.00	5.29	10.33
DKMC_DD1021	369.00	16.79	4.86	372.90	12.32	6.11	376.00	9.31	7.31	377.00	8.34	7.82
DKMC_DD1023	346.00	18.58	3.49	350.00	13.96	4.14	357.65	6.39	6.50	360.00	4.06	8.57
DKMC_DD1024	304.50	14.42	4.10	306.00	12.99	4.34	311.00	8.21	5.58	312.00	6.14	6.52
DKMC_DD1026	330.67	18.57	6.49	331.50	16.97	6.94	333.00	15.48	7.39	333.83	14.66	7.66
DKMC_DD1032	524.50	6.04	8.31	524.50	5.04	9.66	524.50	5.04	9.66	525.28	4.30	10.89
DKMC_DD1036	266.00	13.99	4.13	266.00	13.05	4.31	272.00	7.38	5.77	274.00	5.48	6.90
DKMC_DD1039	324.00	20.55	4.65	326.00	18.56	4.98	326.00	17.87	5.08	332.00	11.91	6.23
DKMC_DD1041	606.00	13.36	3.37	613.00	6.70	5.42	615.00	4.80	6.63	615.00	4.04	7.39
DKMC_DD1043W1	337.00	15.24	4.09	340.00	12.50	4.69	346.00	4.89	8.48	346.74	4.21	9.44
DKMC_DD1045	502.00	13.94	5.03	503.00	11.44	5.81	505.22	9.31	6.59	505.22	8.44	6.96

Figure 5: Location of Drill holes with Assays returned during Q32016.



Excellent copper recoveries and concentrate grades confirmed by preliminary metallurgical tests of drill core from Kakula Discovery

In July 2016 initial metallurgical test results from a sample of drill core from ongoing exploration in the Kakula Discovery zone achieved copper recoveries of 86% and produced a copper concentrate with an extremely high grade of 53% copper. The results also indicate that material from Kamoa's Kakula and Kansoko zones could be processed through the same concentrator plant, which would yield significant operational and economic efficiencies.

Testing of the Kakula sample was conducted at Zijin's laboratory in China, using the flowsheet developed during the Kamoa PFS. The material tested was a composite of drill holes DD996 and DD998, assaying 4.1% copper. As a comparison, testing of a previous development composite sample from the planned, initial mining deposit at Kamoa's Kansoko Sud zone and the adjacent Kansoko Centrale zone, assaying 3.61% copper, achieved an 85% recovery and a concentrate grade of 37% copper. The PFS circuit was optimized on this material.

Earlier metallurgical testwork indicated that the Kamoa concentrates contain extremely low arsenic levels, by world standards – approximately 0.02%. Given this critical competitive marketing advantage, Kamoa's concentrates are expected to attract a significant premium from copper-concentrate traders for use in blending with concentrates from other mines. The Kamoa concentrates will help to enable the other concentrates to meet the limit of 0.5% arsenic imposed by Chinese smelters to meet China's new environmental restrictions.

Mine development

Byrnes Underground Congo SARL progressed well with the decline development at Kansoko during Q3 2016 and is advancing ahead of schedule. The twin declines, incorporating both a service and a conveyor tunnel, each have advanced more than 365 metres.

Figure 6: Kansoko box cut sump being cleaned and equipped.



Development of the underground mine is designed to reach the high-grade copper mineralization at the Kansoko Sud deposit during the first quarter of 2017. The development is ahead of schedule and within budgeted costs.

During the quarter, the settling and clean-water dams were constructed and equipped, and the first cross-cut between the declines was blasted. The box-cut sump also was cleaned and equipped with permanent pumps and a pump column.

Figure 7: Underground loading operation.



In parallel with the Kamoia 2016 PFS, an alternative mining method – controlled-convergence room-and-pillar mining, developed by Poland-based KGHM – was investigated for potential use on the Kansoko deposits. Given the thick, mineralized widths encountered to date in the Kakula drilling program, controlled-convergence room-and-pillar mining also will be investigated for potential use at Kakula.

To help advance the ongoing exploration and development of the Kakula deposit, the Kamoia engineering team has identified a possible location for a box cut at Kakula. The design of the box cut is underway and the preparation of tender documents for the excavation, support and civil works is underway.

A 10-kilometre road from the Kamoia mine site to Kakula is under construction to facilitate access for drill rigs and construction equipment during the rainy season.

Figure 8: The new Kakula access road under construction.



All six mine dewatering boreholes have been completed along the decline and flow tested. One of the boreholes has been equipped and a further two are progressing. The project team at Kamoia has completed the construction of site offices, a workshop, stores, a vehicle wash-bay, a brake-test ramp and infrastructure for temporary supply of power and water. Upgrading of the contractor camp to meet the rising demand for accommodation is ongoing.

Construction power

The construction of the 120 kilovolt (kV) power line, that branches off from the main supply at Kisenge has been completed. A 120kV mobile substation was installed, commissioned and was energized on October 30, 2016. The Kamoia-Kakula mine site is now connected to the national grid and is consuming grid power.

An eight-kilometre, 11kV overhead power line with mini substations is under construction from the mine site to the Kamoia camp to supply grid power from the mine to the camp and is expected to be complete by the end of 2016.

Hydroelectric power plant upgrading project

The Mwadingusha Unit 1 repair work was completed in August 2016 and the official inauguration ceremony took place on September 7, 2016, at the Mwadingusha power station. The Mwadingusha G1 unit, supplying 11MW, was synchronized to the national interconnected grid on September 6, 2016.

Continued focus on community and sustainability

The number of unskilled job opportunities has risen during Q3 2016 due to the increase in activity around the camp and mine area. Preference is always given to local employment and numerous jobs have been offered and accepted.

The cumulative maize yield recorded for the 2015/2016 season was 307 tonnes from all sixteen communities that participated in the maize farming program. During the quarter over 12,500 kg of assorted vegetables was supplied to the Kamoa kitchen by the local vegetable farmers. Locally grown vegetables include; Chinese cabbage, cabbage, spinach, tomatoes, Irish potatoes.

The construction of two poultry houses, at Katayi and Mundjendje were completed and stocked with 600 broiler chicks. The chicks have since matured and 864 kg of chicken was sold to the Kamoa kitchen. The poultry project is now financially self-sustaining and continues with minimal attention from Kamoa livelihoods staff. In addition, fresh eggs are being farmed by the Mpala and Walemba communities, which supply the kitchen with more than 5,000 eggs per month.

Current community projects include the construction of a secondary school at the local Kaponda village, the construction of a house in Kolwezi and the construction of a chefferie at the local Musokantanda village.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected financial information for the prior eight quarters. Ivanhoe had no operating revenue in any financial reporting period and did not declare or pay any dividend or distribution in any financial reporting period.

	3 Months ended			
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure	7,769	8,233	6,917	10,271
General administrative expenditure	4,213	3,657	3,693	5,833
Share-based payments	1,750	1,312	1,473	2,345
Gain on partial sale of subsidiary	-	-	-	(357,671)
Re-measurement to fair value of the interest retained in joint venture	-	-	-	(376,148)
Finance income	(7,239)	(7,367)	(8,469)	(1,191)
Finance costs	454	445	428	1,556
Mark-to-market gain on revaluation of warrants	-	-	-	(429)
Loss (gain) from subsidiary held for partial sale	-	-	-	755
Total comprehensive loss (gain) attributable to:				
Owners of the Company	(1,860)	6,568	4,203	(717,213)
Non-controlling interest	2,445	3,483	2,897	2,468
Loss (profit) per share (basic and diluted)	0,00	0,01	0,01	(0,92)

	3 Months ended			
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure *	8,553	9,009	12,918	21,178
General administrative expenditure *	4,430	1,323	5,859	8,987
Share-based payments	1,655	1,736	1,986	2,245
Finance income	(273)	(445)	(295)	(288)
Finance costs	36	48	34	382
Mark-to-market gain on revaluation of warrants	(970)	(1,334)	(4,212)	(2,316)
Loss from subsidiary held for partial sale	(7,958)	2,675	209	4,813
Total comprehensive loss attributable to:				
Owners of the Company	9,420	11,008	15,511	31,649
Non-controlling interest	3,439	3,564	3,498	5,434
Loss per share (basic and diluted)	0,01	0,01	0,02	0,05

* Prior period amounts have been amended to show the (gains)/losses from subsidiary held for partial sale separately in order to improve comparability.

DISCUSSION OF RESULTS OF OPERATIONS

Review of the three months ended September 30, 2016 vs. September 30, 2015

The Company's total comprehensive loss for Q3 2016 of \$0.6 million was \$12.3 million lower than for the same period in 2015 (\$12.9 million). The decrease mainly was due to exchange gains on translation of foreign operations recognized in Q3 2016 of \$10.8 million resulting from the strengthening of the South African Rand by 10% from June 30, 2016, to September 30, 2016.

Finance income increased by \$7.0 million in Q3 2016 when compared to the same period in 2015 and mainly included interest earned on loans to the Kamoja joint venture that amounted to \$4.2 million and deemed income on the purchase price receivable from the partial sale of the Kamoja-Kakula Project that amounted to \$2.3 million.

Exploration and project expenditures for the three months ending September 30, 2016, amounted to \$7.8 million and were \$0.8 million less than for the same period in 2015 (\$8.6 million).

With the focus at the Platreef Project on development, and the Kamoja-Kakula Project being accounted for as a joint venture, \$7.5 million of the total \$7.8 million exploration and project expenditure related to the Kipushi Project. Expenditure at the Kipushi Project decreased by \$0.4 million compared to the same period in 2015. The main classes of expenditure at the Kipushi Project in Q3 2016 and Q3 2015 are set out in the following table:

	Three months ended September 30, 2016 \$'000	Three months ended September 30, 2015 \$'000
Kipushi Project		
Salaries and benefits	2,761	2,641
Electricity	1,416	1,463
Repair and maintenance	965	499
Depreciation	819	731
Site security and safety	244	111
Contracting work	81	331
Drilling	-	748
Other expenditure	1,258	1,453
Total project expenditure	<u>7,544</u>	<u>7,977</u>

Review of the nine months ended September 30, 2016 vs. September 30, 2015

The Company's total comprehensive loss of \$17.7 million for the nine months ended September 30, 2016, was \$28.7 million lower than for the same period in 2015 (\$46.4 million). The decrease was due to exchange gains on translation of foreign operations of \$10.4 million recognized in the first nine months of 2016 compared to an exchange loss on translation of foreign operations of \$11.7 million for the same period in 2015.

The increase in finance income of \$22.1 million, together with a \$7.6 million decrease in exploration and project expenditure, also contributed to the decreased comprehensive loss for the period, but was partly offset by the Company's share of losses from its Kamoja joint venture that amounted to \$15.8 million.

Finance income for the nine months ending September 30, 2016, amounted to \$23.1 million, which was \$22.1 million more than for the same period in 2015 (\$1.0 million). The increase mainly was due to interest earned on loans to the Kamoia joint venture that amounted to \$11.5 million for the nine months ending September 30, 2016, together with deemed finance income on the purchase price receivable from the partial sale of the Kamoia-Kakula Project, which amounted to \$9.5 million.

Exploration and project expenditures for the nine months ending September 30, 2016, amounted to \$22.9 million and were \$7.6 million less than for the same period in 2015 (\$30.5 million). The \$4.1 million retrenchment costs incurred in 2015 relating to the closure of Ivanhoe's regional exploration company in the DRC was the main reason for the decrease, together with reduced expenditure at the Kipushi Project.

With the focus at the Platreef Project on development and the Kamoia-Kakula Project being accounted for as a joint venture, \$22.2 million of the total \$22.9 million exploration and project expenditure related to the Kipushi Project. Expenditure at the Kipushi Project decreased by \$2.8 million compared to the same period in 2015. The main classes of expenditure at the Kipushi Project for the nine months ending September 30, 2016 and 2015 are set out in the following table:

	Nine months ended September 30, 2016 \$'000	Nine months ended September 30, 2015 \$'000
Kipushi Project		
Salaries and benefits	8,045	8,494
Electricity	4,008	4,717
Repair and maintenance	2,416	1,413
Depreciation	2,357	2,185
Site security and safety	541	793
Contracting work	511	754
Drilling	-	2,505
Other expenditure	4,366	4,183
Total project expenditure	<u>22,244</u>	<u>25,044</u>

Financial position as at September 30, 2016 vs. December 31, 2015

The Company's total assets decreased by \$16.4 million, from \$1,022.6 million as at December 31, 2015, to \$1,006.2 million as at September 30, 2016. This resulted from the Company utilizing its cash resources in its operations.

The remaining purchase price receivable due to the Company as a result of the sale of 49.5% of Kamoia Holding decreased as the Company received \$93.1 million from Zijin during the nine months ending September 30, 2016. The present value of the remaining consideration receivable, net of transaction costs, was \$113.4 million as at September 30, 2016. Ivanhoe received \$41.2 million of the remaining consideration receivable subsequent to September 30, 2016, on October 25, 2016, and the next of the two remaining installments is due on February 8, 2017.

The Company's investment in the Kamoia Holding joint venture increased by \$43.8 million from \$412.0 as at December 31, 2015, to \$455.8 million as at September 30, 2016, with the current shareholders funding the operations equivalent to their proportionate shareholding interest. At Kamoia-Kakula, the focus remained on development, together with an exploration program at the Kakula Discovery.

Property, plant and equipment increased by \$37.7 million, with a total of \$32.4 million being spent on project development and to acquire other property, plant and equipment, \$29.7 million of which pertained to development costs of the Platreef Project.

The Company utilized \$24.8 million of its cash resources in its operations and earned interest income of \$2.1 million on cash balances in the nine months ended September 30, 2016; the Company's portion of the Kamoia joint venture cash calls amounted to \$47.1 million.

The Company's total liabilities decreased to \$40.9 million as at September 30, 2016, from \$43.8 million as at December 31, 2015. This mainly was due to the decrease in trade and other payables of \$3.9 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$275.9 million in cash and cash equivalents as at September 30, 2016. Certain of the Company's cash and cash equivalents, having an aggregate value of \$29.1 million, are subject to contractual restrictions as to their use and are reserved for the Platreef Project.

As at September 30, 2016, the Company had consolidated working capital of approximately \$401.9 million, compared to \$424.6 million at December 31, 2015. The Platreef Project working capital is restricted and amounted to \$28.8 million at September 30, 2016, and \$53.2 million at December 31, 2015. Excluding the Platreef Project working capital, the resultant working capital was \$373.1 million at September 30, 2016, and \$371.4 million at December 31, 2015. The Company believes it has sufficient resources to cover its short-term cash requirements. However, the Company's access to financing always is uncertain and there can be no assurance that additional funding will be available to the Company in the near future.

On December 8, 2015, Zijin completed its investment in Ivanhoe's Kamoia-Kakula Copper Project. Zijin, through a subsidiary company, has acquired a 49.5% interest in Kamoia Holding for a total of \$412 million in a series of payments. Ivanhoe received an initial \$206 million from Zijin on December 8, 2015 and a further \$41.2 million on each of March 23, 2016, July 8, 2016, and October 25, 2016; the remaining \$82.4 million is scheduled to be received in two equal installments, payable every 3.5 months from the previous installment. Upon closing of the transaction, each shareholder is required to fund Kamoia Holding in an amount equivalent to its proportionate shareholding interest.

The Company's main objectives for 2016 at the Platreef Project remain the continuation of the phase one feasibility study and Shaft 1 construction. At Kipushi, the principal objective is the continued upgrading of mining infrastructure, now that the preliminary economic assessment has been successfully completed. At the Kamoia-Kakula Project, priorities are the continuation of drilling and the construction of the twin declines at Kamoia. The Company expects to spend \$14 million on further development at the Platreef Project; \$8 million at the Kipushi Project; and \$5 million on corporate overheads for the remainder of 2016. The Company's proportionate funding of the Kamoia-Kakula Project for Q4 2016 already has been advanced in September; however, funding for Q1 2017 is expected to be advanced in December 2016.

The Company has a three-year mortgage bond and a five-year mortgage bond outstanding on its offices in London, United Kingdom, of £2.4 million (\$3.1 million) and £0.9 million (\$1.1 million) respectively. The first is fully repayable on June 30, 2020, secured by the property and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears, with the latter also secured by the property, incurring interest at a rate of LIBOR plus 2.5% payable monthly in arrears. During the first three years, from June 2014 until May 2017, only interest will be payable.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of \$22.5 million as at September 30, 2016, and a contractual amount due of \$30.1 million. The loan is repayable once the Platreef Project has residual cashflow, which is defined in the loan agreement as gross revenue generated by the Platreef Project, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not capitalized. The difference of \$7.6 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan.

The Company has an implied commitment in terms of spending on work programs submitted to regulatory bodies to maintain the good standing of exploration and exploitation permits at its mineral properties. The following table sets forth the Company's long-term obligations:

Contractual Obligations as at September 30, 2016	Payments Due By Period				
	Total	Less than	1-3 years	4-5 years	After
	\$'000	1 year	\$'000	\$'000	5 years
		\$'000	\$'000	\$'000	\$'000
Debt	34,350	-	793	3,408	30,149
Operating leases	2,304	405	936	963	-
Shaft 1 construction – Platreef Project	19,828	15,828	4,000	-	-
Total contractual obligations	56,482	16,233	5,729	4,371	30,149

Debt in the above table represents the mortgage bonds and loan payable to ITC Platinum Development Limited, as described above.

The Company is required to fund its Kamoanga joint venture in an amount equivalent to its proportionate shareholding interest.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements for the periods under review.

TRANSACTIONS WITH RELATED PARTIES

The following tables summarize related party expenses incurred by the Company, primarily on a cost-recovery basis, with companies related by way of directors or significant shareholders in common. The tables summarize the transactions with related parties and the types of expenditures incurred with related parties:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Global Mining Management Corporation (a)	320	525	1,887	1,882
Ivanhoe Capital Aviation LLC (b)	500	300	1,300	900
Ivanhoe Capital Services Ltd. (c)	97	130	401	399
HCF International Advisers (d)	113	46	282	137
Ivanhoe Capital Pte Ltd (e)	21	100	147	211
Global Mining Services Ltd. (f)	16	(1)	31	111
Ivanhoe Capital Corporation (UK) Limited (g)	-	9	1	14
	1,067	1,109	4,049	3,654
Salaries and benefits	385	655	1,864	2,306
Travel	539	374	1,477	1 064
Consulting	170	58	361	192
Office and administration	(27)	22	347	92
	1,067	1,109	4,049	3,654

The above noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at September 30, 2016, trade and other payables included \$0.5 million (December 31, 2015: \$0.4 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

- (a) Global Mining Management Corporation (Global) is a private company based in Vancouver. The Company holds an equity interest in Global and the Executive Chairman has a significant shareholding in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.
- (b) Ivanhoe Capital Aviation LLC (Aviation) is a private company owned indirectly by the Executive Chairman of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.
- (c) Ivanhoe Capital Services Ltd. (Services) is a private company owned indirectly by the Executive Chairman of the Company. Services provides for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.
- (d) HCF International Advisers (HCF) is a corporate finance adviser specializing in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. Guy de

Selliers is the President and co-founder of HCF, which provides financial advisory services to the Company.

- (e) Ivanhoe Capital Pte. Ltd. (Capital) is a private company owned indirectly by the Executive Chairman of the Company. Capital provides administration, accounting and other services in Singapore on a cost-recovery basis.
- (f) Global Mining Services Ltd. (Mining) is a private company incorporated in Delaware and is 100% owned by Global. Mining provides administration and other services to the Company on a cost-recovery basis.
- (g) Ivanhoe Capital Corporation (UK) Limited (UK) is a private company owned indirectly by the Executive Chairman of the Company. UK provides administration, accounting and other services in London on a cost-recovery basis.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in Note 2 to the consolidated financial statements for the year ended December 31, 2015. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period presented and reported amounts of expenses during said reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty at the end of the reporting period, which could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, include, but are not limited to, the following:

(i) Recoverability of assets

Property, plant and equipment, including capitalized development costs and finite lived intangible assets are assessed at each reporting period to determine whether there is any indication that those assets have suffered an impairment loss.

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and value in use. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss.

Given the nature of the Company's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, the fair value less costs of disposal for each CGU is estimated based on discounted future estimated cash flows expected to be generated from the continued use of the CGUs using market consensus based commodity price and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, including any expansion projects, and its eventual disposal, based on the CGU development plans and latest technical reports. These cash flows were discounted using a discount rate that

reflected current market assessments of the time value of money and the risks specific to the CGU.

(ii) *Determination of functional currency*

In determining the functional currency of the Company the following was considered:

- the currency that primarily affects the selling prices of goods and services,
- the currency of the country whose competitive forces and regulations mainly determine the selling prices of their goods and services,
- the currency that mainly influences the cost of labour, materials and other costs of producing goods or providing services,
- the currency in which the funds are generated from financing activities, i.e. that corresponds to debt instruments and equity securities issued and
- the currency used to maintain the amounts utilized by operating activities were considered.

The Company's functional currency is U.S. dollar. The Company's subsidiaries have a variety of functional currencies that include, but are not limited to, South African Rand, U.S. dollar and Canadian dollar.

(iii) *Technical feasibility and commercial viability of projects*

All direct costs related to the acquisition of mineral property interests are capitalized by property or project. Exploration costs are charged to operations in the period incurred, until such time as the Company determines that a property is technically feasible and commercially viable, where after development costs are capitalized. In making this determination, the Company considers whether a proposed project is capable of being developed at a sufficient return to justify the capital and managerial resources that must be committed to the project. The determination is made on a property-by-property basis and generally coincides with the finalization of a preliminary economic assessment or pre-feasibility study of the property. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

In determining whether an exploration and evaluation property is technically feasible and commercially viable, the Company considers several criteria, including:

- a technical analysis of the basic geology of the project;
- a mine plan for accessing and exploiting the ore body;
- a process flow sheet for processing the ore generated from mining;
- projections as to the capital cost of constructing the project;
- projections as to the cost of operating the project in accordance with the mine plan;
- projections as to revenues from the concentrate or other mineral product to be generated from operations in accordance with the mine plan; and
- an economic analysis of the project based on the projected capital and operating costs and production revenues.

(iv) *Classification of Kamoa Holding Limited as a joint venture*

Kamoa Holding Limited is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint

arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Kamo Holding Limited is classified as a joint venture of the Company.

(v) *Preparation of the financial statements on a going concern basis*

The Company had an accumulated deficit of \$145.7 million at September 30, 2016. Continuation of the Company as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties. Although the Company has been successful in raising funds in the past, there can be no assurance that it will be able to raise sufficient funds in the future. The Company's total current assets exceeds the Company's total liabilities and spending plan for 2016. As at September 30, 2016, the Company's total assets exceeded its total liabilities by \$965.3 million and current assets exceeded current liabilities by \$400.2 million. The Company therefore believes it has sufficient resources to continue as a going concern for the foreseeable future.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Newly adopted accounting standards

The following standards became effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company adopted these standards in the current period, which did not have a material impact on its consolidated financial statements.

- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation.
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation.
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative.
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation.
- Amendments to IAS 27, 'Separate financial statements' on equity accounting.

Accounting standards issued but not yet effective

- Amendment to IAS 12 – Income taxes. The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. (i)
- Amendment to IAS 7 – Cash flow statements. (i)
- IFRS 15 – Revenue from contracts with customers. (ii)
- IFRS 9 – Financial Instruments (2009 & 2010), This IFRS is part of the IASB's project to replace IAS 39. (ii)
- Amendment to IFRS 9 - 'Financial instruments', on general hedge accounting. (ii)
- IFRS 16 – Leases. (iii)

- (i) Effective for annual periods beginning on or after January 1, 2017
- (ii) Effective for annual periods beginning on or after January 1, 2018
- (iii) Effective for annual periods beginning on or after January 1, 2019

The Company has considered these new and amended standards and assessed that it will have no material impact on adoption. The Company has not yet adopted these new and amended standards.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

Financial instrument	Level	September 30, 2016 \$'000	December 31, 2015 \$'000
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	3,456	1,027
<i>Loans and receivables</i>			
Purchase price receivable	Level 2	113,445	191,856
Promissary note receivable	Level 2	10,729	9,076
Financial liabilities			
<i>Other liabilities</i>			
Borrowings	Level 2	26,670	26,021
Option liability	Level 2	1,693	1,204

IFRS 13 - "Fair value measurement", requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy into which these assets and liabilities must be grouped based on whether inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions. The two types of inputs create the following fair value hierarchy:

- Level 1: observable inputs such as quoted prices in active markets;
- Level 2: inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and
- Level 3: unobservable inputs for the asset or liability in which little or no market data exists, therefore require an entity to develop its own assumptions.

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited was originally determined assuming repayment occurs on August 31, 2022 and using an interest rate of LIBOR plus 7%. The carrying value of borrowings is not significantly different to their fair value.

The Company's financial assets at fair value through profit or loss are valued using quoted prices in active markets. Changes in the fair values are included in net earnings.

The fair value of the Company's remaining financial instruments were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity.

Financial risk management objectives and policies

The risks associated with the Company's financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Foreign exchange risk

The Company incurs certain of its expenses in currencies other than the U.S. dollar. As such, the Company is subject to foreign exchange risk as a result of fluctuations in exchange rates. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations, however, management monitors foreign exchange exposure.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities at the respective statement of financial position dates are as follows:

	September 30, 2016	December 31, 2015
	\$'000	\$'000
Assets		
Canadian dollar	2,175	1,786
Australian dollar	-	-
South African rand	19,267	22,266
British pounds	906	1,316
Liabilities		
Canadian dollar	(224)	(246)
Australian dollar	(28)	(21)
South African rand	(4,792)	(4,262)
British pounds	(83)	(92)

Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 5% decrease in the U.S. dollar against the foreign currencies presented. The sensitivity analysis includes only outstanding foreign currency denominated monetary items not denominated in the functional currency of the Company or the relevant subsidiary and adjusts their translation at the end of the period for a 5% change in foreign currency rates. A positive number indicates a decrease in loss for the year where the foreign currencies strengthen against the U.S. dollar. The opposite number will result if the foreign currencies depreciate against the U.S. dollar.

	Nine months ended September 30, 2016	2015
	\$'000	\$'000
Canadian dollar	97	453
Australian dollar	(1)	(2)
South African rand	(31)	(260)
British pounds	1	(2)

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Credit risk for the Company is primarily associated with trade and other receivables and cash equivalents as well as long-term loan receivables.

The Company reviews the recoverable amount of their receivables at each statement of financial position date to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Company considers that the credit risk is significantly reduced. The credit risk on cash equivalents is limited because the cash equivalents are composed of financial instruments with major banks that have investment grade credit ratings assigned by international credit-rating agencies and have low risk of default. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The Company has a purchase price receivable from Zijin which will be received in five equal instalments, payable every 3.5 months from the date of closing. The first instalment was received in March 2016, the second on July 8, 2016 and the third on October 25, 2016. The installment payments owing from Zijin are secured by a pledge of shares of Kamoa Holding Limited owned by Zijin and which originally represented 24.75% of the outstanding shares of that entity. Should Zijin default on any installment payment, a subsidiary of the Company is entitled to enforce on the pledge of shares, including by requiring the re-transfer of ownership of 1/5th of the pledged shares back to a subsidiary of the Company, which, if it occurred, would result in a reduction in the share ownership of Kamoa Holding Limited by Zijin.

Liquidity risk

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and flexibility through the use of borrowings. Management closely monitors the liquidity position with the goal of maintaining adequate sources of funding to finance the Company's projects and operations.

The following table details the Company's expected remaining contractual maturities for its financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total undiscounted cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000
As at September 30, 2016					
Trade and other payables	9,118	247	1,049	-	10,414
Current income tax liabilities	50	-	-	-	50
Non-current borrowings	-	-	-	34,350	34,350
As at December 31, 2015					
Trade and other payables	10,335	3,185	10	797	14,327
Current income tax liabilities	120	-	-	-	120
Non-current borrowings	-	-	-	34,460	34,460

DESCRIPTION OF CAPITAL STOCK

As at November 8, 2016, the Company's capital structure consists of an unlimited number of Class A common shares without par value (the "Class A Shares"), an unlimited number of Class B common shares without par value (the "Class B Shares") and an unlimited number of preferred shares without par value. At this date 779,122,307 Class A Shares, nil Class B Shares, nil warrants and nil preferred shares were issued and outstanding.

The Company granted no options in 2016 and granted 6,350,000 options under the equity incentive plan (the "Equity Incentive Plan") to certain employees during 2015. Prior to adoption of the Equity Incentive Plan, options were granted to certain directors, officers, employees and consultants pursuant to individual option agreements. As at November 8, 2016, there were 3,600,000 options, from individual stock-option agreements exercisable into 3,600,000 Class A Shares and 28,512,500 options issued in terms of the Equity Incentive Plan exercisable into 28,512,500 Class A Shares.

The Company granted no restricted share units (RSUs) in 2016 and 7,277,081 RSUs in 2015 per the Company's restricted share unit plan. As at November 8, 2016, there were 7,202,801 RSUs exercisable into 7,202,801 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operation of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design effectiveness of the Company's DC&P and ICFR as of September 30, 2016 and, in accordance with the requirements established under National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, the CEO and CFO have concluded that these controls and procedures have been designed and operate to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's CEO and CFO have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design and operation of the Company's ICFR as of September 30, 2016 and have concluded that these controls and procedures have been designed and operated effectively to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design and operation of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected.

During the three months ended September 30, 2016, there were no changes in the Company's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISK FACTORS

The Company has summarized its foreign exchange risk, credit risk and liquidity risk under the “Financial risk management objectives and policies” sub-heading under the “Financial instruments and other instruments” section in this MD&A. Additional risks and uncertainties are discussed in the Company’s Annual Information Form filed with Canadian provincial regulatory authorities and available at www.sedar.com.

DISCLOSURE OF TECHNICAL INFORMATION

Disclosures of a scientific or technical nature in this MD&A has been reviewed and approved by Stephen Torr, who is considered, by virtue of his education, experience and professional association, a Qualified Person under the terms of NI 43-101. Mr. Torr is not considered independent under NI 43-101 as he is the Vice President, Project Geology and Evaluation. Mr. Torr has verified the technical data disclosed in this MD&A.

Ivanhoe has prepared a current independent NI 43-101-compliant technical report for each of the Platreef Project, the Kipushi Project and the Kamoa-Kakula Project, which are available under the Company’s SEDAR profile at www.sedar.com. These technical reports include relevant information regarding the effective dates and the assumptions, parameters and methods of the mineral resource estimates on the Platreef Project, the Kipushi Project and the Kamoa-Kakula Project cited in this MD&A, as well as information regarding data verification, exploration procedures and other matters relevant to the scientific and technical disclosure contained in this MD&A in respect of the Platreef Project, Kipushi Project and Kamoa-Kakula Project.