

Consolidated financial statements of

Ivanhoe Mines Ltd.

December 31, 2014 and 2013
(Stated in U.S. dollars)

Ivanhoe Mines Ltd.

December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Ivanhoe Mines Ltd.

We have audited the accompanying consolidated financial statements of Ivanhoe Mines Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ivanhoe Mines Ltd. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

The logo for Deloitte, featuring the word "Deloitte" in a stylized, cursive script, followed by a small, stylized "UP" or "W" symbol.

Chartered Accountants

March 25, 2015
Vancouver, Canada

Ivanhoe Mines Ltd.

Consolidated statements of comprehensive loss for the year ended December 31,

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

	Notes	2014	2013
		\$	\$
Expenses			
Exploration and project expenditure	5	136,189	173,843
Share-based payments	16	97,294	8,308
Salaries and benefits		15,136	15,187
Office and administration		5,090	5,961
Foreign exchange loss		3,284	2,898
Travel		2,935	2,581
Professional fees		2,637	2,349
Legal		310	523
Legal settlement		-	10,000
Impairment of mineral property	5 (a)	-	334,338
Other expenditure		1,860	1,577
Loss from operating activities		264,735	557,565
Other income		(105)	(159)
Interest income		(1,041)	(3,436)
Finance costs	17	2,241	1,644
Mark-to-market gain on revaluation of warrants	13(d)	(9,524)	-
Loss before income taxes		256,306	555,614
Income tax expense			
Deferred tax recovery	11	(46)	(75,701)
Current	11	193	4
		147	(75,697)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		256,453	479,917
Discontinued operations			
(Income) loss from discontinued operation	9	(795)	100
LOSS FOR THE YEAR		255,658	480,017
Other comprehensive loss			
Items that may subsequently be reclassified to loss:			
Exchange losses on translation of foreign operations - discontinued operations		25	421
Exchange losses on translation of foreign operations - continuing operations		4,527	3,857
Other comprehensive loss for the year, net of tax		4,552	4,278
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		260,210	484,295
Loss attributable to:			
Owners of the Company - continuing operations		223,998	369,571
Owners of the Company - discontinued operations		(795)	100
Non-controlling interests		32,455	110,346
		255,658	480,017
Total comprehensive loss attributable to:			
Owners of the Company - continuing operations		228,117	373,199
Owners of the Company - discontinued operations		(770)	521
Non-controlling interests	15	32,863	110,575
		260,210	484,295
Basic and diluted loss per share	18	0.35	0.69
Weighted average number of basic and diluted shares outstanding	18	649,017,001	542,355,938

Ivanhoe Mines Ltd.

Consolidated statements of financial position as at December 31,

(stated in thousands of U.S. dollars)

	Notes	December 31, 2014 \$	December 31, 2013 \$
ASSETS			
Non-current assets			
Property, plant and equipment	4	50,859	35,433
Mineral properties	5	6,940	6,940
Other assets		13,030	5,092
Total non-current assets		70,829	47,465
Current assets			
Trade and other receivables	7	4,115	5,691
Prepaid expenses		8,965	10,367
Assets classified as held for sale	9	2,962	-
Short-term deposits	8	55,223	80,264
Cash and cash equivalents	8	110,983	143,789
Total current assets		182,248	240,111
Total assets		253,077	287,576
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	1,038,868	900,866
Warrant reserve	13	-	7,949
Share option reserve	13	124,179	27,695
Currency translation reserve	14	(11,549)	(7,405)
Accumulated deficit		(827,888)	(612,634)
Equity attributable to owners of the Company		323,610	316,471
Non-controlling interests	15	(121,207)	(89,233)
Total equity		202,403	227,238
Non-current liabilities			
Non-current borrowings	10	21,133	19,892
Deferred tax liabilities	11	2,037	2,082
Other non-current liabilities		433	-
Total non-current liabilities		23,603	21,974
Current liabilities			
Financial liability	13 (d)	6,945	-
Current borrowings	10	3,656	3,905
Trade and other payables	12	16,214	34,390
Liabilities directly associated with assets held for sale	9	56	-
Current tax liabilities		200	69
Total current liabilities		27,071	38,364
Total liabilities		50,674	60,338
Total equity and liabilities		253,077	287,576

Continuing operations (Note 1)

Commitments and contingencies (Note 24)

(Signed) Oyvind Hushovd

Oyvind Hushovd, Director

(Signed) William Lamarque

William Lamarque, Director

Ivanhoe Mines Ltd.

Consolidated statements of changes in equity

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

	Share capital		Number of warrants	Warrant reserve	Share option reserve	Currency translation reserve	Accumulated deficit	Equity attributable to owners	Non-controlling interests	Total
	Number of shares	Amount								
		\$		\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2013	528,641,979	793,657	13,941,940	7,949	20,066	(3,356)	(252,182)	566,134	47,465	613,599
Net loss for the year	-	-	-	-	-	-	(369,671)	(369,671)	(110,346)	(480,017)
Other comprehensive loss	-	-	-	-	-	(4,049)	-	(4,049)	(229)	(4,278)
Total comprehensive loss	-	-	-	-	-	(4,049)	(369,671)	(373,720)	(110,575)	(484,295)
<i>Transactions with owners</i>										
Change in non-controlling interest in subsidiary (Note 15)	-	-	-	-	-	-	9,219	9,219	(27,535)	(18,316)
Accretion of common share investment funded on behalf of non-controlling interest	-	-	-	-	-	-	-	-	(134)	(134)
Impairment of common share investment funded on behalf of non-controlling interest	-	-	-	-	-	-	-	-	1,546	1,546
Share-based payments	-	-	-	-	-	-	-	-	-	-
charged to operations (Note 16)	-	-	-	-	8,308	-	-	8,308	-	8,308
Bonus shares issued (Note 13)	783,500	1,457	-	-	-	-	-	1,457	-	1,457
Shares issued, net of issue cost (Note 13)	54,000,000	104,424	-	-	-	-	-	104,424	-	104,424
Options exercised (Note 13)	997,733	1,328	-	-	(679)	-	-	649	-	649
Balance at December 31, 2013	584,423,212	900,866	13,941,940	7,949	27,695	(7,405)	(612,634)	316,471	(89,233)	227,238
Net loss for the year	-	-	-	-	-	-	(223,203)	(223,203)	(32,455)	(255,658)
Other comprehensive loss	-	-	-	-	-	(4,144)	-	(4,144)	(408)	(4,552)
Total comprehensive loss	-	-	-	-	-	(4,144)	(223,203)	(227,347)	(32,863)	(260,210)
<i>Transactions with owners</i>										
Sale of non-controlling interest in subsidiary (Note 15)	-	-	-	-	-	-	-	-	889	889
Share-based payments	-	-	-	-	-	-	-	-	-	-
charged to operations (Note 16)	-	-	-	-	96,861	-	-	96,861	-	96,861
Bonus shares issued (Note 13)	2,084,808	1,805	-	-	-	-	-	1,805	-	1,805
Shares issued, net of issue cost (Note 13)	115,000,767	134,977	-	-	-	-	-	134,977	-	134,977
Expiry of warrants (Note 13)	-	-	(13,941,940)	(7,949)	-	-	7,949	-	-	-
Options exercised (Note 13)	634,000	1,220	-	-	(377)	-	-	843	-	843
Balance at December 31, 2014	702,142,787	1,038,868	-	-	124,179	(11,549)	(827,888)	323,610	(121,207)	202,403

Ivanhoe Mines Ltd.

Consolidated statements of cash flows
years ended December 31,
(stated in thousands of U.S. dollars)

	Notes	2014 \$	2013 \$
Cash flows from operating activities			
Loss before income taxes		(256,306)	(555,614)
Items not involving cash			
Share-based payments	16	97,294	8,308
Depreciation and amortization		5,723	4,206
Bonus shares issued		1,805	1,457
Interest income and finance costs		1,200	(1,792)
Unrealized foreign exchange loss		767	2,748
Loss on disposal of property, plant and equipment		20	332
Mark-to-market gain on revaluation of warrants		(9,524)	-
Impairment	5 (c)	-	334 338
		(159,021)	(206,017)
Change in non-cash working capital items	20	(15,198)	11,521
Working capital items classified as held for sale		2	-
Income taxes paid		(1)	(91)
Interest received		1,041	1,313
Interest paid		(596)	(246)
Net cash used in operating activities		(173,773)	(193,520)
Cash flows from (used in) discontinued operating activities	9	795	(100)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		97	240
Property, plant and equipment acquired		(26,182)	(18,133)
Proceeds from the sale of other assets		2,352	95
Decrease (increase) in investment in short-term deposits		25,041	(264)
Other assets acquired		(9,288)	(4,810)
Net cash used in investing activities		(7,980)	(22,872)
Cash flows from financing activities			
Issue of shares, net of issue costs		134,977	104,424
Proceeds from financial liability (warrants)	13(d)	16,156	-
Proceeds from sale of interest in subsidiary		889	-
Options exercised		843	649
Receipt on non-current borrowings		-	1,324
Repayment of current borrowings		-	(60)
Transaction costs paid on change of non-controlling interest in subsidiary		-	(589)
Net cash generated by financing activities		152,865	105,748
Effect of foreign exchange rate changes on cash		(4,713)	(5,297)
Net cash inflow		(32,806)	(116,041)
Cash and cash equivalents, beginning of year		143,789	259,830
Cash and cash equivalents, end of year		110,983	143,789
Cash and cash equivalents consists of			
Cash		106,962	141,349
Short-term fixed deposits		4,021	2,440
		110,983	143,789

Supplemental cash flow information (Note 20)

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

1. Basis of presentation and continuing operations

Ivanhoe Mines Ltd. is a Canadian mining 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.

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 incurred losses since inception and has an accumulated deficit of \$827.9 million at December 31, 2014. 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, in which case, the Company may be unable to meet its obligations as they come due in the normal course of business. In the event the Company was unable to continue as a going concern, then material adjustments would be required to the carrying value of the assets and liabilities and the statement of financial position.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The significant accounting policies used in these consolidated financial statements are as follows:

(a) *Statement of compliance*

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with IFRS and International Accounting Standards ("IAS") and Interpretations of the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2014. The Company has not adopted any new or amended standards which are not yet effective.

(b) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in all investees are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive loss of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Company's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributed to the owners of the Company.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(c) *Business combinations (continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: recognition and measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(d) *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(e) *Interests in joint operations*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Company is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(f) Significant accounting estimates

The preparation of financial statements in conformity with IFRS 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 estimates used in the preparation of these consolidated financial statements include, but are not limited to, the assumptions used in accounting for recoverability of assets and share-based payments.

Recoverability of assets

(i) Goodwill

Goodwill is tested for impairment annually. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, known as cash-generating units ("CGU"), for which management has assessed these as being individual mine sites, which are the lowest level for which cash inflows are largely independent of other assets. If the recoverable amount of the cash-generating unit is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. Impairment losses recognized for goodwill are not reversed in a subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value for mineral properties is generally determined as the present value of estimated future cash flows arising from continued use of the asset, which includes estimates, and using assumptions that an independent market participant would take into account. In assessing fair value, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(ii) Property, plant and equipment and finite lived intangible assets

Property, plant and equipment 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.

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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(f) Significant accounting estimates (continued)

Share-based payments

A Monte Carlo simulation of the underlying share (together with its dividends) is used to estimate the closing share price at vesting date, as well as the remaining funding balance in the B-BBEE IFRS 2 Share-based payment liability calculation. Several input assumptions were necessary in the valuation model and include:

- the implied share price of the underlying equity
- an estimated volatility of the shares which is calculated considering weighted average of the volatilities of historical share prices of the Company and other comparable companies.
- a projected dividend yield by considering the historical dividend yield of the Company and other comparable companies.
- an appropriate risk free rate
- a consideration of the credit risk relevant to the issuer of the scheme and the impact of this credit risk
- lock in period discount applied

(g) Significant accounting judgements

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

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 charged 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 ("ZAR"), U.S. dollar ("USD") and Canadian dollar ("C\$").

Mineral Properties

In determining whether an exploration and evaluation property is technically feasible and commercially viable, the Company considers the following elements:

- 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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(h) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive loss and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(h) *Foreign currencies (continued)*

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

(i) *Cash and cash equivalents*

Cash and cash equivalents comprise bank balances and highly liquid investments with original maturities of three months or less.

(j) *Mineral properties*

Direct costs related to the acquisition of mineral properties are capitalized on a property by property basis. 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.

Development costs are capitalised as property, plant and equipment and are costs incurred to obtain access and to provide facilities for extracting, treating, gathering, transporting and storing the minerals. Development expenditures are capitalised to the extent that they are necessary to bring the property to commercial production.

The Company reviews the carrying values of its mineral properties whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets are not recoverable and exceeds their fair value.

On the commencement of commercial production, net capitalized costs are charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

Where the Company's exploration and development activities are conducted jointly with others, these consolidated financial statements reflect only the Company's interests in such activities.

(k) *Financial instruments*

All financial instruments are initially recorded at fair value. Financial assets are designated upon inception as either (i) held-to-maturity, (ii) at fair value through profit or loss, (iii) available-for-sale, or (iv) loans and receivables. The designation determines the method by which the financial assets are measured on the statement of financial position subsequent to inception and how changes in value are recorded.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(k) *Financial instruments (continued)*

All of the Company's financial assets, other than available-for-sale securities, have been designated as loans and receivables and are carried on the statements of financial position at amortized cost. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). The Company does not have any financial assets other than cash and cash equivalents, short term deposits and trade and other receivables that are designated as loans and receivables.

Financial liabilities are designated as either (i) at fair value through profit or loss or (ii) other liabilities. The Company's share purchase warrants are designated as at fair value through profit or loss, and all other financial liabilities have been designated as other liabilities and are carried on the statements of financial position at amortized cost.

Transaction costs associated with fair value through profit or loss financial instruments are expensed as incurred, while transaction costs associated with all other financial instruments are added to the initial carrying amount of the asset or liability.

(l) *Property, plant and equipment*

All property, plant and equipment are initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation commences once the asset is available for use and is calculated on the straight line method to write off the cost of each asset less residual values over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end. Any changes are accounted for prospectively as a change in accounting estimate. Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and assets under construction) less their residual values over their useful lives, using the straight-line method.

The expected lives applicable to each category of fixed assets are as follows:

- | | |
|---|--------------|
| • Office equipment and furniture and fixtures | 3 – 6 years |
| • Motor vehicles | 5 years |
| • Plant, equipment and buildings | 5 – 20 years |

The Company reviews the carrying values of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit and loss.

Freehold land is not depreciated.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(l) *Property, plant and equipment (continued)*

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(m) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they incurred.

(n) *Decommissioning liabilities*

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for a decommissioning liability is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2014 and December 31, 2013, there was no material rehabilitation provision.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(o) *Non-current assets held for sale*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(p) *Taxation*

Current tax

The tax currently payable is based on taxable income for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting deficit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(p) *Taxation (continued)*

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

(q) *Share-based payments*

Equity settled share-based payments to employees providing services are measured at the fair value of the equity instruments at the grant date.

The fair value of all equity settled share-based payments is estimated as of the date of the grant using a Black-Scholes option valuation model and are recorded in profit and loss over their vesting periods. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively.

When the share options are ultimately exercised, the amount in the share-based payment reserve is moved to share capital.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

2. Significant accounting policies (continued)

(r) Future accounting changes

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2014:

- IFRS 7 Financial Instruments: (Amendment): Outlines the disclosures when applying IFRS 9, the new financial instruments standard. (i)
 - IFRS 9 Financial Instruments: New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and liabilities. (ii)
 - IFRS 15 Revenue from contracts with customers: Establishes principles to apply in order to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. (iii)
 - Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations: Provides guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. (iv)
 - Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation. (iv)
 - Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (v)
 - IFRSs (Amendment) Annual Improvements to IFRSs 2010-2012. (v)
 - IFRSs (Amendment) Annual Improvements to IFRSs 2011-2013. (v)
- (i) Effective for annual periods beginning on or after January 1, 2015
- (ii) The IASB tentatively decided to set January 1, 2018 as the effective date for the mandatory application of IFRS 9.
- (iii) Effective for annual periods beginning on or after January 1, 2017
- (iv) Effective for annual periods beginning on or after January 1, 2016
- (v) Effective for annual periods beginning on or after 1 July 2014

The Company has not yet adopted these new and amended standards and is currently assessing the impact of adoption.

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, 2014, with earlier application permitted. The Company adopted these standards and they did not have a material impact on its consolidated financial statements.

- IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments): Introduction of an exception from the requirement to consolidate a subsidiary for an investment entity.
- IAS 32 Financial Instruments: Presentation (Amendment): Clarification of the application of the requirements of offsetting financial assets and financial liabilities.
- IAS 36 Impairment of assets (Amendment): Clarification of the recoverable amount disclosures for impaired assets if this amount is based on fair value less cost of disposal.
- IAS 39 Financial Instruments: Recognition and Measurement (Amendment): Clarification of the novation of derivatives and continuation of hedge accounting.
- IFRIC 21: Levies.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

4. Property, plant and equipment

	Land	Office equipment	Furniture and fixtures	Motor vehicles	Plant, equipment and buildings	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
2014							
Cost							
Beginning of the year	4,744	4,373	1,769	6,286	26,402	4,732	48,306
Additions	-	856	231	863	8,572	15,660	26,182
Disposals	-	(127)	(6)	(159)	(5)	-	(297)
Reclassified to assets held for sale	(3,476)	(52)	-	-	-	-	(3,528)
Foreign exchange translation	737	(294)	(77)	(133)	(1 073)	(1 614)	(2,454)
End of the year	2,005	4,756	1,917	6,857	33,896	18,778	68,209
Accumulated depreciation and impairment							
Beginning of the year	619	2,340	613	3,750	5,551	-	12,873
Depreciation	-	1,265	261	695	3,502	-	5,723
Disposals	-	(122)	(3)	(50)	(4)	-	(179)
Reclassified to assets held for sale	(569)	(52)	-	-	-	-	(621)
Foreign exchange translation	(50)	(205)	(33)	(56)	(102)	-	(446)
End of the year	-	3,226	838	4,339	8,947	-	17,350
Carrying value							
Beginning of the year	4,125	2,033	1,156	2,536	20,851	4,732	35,433
End of the year	2,005	1,530	1,079	2,518	24,949	18,778	50,859

	Land	Office equipment	Furniture and fixtures	Motor vehicles	Plant, equipment and buildings	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
2013							
Cost							
Beginning of the year	5,657	3,238	1,295	5,700	16,822	-	32,712
Additions	-	1,709	558	905	10,167	4,794	18,133
Disposals	-	(55)	-	(100)	(579)	-	(734)
Foreign exchange translation	(913)	(519)	(84)	(219)	(8)	(62)	(1,805)
End of the year	4,744	4,373	1,769	6,286	26,402	4,732	48,306
Accumulated depreciation and impairment							
Beginning of the year	616	1,612	439	3,043	3,496	-	9,206
Depreciation	-	1,051	208	815	2,132	-	4,206
Disposals	-	(57)	(7)	(55)	(44)	-	(163)
Foreign exchange translation	3	(266)	(27)	(53)	(33)	-	(376)
End of the year	619	2,340	613	3,750	5,551	-	12,873
Carrying value							
Beginning of the year	5,041	1,626	856	2,657	13,326	-	23,506
End of the year	4,125	2,033	1,156	2,536	20,851	4,732	35,433

Assets pledged as security

Buildings with a carrying amount of \$9.9 million (December 31, 2013 - \$9.3 million) have been pledged to secure borrowings of the Company (see note 10). 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 consolidated financial statements

December 31, 2014

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

5. Mineral properties and exploration expenditures

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

	December 31, 2014	December 31, 2013
	\$	\$
Platreef property, South Africa (b)	6,940	6,940
	6,940	6,940

The following table summarizes the exploration expenditures for the year ended December 31, 2014 and 2013, as well as the accumulated aggregate exploration expenditures from inception which have been charged to operations:

	December 31, 2014	December 31, 2013
	\$	\$
Exploration expenditure		
Salaries and benefits	43,415	28,889
Drilling	22,256	26,091
Studies	14,105	28,370
Utilities	7,032	11,294
Consulting	5,733	9,745
Office and administration	5,328	17,970
Depreciation	4,887	3,358
Travel	3,302	5,017
Camp costs	2,962	4,274
Legal	3,305	3,248
Licenses	2,074	1,177
Assay and sampling	1,520	1,478
Other	20,270	32,932
	136,189	173,843
Accumulated aggregate exploration expenditures		
Kamoa properties (a)	325,226	274,111
Kipushi properties (a)	137,347	87,560
Platreef property (b)	196,798	165,228
Syerston properties (c)	10,400	10,135
Gabon properties (d)	11,892	10,338
Limpopo properties (e)	4,837	4,797
Other	6,746	4,888
	693,246	557,057

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

5. Mineral properties and exploration expenditures (continued)

(a) *DRC properties, DRC*

Kamoa properties

The Kamoa Project is located within the Central African Copperbelt in Katanga Province, DRC. The Kamoa Project lies approximately 25 km west of the town of Kolwezi, and about 270 km west of the provincial capital of Lubumbashi. Pursuant to the DRC mining code, the Company transferred for no consideration a 5%, non-dilutable interest in Kamoa to the DRC government on September 11, 2012, as a condition of the granting of the mining licences. The Company also has offered to sell an additional 15% interest to the DRC government on commercial terms.

Title to the Kamoa Project resides with Kamoa Copper SA (formerly African Minerals), a subsidiary of Ivanhoe Mines Ltd., who is the holder of the Kamoa Exploitation Licences. The Kamoa Exploitation Licences, approved August 20, 2012, grant the Company the right to explore for, develop and exploit copper and other minerals, for an initial 30 year term, expiring August 19, 2042.

Those portions of exploration permits 702, 703 and 705 not covered by the application for the Kamoa Exploitation Licences remain as exploration permits. The current exploration permits are in good standing and will expire on May 10, 2015. Under the DRC Mining Code, the Company is entitled to one further renewal for a five year term, subject to surrendering 50% of the area of each exploration permit concurrent with the renewal.

DRC regional properties

In addition to the permits covering the Kamoa Project and the Kipushi Project, the Company currently holds more than 6,000 km² of exploration permits in Katanga Province, around the perimeter of the historical limits of the Central African Copperbelt. These permits are in all major geological areas within Katanga Province and are prospective for a number of different types of base metal deposits, including Kamoa, Mines Subgroup, and Zambian-type stratiform copper and copper-cobalt deposits, Kipushi-type zinc-copper-lead-silver-germanium deposits, Kansanshi-type copper-gold deposits and basement-hosted copper deposits. The permits in the Lufupa region are considered prospective for diamond-bearing kimberlites.

Fifty permits were originally granted in 2003 and 2005 covering an area of almost 20,000 km². The permits have been through the first of two stages of renewal, which required dropping 50% of the original permit area. A portion of the second renewal, which resulted in another 50% permit area reduction, occurred in 2013 and the remainder comes due in 2015, after which the Company will have five years of tenure remaining on these exploration permits.

Kipushi properties

The Kipushi Project is a past-producing, high-grade underground zinc-copper mine in the Central African Copperbelt, in Katanga Province, DRC. The Kipushi Project lies adjacent to the town of Kipushi and the border with Zambia, and about 30 km southwest of the provincial capital of Lubumbashi.

Ivanhoe Mines and La Générale des Carrières et des Mines SARL ("Gecamines") own, respectively, 68% and 32% of the Kipushi Project, through their holdings in Kipushi Corporation SA ("Kipushi"), the mining rights holder. Ivanhoe Mines' interest in Kipushi was acquired in November 2011 and comprises mining rights for copper and cobalt as well as the underground workings and related infrastructure, inclusive of a series of vertical mine shafts.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

(a) *DRC properties, DRC (continued)*

Kipushi properties (continued)

As at December 31, 2013, the Company recorded an impairment charge of \$334.3 million, upon completion of its annual assessment of the carrying value of its CGUs. The impairment charge, which was recorded within a separate line in the consolidated statement of comprehensive loss, included \$252.3 million relating to Kipushi mineral properties and \$67.4 million relating to goodwill recognised upon acquisition of Kipushi. As a result of the impairment charge related to Kipushi, a tax recovery of \$75.7 million was recorded within tax expense.

Significant judgements and assumptions are required in making estimates of determining the recoverable amount (fair value less costs to sell). This is particularly so in the assessment of long life assets. It should be noted that the valuations are subject to variability in key assumptions including, but not limited to, long-term commodity prices, capital expenditures, discount rates, transport costs and the cost of production and operating costs.

The assumptions made included, but were not limited to, the following:

- A life of mine of 15 years;
- A zinc price of \$0.98 per pound;
- A copper price of \$2.99 per pound; and
- Discount rates ranging from 7.5% to 8%.

A change in one or more of the assumptions used to estimate recoverable amount could result in a reduction or an increase in a CGU's recoverable amount. The Company concluded that, as at December 31, 2014, there were no significant changes to the assumptions used above.

(b) *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 June 2013, the Company filed a Mining Right Application ("MRA") for the Platreef Project with the Department of Mineral Resources ("DMR"). In conjunction with the MRA for Platreef, and in compliance with South African ownership requirements under the Mining Charter, the Company modified the Platreef ownership structure to include a Broad-Based Black Economic Empowerment ("B-BBEE") partner that represents communities, entrepreneurs and employees (see note 19).

In November 2014 the DMR announced that the mining right for the development and operation of the company's Platreef mining project had been finalized. The mining right, authorizes Ivanplats 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, 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 B-BBEE special purpose vehicle in compliance with South African ownership requirements (Note 19).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

5. Mineral property and exploration expenditures (continued)

(c) Syerston properties

Ivanplats Syerston Pty Ltd. owns certain nickel and cobalt mining tenements near Fifield in the central-west region of New South Wales, approximately 350 kilometres north-west of Sydney, Australia. The Company intends to dispose of its Australian subsidiaries in the next 12 months and has classified the assets and liabilities as held for sale (Note 9).

(d) Gabon properties

During late 2010 and early 2011 the Company attained exploration rights to two properties in Gabon referred to as Makokou and Ndangui both covering Achaean greenstone belts. Both permits are associated with recently defined soil geochemistry anomalies and were initially valid for a period of three years after which they could be extended for an additional three years on two occasions. The exploration rights were successfully extended in 2014.

(e) Limpopo properties

The Company's exploration program in South Africa, other than work at the Platreef Project, consists of diamond exploration, conducted by its wholly-owned subsidiary African Consolidated Mineral Exploration (Proprietary) Limited ("ACME"). The Company has requested relinquishment of all the exploration permits held by ACME.

6. 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 \$9.9 million (2013: \$9.3 million) and are included in Property, Plant and Equipment (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.

7. Trade and other receivables

	December 31, 2014	December 31, 2013
	\$	\$
Trade receivables	924	128
Refundable taxes	1,647	4,452
Advances	1,052	1,044
Other	492	67
	4,115	5,691

Refundable taxes are net of a provision for value-added taxes incurred in foreign jurisdictions where recoverability of those taxes is uncertain.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

8. Cash and cash equivalents and short-term deposits

As at December 31, 2014, the cash and cash equivalents of \$111.0 million (December 31, 2013 - \$143.8 million) included \$53.6 million (December 31, 2013 - \$81.5 million) which are subject to contractual restrictions for the Platreef property and were not available for the Company's general corporate purposes. The short-term deposits of \$55.2 million (December 31, 2013 - \$80.3 million) are subject to the same contractual restrictions.

9. Assets classified as held for sale

The Company intends to dispose of its Australian subsidiaries in the next 12 months. The Company has identified an interested buyer. Immediately prior to classification as held for sale the assets in the Australian subsidiaries were re-measured in accordance with applicable IFRSs. Impairment previously recognised relating to the Australian mineral properties has been reversed to the value of \$1 million which is estimated to be the recoverable amount.

The assets and liabilities held for sale on the statement of financial position are as follows:

	December 31, 2014	December 31, 2013
	\$	\$
Assets held for sale consist of:		
Freehold land	1,908	-
Mineral properties	1,000	-
Other assets	54	-
	2,962	-
Liabilities directly associated with assets classified as held for sale: Accruals and payables	56	-

The comparative loss and cash flows from discontinued operations have been re-presented to include the Australian subsidiaries classified as discontinued in the current year. The effect of assets held for sale on the statement of comprehensive loss is as follows:

	December 31, 2014	December 31, 2013
	\$	\$
Reversal of impairment	(1,000)	-
Other income	(60)	(85)
Expenses	265	185
(Income) loss for the period	(795)	100

Ivanhoe Mines Ltd.

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10. Borrowings

	December 31, 2014	December 31, 2013
	\$	\$
<i>Unsecured - at amortised cost</i>		
(a) Loans from other entities	19,783	18,450
<i>Secured - at amortised cost</i>		
(b) Citi bank loan	3,656	3,905
(c) Citi bank loan	1,350	1,442
	24,789	23,797
Current	3,656	3,905
Non-current	21,133	19,892
	24,789	23,797

- (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, formerly Platreef Resources (Pty) Ltd, ("Platreef") (see note 15). The loan is repayable only once Platreef has residual cashflow, which is defined in the loan agreement as gross revenue generated by Platreef, 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 as at December 31, 2014, is estimated at \$19.8 million. The difference of \$9.2 million 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 \$1.3 million (2013: \$0.7 million) was recognised during the year ended December 31, 2014.
- (b) The Citi bank loan of \$3.7 million (£2.36 million) is secured by the Rhenfield property acquired during May, 2007 (see note 4), is repayable on demand and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears.
- (c) The Citi bank loan of \$1.4 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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11. Income taxes

(a) Rate reconciliation

A reconciliation of the provision for income taxes is as follows:

	2014	2013
	\$	\$
Loss before income taxes	256,306	555,614
Statutory tax rate	26.00%	25.75%
Expected recovery of income taxes based on combined Canadian Federal and provincial statutory rates	(66,640)	(143,071)
Add (deduct):		
Different effective tax rates in foreign jurisdictions	(7,583)	(19,071)
Tax effect of tax losses and temporary differences not recognized	41,401	33,932
Non-deductible expenses	29,834	8,925
Permanent difference for goodwill impairment	-	16,850
Effect of change in future tax rates	75	382
Amendments to prior year tax submissions	(6,964)	14,616
Effect of foreign exchange on temporary differences not recognized	10,024	11,740
Income tax expense (recovery)	147	(75,697)

(b) Deferred tax balances

The Company's deferred income tax liabilities are as follows:

	2014	2013
	\$	\$
Property, plant and equipment	(2,037)	(2,082)
Deferred income tax liabilities	(2,037)	(2,082)

Ivanhoe Mines Ltd.

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11. Income taxes (continued)

(c) Unrecognized and taxable temporary differences

The Company's unrecognized deductible temporary differences and unused tax losses consist of the following amounts:

	2014	2013
	\$	\$
Non-capital loss carryforwards	779,722	590,739
Investment in RK1 (Note 6)	11,289	11,289
Foreign exploration expenses and share issuance costs	17,487	17,736
Capital assets	153	155
Unrecognized deductible temporary differences	808,651	619,919

The Company's unrecognized taxable temporary difference relating to joint operations, consists of the following amount:

Investment in Rhenfield (Note 6)	2,075	2,075
Unrecognized taxable temporary differences	2,075	2,075

(d) Loss carryforwards

The Company's unrecognized deferred tax assets related to unused tax losses have the following expiry dates:

		Local currency	U.S. dollar equivalent	
			\$	
South African rand	R	2,034,256	175,005	(a)
Congolese franc	CDF	418,340,023	456,330	(b)
Gabonese franc	XAF	6,552,088	12,126	(a)
Canadian dollar	\$	99,045	85,450	2014 to 2033
Australian dollar	\$	27,633	24,226	(a)
Zambian kwacha	ZMK	7,321	1	2014 to 2018
English Pound	£	3,125	4,849	(a)
Barbados	BBD	41,530	20,870	(a)
Luxembourg (EURO)	€	359	495	(a)
Namibian dollar	NAD	4,304	370	(a)
			779,722	

(a) These losses can be carried forward indefinitely, subject to continuity of trading.

(b) These losses are accumulated and set-off against future taxable income when mining operations commence.

Ivanhoe Mines Ltd.

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

12. Trade and other payables

	December 31, 2014	December 31, 2013
	\$	\$
Trade payables	9,917	11,712
Indirect taxes payable	404	10,715
Trade accruals	2,729	4,416
Other payables	3,164	7,547
	16,214	34,390

During the year ended December 31, 2013, the Company agreed on a settlement of claims against the Company. The total amount payable in terms of the settlement agreement was \$10 million, of which \$6 million was still outstanding and included in other payables at December 31, 2013. The outstanding amount was paid on November 6, 2014.

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

13. 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 December 31, 2014, 694,486,187 Class A Shares, 7,656,600 Class B Shares and nil Preferred Shares were issued and outstanding. As at December 31, 2014, 184,459,149 shares were subject to a lock-up, pursuant to lock-up agreements and were not freely tradable.

In June 2014, the Company concluded a public offering for 83,334,000 units, each consisting of one Class A common share and one Class A common share purchase warrant, which were sold at a price of C\$1.50 per unit for gross proceeds of C\$125 million (\$114 million). In addition, the underwriters exercised their over-allotment option in full, resulting in the Company issuing a further 12,500,100 units and increasing the total gross proceeds received by the Company to C\$144 million (\$132 million). Issue costs amounted to \$7 million which were allocated pro-rata to equity and share purchase warrant derivative liability, with the portion allocated to share purchase warrant derivative liability being expensed in the period.

The Company completed a concurrent private placement of an additional 16,666,667 units, on the same terms and conditions as the public offering, to raise additional gross proceeds of C\$25 million (\$23 million). As a result of the exercise by the underwriters of their over-allotment option in its entirety, the option to purchase an additional 2,500,000 units in terms of this concurrent private placement became effective and was exercised on July 10, 2014, for proceeds of C\$4 million (\$4 million).

The Company allocated \$16.5 million to financial liabilities based on the fair value of the warrants (note 13(d)).

In October 2013, the Company closed a private placement of 54,000,000 Class A common shares raising gross proceeds of C\$108 million (\$105 million). Each share was priced at C\$2.00 per share. Transaction costs directly attributable to the placement amounted to \$0.2 million.

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13. Share capital (continued)

(b) Bonus shares

During December 2014, a total of 2,084,808 common shares (2013: 783,500) were issued to senior executives as a performance reward in the form of bonus shares, with a deemed market value of \$1,805,460 (2013: \$1,457,316).

(c) 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 December 31, 2014, 38,775,000 share options have been granted and exercised, and 40,190,000 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.

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

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of year	31,479,000	2.36	21,497,000	2.21
Granted	14,175,000	0.92	11,520,000	2.54
Exercised	(634,000)	1.33	(1,356,000)	1.54
Expired	(2,470,000)	1.57	-	-
Forfeited	(2,360,000)	2.44	(182,000)	2.96
Balance, end of year	40,190,000	1.92	31,479,000	2.36

An expense of \$6.1 million for the options granted during the year ended December 31, 2014 (2013: \$14.7 million) will be amortized over the vesting period, of which \$0.4 million was recognized in the year ended December 31, 2014 (2013: \$3.4 million).

The weighted average grant-date fair value of share options granted during 2014 was \$0.43 (2013: \$1.28). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions for the share option grant:

	2014	2013
Risk free interest rate	1.17%	1.17%
Expected volatility (i)	63%	69%
Expected life	3.75 years	3.75 years
Expected dividends	\$Nil	\$Nil
Forfeiture rate	1.0%	1.0%

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

Ivanhoe Mines Ltd.

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

13. Share capital (continued)

(c) Options (continued)

The following table summarizes information about share options outstanding and exercisable as at December 31, 2014:

Expiry date	Options outstanding		Options exercisable	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
January 21, 2015	250,000	3.08	250,000	3.08
March 1, 2015	100,000	1.80	100,000	1.80
March 8, 2015	300,000	4.81	300,000	4.81
April 8, 2015	500,000	1.80	500,000	1.80
May 28, 2015	625,000	1.80	625,000	1.80
May 31, 2015	400,000	3.00	400,000	3.00
July 21, 2015	75,000	3.00	75,000	3.00
August 30, 2015	40,000	2.40	40,000	2.40
September 9, 2015	3,425,000	1.80	3,425,000	1.80
February 17, 2016	7,330,000	2.40	5,864,000	2.40
March 22, 2017	100,000	3.00	60,000	3.00
April 1, 2017	1,000,000	3.00	600,000	3.00
April 20, 2017	2,500,000	3.00	1,500,000	3.00
January 11, 2018	1,650,000	4.90	412,500	4.90
February 1, 2018	100,000	4.81	50,000	4.81
April 1, 2018	530,000	4.45	265,000	4.45
May 17, 2018	30,000	2.44	15,000	2.44
August 14, 2018	100,000	1.44	25,000	1.44
August 16, 2018	750,000	1.45	187,500	1.45
December 13, 2018	6,210,000	1.86	1,552,500	1.86
March 31, 2019	200,000	1.57	-	1.57
June 16, 2019	500,000	1.20	-	1.57
August 15, 2019	1,000,000	1.33	-	1.33
December 8, 2019	12,475,000	0.86	-	1.33
	40,190,000	1.92	16,246,500	2.42

(d) Warrants

The Company had two types of warrants during the year, warrants issued prior to the Company's IPO (Pre-IPO warrants) and warrants issued subsequent to the Company's IPO which are denominated in Canadian dollars (Post-IPO warrants).

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

13. Share capital (continued)

(d) Warrants (continued)

The Company had 13,941,940 Pre-IPO warrants outstanding exercisable into 15,336,133 common shares at December 31, 2013. Each warrant entitled the holder to purchase 1.1 common shares for every warrant held at the IPO price for a period of two years following the IPO. These warrants expired on October 22, 2014 and the reserve of \$7.9 million has been re-allocated to accumulated deficit.

The Company's Post-IPO warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. Each Post-IPO warrant entitles the holder to purchase 1 common share for every warrant held at C\$1.80 for a period of eighteen months following the issue date. During the year ended December 31, 2014, there was a derivative gain of \$9.5 million. The following table provides detail on the movement of the Post-IPO warrant liability:

	Number of warrants	Amount \$
Balance as at January 1, 2014	-	-
Warrants issued on June 10, 2014	112,500,767	15,954
Warrants issued on July 10, 2014	2,500,000	515
Mark-to-market gain on revaluation of warrants	-	(9,524)
Balance as at December 31, 2014	115,000,767	6,945

The Company uses quoted prices in active markets to determine the fair value of the Canadian dollar denominated warrants.

14. Currency translation reserve

	2014 \$	2013 \$
Balance at the beginning of the year	(7,405)	(3,356)
Exchange differences arising on translating the foreign operations	(4,144)	(4,049)
Balance at the end of the year	(11,549)	(7,405)

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.

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15. Non-controlling interests

	2014	2013
	\$	\$
Balance at beginning of the year	(89,233)	47,465
Share of comprehensive losses for the year	(32,863)	(110,575)
Sale of non-controlling interest in subsidiary	889	-
Common share investment in Kipushi funded on behalf of non-controlling interest	-	(134)
Decrease in non-controlling interest arising from change in percentage ownership in Ivanplats Holding SARL and Ivanplats (Pty) Ltd	-	(27,535)
Impairment of common share investment funded on behalf of non-controlling interest	-	1,546
Balance at the end of the year	(121,207)	(89,233)

The total non-controlling interest at December 31, 2014 is \$121.2 million (2013: \$89.2 million), of which \$57.6 million (2013: \$45.0 million) is for Ivanplats (Pty) Ltd, \$15.4 million (2013: \$13.0 million) is for Kamo Copper SA and \$48.4 million (2013: \$31.3 million) is attributed to Kipushi Corporation SA. The non-controlling interest in respect of Ivanplats Holding SARL is not material.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the group.

Summarised balance sheet

	Ivanplats (Pty) Ltd		Kamo Copper SA		Kipushi Corporation	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Non-current assets	28,017	7,748	8,911	3,557	11,821	10,705
Non-current liabilities	(249,131)	(183,686)	(314,974)	(250,819)	(152,557)	(95,874)
Total non-current net assets	(221,114)	(175,938)	(306,063)	(247,262)	(140,736)	(85,169)
Current assets	10,165	9,563	2,515	1,901	4,062	3,588
Current liabilities	(6,487)	(6,921)	(9,971)	(18,029)	(9,599)	(11,395)
Current net assets	3,678	2,642	(7,456)	(16,128)	(5,537)	(7,807)
Net assets	(217,436)	(173,296)	(313,519)	(263,390)	(146,273)	(92,976)

Ivanhoe Mines Ltd.

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15. Non-controlling interests (continued)

Summarised income statement

	Ivanplats (Pty) Ltd		Kamoa Copper SA		Kipushi Corporation SA	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Loss for the year	130,914	37,474	49,101	77,339	53,237	64,067
Other comprehensive loss	4,080	2,287	(19)	32	(4)	(10)
Total comprehensive loss	134,994	39,761	49,082	77,371	53,233	64,057
Total comprehensive loss allocated to non-controlling interests	12,610	3,747	2,455	3,867	17,036	20,501

On September 3, 2014, as part of the Company's broad-based black economic empowerment transaction (see note 19), self-funded historically disadvantaged entrepreneurs purchased an effective 0.1% in Ivanplats (Pty) Ltd (formerly Platreef Resources (Pty) Ltd) for \$0.9 million.

On June 6, 2013, the Company exchanged 8% of its interest in Ivanplats (Pty) Ltd, for 8% of its interest in Ivanplats Holding SARL, formerly Beales SARL, holding company of Ivanplats (Pty) Ltd, for a loan payable to ITC Platinum Development Limited of \$28 million (see note 10). The transaction increased the Company's effective shareholding of Ivanplats Holding SARL to 97%, while the effective shareholding in Ivanplats (Pty) Ltd remained 90%. An amount of \$27.5 million, being the proportionate share of the carrying amount of the net assets of Ivanplats Holding SARL, has been transferred from non-controlling interest. The difference between the decrease in non-controlling interest of \$27.5 million and the value of the loan payable on the date of the exchange of \$17.7 million (see note 10), has been credited to retained earnings together with the transaction costs of \$0.6 million.

16. Share-based payments

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

	December 31, 2014	December 31, 2013
	\$	\$
<i>Equity settled share-based payments</i>		
B-BBEE transaction expense (note 19)	(88,194)	-
Options granted (note 13(c))	(8,667)	(8,308)
<i>Cash settled share-based payments</i>		
B-BBEE transaction expense (note 19)	(433)	-
	(97,294)	(8,308)

In addition to the share-based payments noted above the Company issued bonus shares during the year (note 13(b)).

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17. Finance costs

The finance costs of the Company are summarized as follows:

	December 31, 2014	December 31, 2013
	\$	\$
Interest on non-current borrowings (Note 10)	1,375	726
Transaction costs on issue of the warrants	758	-
Interest on current borrowings (Note 10)	107	102
Interest on advances to Gecamines	-	811
Other financing costs	1	5
	2,241	1,644

18. Loss per share

The basic loss per share is computed by dividing the loss attributable to owners of the Company from continuing operations by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as preference shares, 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 year ended December 31, 2014 and 2013.

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19. Related party transactions

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

Name	Country of Incorporation	% equity interest as at	
		December 31, 2014	December 31, 2013
Ivanhoe Mines (Barbados) Ltd.	Barbados	100%	100%
Ivanplats Holding SARL	Luxembourg	97%	97%
Ivanplats Finance Limited	Ireland	100%	100%
Rhenfield Limited	British Virgin Islands	50%	50%
Gabon Holding Company Ltd.	Barbados	100%	100%
Kamoa Copper SA	Democratic Republic of Congo	95%	95%
Ivanhoe (Zambia) Ltd.	Zambia	100%	100%
Kamoa Holding Limited	Barbados	100%	100%
Kipushi Holding Limited	Barbados	100%	100%
Kipushi Corporation SA	Democratic Republic of Congo	68%	68%
Ivanhoe Mines Energy DRC SARL	Democratic Republic of Congo	100%	100%
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%	90%
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%
Ivanplats Holding Company (Pty) Ltd.	Australia	100%	100%
Ivanhoe (Namibia) (Pty) Ltd.	Namibia	100%	100%
RK1 Consortium	South Africa	25%	25%
Ivanplats Syerston (Pty) Ltd.	Australia	100%	100%
Ivanplats Uranium (Pty) Ltd.	Australia	100%	100%
Ivanhoe Gabon SA	Gabon	100%	100%
Ivanplats Services (Pty) Ltd.	Australia	100%	100%

In conjunction with the Mining Right Application for Ivanplats (Pty) Ltd, formerly Platreef Resources (Pty) Ltd ("Platreef"), and in compliance with South African ownership requirements under the Mining Charter, the Company implemented its broad-based black economic empowerment (B-BBEE) structure for Platreef on June 26, 2014. The Company transferred 26% of Platreef to a B-BBEE special purpose vehicle (B-BBEE SPV) for the benefit of communities, employees and entrepreneurs in and around the Platreef project.

In substance the B-BBEE transaction entered into by the Company and the B-BBEE Shareholders has the characteristic of a hypothetical written call option, with attached dividend and voting rights. The acquisition of the rights to the Platreef shares only becomes effective in substance, once the funding arrangements have been settled, the pledge and cession agreement lapses and the B-BBEE shareholders obtain the full rights associated with the ownership of Platreef shares.

The B-BBEE transaction therefore constitutes a share-based payment arrangement given that the B-BBEE Shareholders received an option to acquire an effective 26% ownership interest in Platreef, via the shareholding in B-BBEE SPV, (representing equity instruments within the Company) in return for a non-market related purchase consideration received from the B-BBEE Shareholders in order to provide Platreef with the required B-BBEE credentials to enable Platreef to obtain its mining right. The share-based payment expense relating to the B-BBEE transaction was determined by using a Monte Carlo simulation of the underlying share, together with its dividends, to estimate the closing share price at vesting date, as well as the remaining funding balance.

Of the share-based payment expense recognised for the year ending December 31, 2014, \$88.6 million related to the B-BBEE transaction, with the remaining \$8.7 million (2013: \$8.3 million) being the expense for options granted to employees recognised over the vesting period.

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19. 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:

	December 31, 2014	December 31, 2013
	\$	\$
Global Mining Management Corporation (a)	3,711	4,150
Ivanhoe Capital Aviation LLC (b)	1,200	825
Global Mining Services Ltd. (c)	421	715
Ivanhoe Capital Services Ltd. (d)	506	673
HCF International Advisers (e)	363	369
Ivanhoe Capital Pte Ltd (f)	269	131
Ivanhoe Capital Corporation (UK) Limited (g)	8	139
	6,478	7,002
Salaries and benefits	4,525	5,412
Office and administration	95	337
Travel	1,442	843
Consulting	416	410
	6,478	7,002

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 December 31, 2014, trade and other payables included \$0.4 million (2013: \$0.2 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 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) 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.

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19. Related party transactions (continued)

- (d) 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.
- (e) HCF International Advisers ("HCF") is a leading 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.
- (f) 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.
- (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 London on a cost-recovery basis.
- (h) I2MS.net PTE LTD ("I2MS") is a private company 100% owned by Turquoise Hill Resources Ltd., formerly Ivanhoe Mines Ltd. I2MS provides IT services to the Company on a cost-recovery basis. I2MS ceased to be a related party on May 10, 2013, when Turquoise Hill Resources Ltd. no longer had a director or significant shareholder in common with the Company.

20. Cash flow information

Net change in non-cash working capital items:

	December 31, 2014	December 31, 2013
	\$	\$
Net decrease (increase) in		
Trade and other receivables	1,576	(2,146)
Prepaid expenses	1,402	(729)
Net (decrease) increase in		
Trade and other payables	(18,176)	14,396
	(15,198)	11,521

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

21. Financial instruments

(a) Fair value of financial instruments

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

Financial instrument	Classification
Financial assets	
Cash and cash equivalents	Loans and receivables
Short-term deposits	Loans and receivables
Trade and other receivables	Loans and receivables
Financial liabilities	
Trade and other payables	Other liabilities
Borrowings	Other liabilities
Share purchase warrants	Fair value through profit and loss

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 Company's financial instruments include cash and cash equivalents, short-term deposits, trade and other receivables, borrowings, share purchase warrants (Post-IPO) and trade and other payables.

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 (note 10 (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 Company's Post-IPO warrants are valued using quoted prices in active markets and as such are classified as Level 1 of the fair value hierarchy. The share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value 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 of these financial instruments.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

21. 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:

	December 31, 2014	December 31, 2013
	\$	\$
Assets		
Canadian dollar	19,659	53,404
Australian dollar	66	90
South African rand	28,068	14,546
British pounds	5,880	521
Liabilities		
Canadian dollar	(425)	(396)
Australian dollar	(249)	(230)
South African rand	(10,936)	(2,498)
British pounds	(1,255)	-

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

21. Financial instruments (continued)

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

(i) Foreign exchange risk (continued)

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 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.

	December 31, 2014	December 31, 2013
	\$	\$
Decrease in loss for the year	819	3,272

(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, short term deposits and cash 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 issued by major banks and companies with high credit ratings assigned by international credit-rating agencies. 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 consolidated financial statements

December 31, 2014

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

21. Financial instruments (continued)

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

(ii) Credit risk (continued)

The following table details the Company's aging of accounts receivable:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
	\$	\$	\$	\$	\$
As at December 31, 2014					
Trade and other receivables	-	4,115	-	-	4,115
	-	4,115	-	-	4,115
As at December 31, 2013					
Trade and other receivables	-	5,691	-	-	5,691
	-	5,691	-	-	5,691

(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 6 months	Over 6 months	Total undiscounted cash flows
	\$	\$	\$	\$	\$
As at December 31, 2014					
Trade and other payables	-	16,214	-	-	16,214
Current income tax liabilities	200	-	-	-	200
Non-current borrowings	-	-	-	30,392	30,392
Current borrowings	3,656	-	-	-	3,656
As at December 31, 2013					
Trade and other payables	-	34,390	-	-	34,390
Current income tax liabilities	69	-	-	-	69
Non-current borrowings	-	-	-	29,848	29,848
Current borrowings	3,905	-	-	-	3,905

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

22. Capital risk management

The Company includes as capital common shares, warrant reserve and share option reserve. The Company's objectives are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Currently the Company has no cash inflows from operations. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to satisfy cash requirements. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay dividends. The Company's investment policy is to invest its cash in highly liquid, short-term, interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures from operations.

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current fiscal year.

23. Key management personnel compensation

The remuneration of directors and other members of key management were as follows:

	December 31, 2014	December 31, 2013
	\$	\$
Short-term benefits	11,142	11,479
Share-based payments	6,671	5,842
	17,813	17,321

24. Commitments and contingencies

The tax affairs of GB Mining and Exploration SA (Pty) Ltd ("GBSA") and Gardner & Barnard UK Limited ("GBUK") were under investigation by the South African Revenue Authorities. As part of the consent award in the arbitration between the Company and the vendors of GBUK, the vendors of GBUK undertook to pay any tax liabilities as finally determined by a court of competent jurisdiction in South Africa for the period up to June 30, 2006 in respect of GBUK and its subsidiary, GBSA. The Supreme Court of Appeal of South Africa issued its judgment on March 4, 2015, ruling that the taxation payable to the South African Revenue Service relating to periods prior to June 30, 2006, to be R2 million (\$0.2 million).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

24. Commitments and contingencies (continued)

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 December 31, 2014, the Company's commitments that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$	\$	\$	\$	\$
Operating leases	369	192	-	-	561
Advancement of interest free loan (i)	1,152	248,848	-	-	250,000
	1,521	249,040	-	-	250,561

- (i) On March 21, 2014, a financing agreement was entered into between the Company 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 Company's DRC projects.

Under the agreement, the Company has agreed to provide a loan relating to the power upgrade, which is estimated to be \$141 million (including a \$4.5 million pre-finance loan), but is capped at a maximum commitment of \$250 million. 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 Company is given a priority electricity right by which SNEL commits to make available to the Company, as per an agreed power requirements schedule, sufficient energy from its grid to meet the energy needs of the Company's DRC projects, and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the Company's production and mine expansion scenarios.

25. Segmented information

At December 31, 2014, the Company has three reportable operating segments, being the Platreef property, Kamoa and Kipushi.

A reportable 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 three reportable segments, the Company prepares 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.

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:

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

25. Segmented information (continued)

	South Africa	DRC	Other	Total
	\$	\$	\$	\$
Non-current assets				
As at December 31, 2014	35,960	24,694	10,175	70,829
As at December 31, 2013	16,108	14,708	16,649	47,465

- (i) The Company's Corporate Division and other divisions that do not meet the quantitative thresholds of IFRS 8 Operating Segments are included in the segmental analysis under the unallocated column.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2014

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

26. Subsequent event

On March 23, 2015, the Company announced that China-based Zijin Mining Group has agreed to acquire a 9.9% interest in Ivanhoe Mines by investing approximately C\$105 million to help advance the Company's three mine-development projects in Africa. Under terms of the agreement, the Company will issue 76,817,020 common shares to Zijin through a private placement at a price of C\$1.36 per share. The private placement is scheduled to close on or about April 20, 2015, subject to receipt of the approval of the Toronto Stock Exchange, and receipt by Zijin of approvals from the Chinese government or its relevant authorized departments.

27. Approval of the financial statements

The Consolidated Financial Statements of Ivanhoe Mines Ltd., for the year ended December 31, 2014 were approved and authorized for issue by the Board of Directors on March 25, 2015.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

DATED: MARCH 25, 2015

INTRODUCTION

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited financial statements of Ivanhoe Mines Ltd. for the years ended December 31, 2014, 2013 and 2012, 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.

The effective date of this MD&A is **March 25, 2015**. 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) a pre-feasibility study (PFS) at the Kamoa Project; (ii) statements regarding the expected date that the development of the first set of Kamoa twin declines is to begin; (iii) statements regarding the declines having been designed to intersect the high-grade copper mineralization in the Kansoko Sud area; (iv) statements regarding the projected depth of Shaft 1 at the Platreef Project in 2018 and the timing of the commencement of the start of Shaft 2 development; (v) statements regarding underground mining to use mechanized room-and-pillar and drift-and-fill methods; (vi) efforts to upgrade historical resource estimates at the Kipushi Project; (vii) the de-watering program at the Kipushi Project; and (viii) statements regarding the timing, size and objectives for completion of drilling programs.

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 preliminary economic assessment of the Kamoa Project and the pre-feasibility study of the Platreef 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, and estimates of capital and operating costs. Furthermore, with respect to this specific forward-looking information concerning the development of the Kamoa and Platreef 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, 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 availability and productivity of skilled labour; (xiii) 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. The estimation of Mineral Resources is inherently uncertain and involves subjective judgments about many relevant factors. 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 estimates may have to be re-estimated based on: (i) fluctuations in copper, nickel, 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 (vi) the possible failure to receive required permits, approvals and licenses.

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 42 and elsewhere in this MD&A.

REVIEW OF OPERATIONS

Ivanhoe Mines (Ivanhoe and the Company) 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 Kamoa copper discovery in a previously unknown extension of the Central African Copperbelt in the Democratic Republic of Congo's southern province of Katanga. (See "*Kamoa Project*".)
- The Platreef discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of the Bushveld Complex in South Africa. (See "*Platreef Project*".)
- The historic, high-grade Kipushi zinc, copper and germanium mine, also on the Copperbelt in the DRC, now being drilled and upgraded following a care-and-maintenance program conducted between 1993 and 2011. (See "*Kipushi Project*".)

Ivanhoe is evaluating other opportunities as part of its objective to become a broadly based, international mining company.

KAMOA PROJECT

Kamoa is world's largest undeveloped, high-grade copper discovery

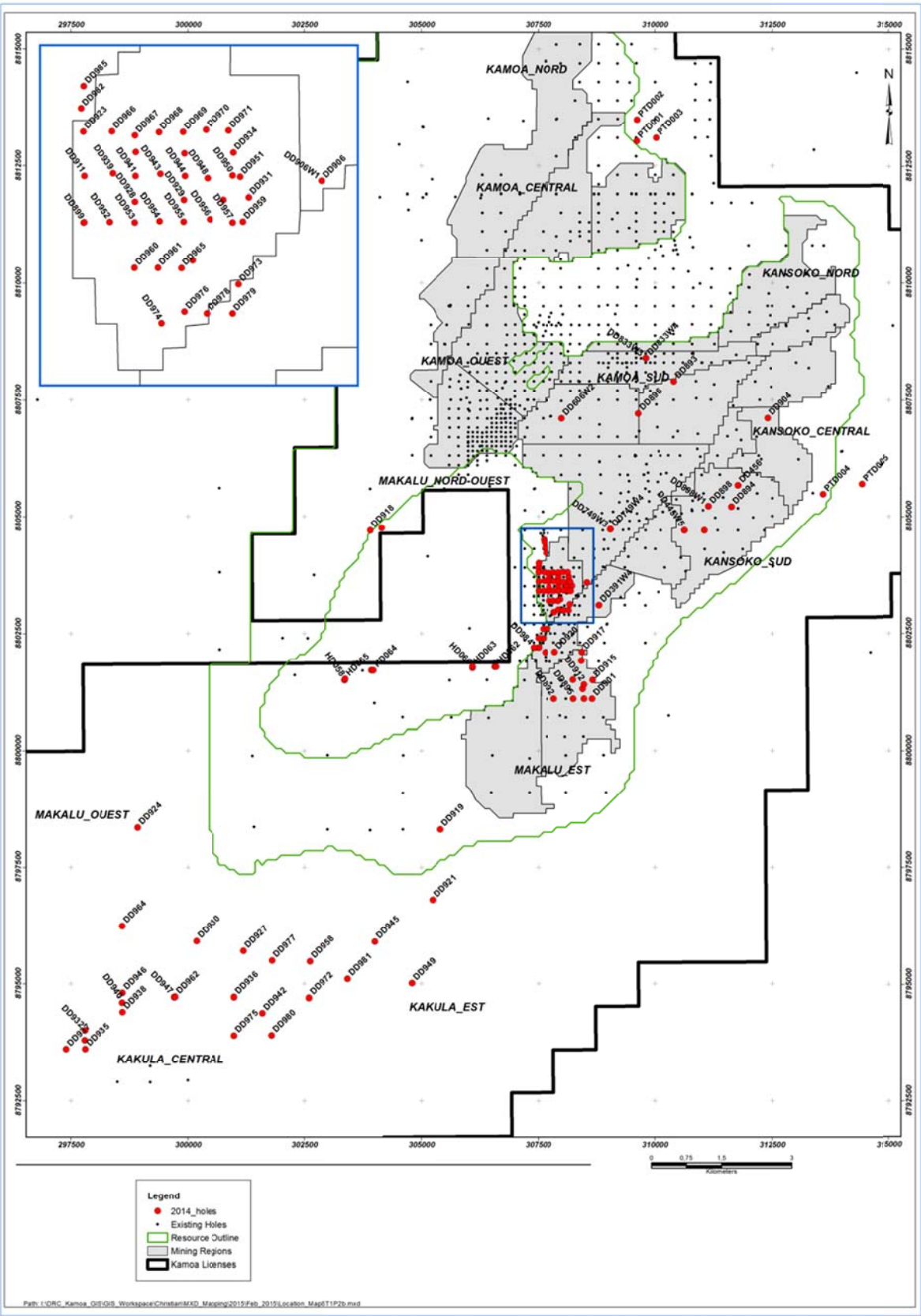
The Kamoa Project is a newly discovered, very large, stratiform copper deposit with adjacent prospective exploration areas within the Central African Copperbelt, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of the Katangan provincial capital of Lubumbashi. Ivanhoe holds its 95% interest in the Kamoa Project through a subsidiary company, Kamoa Copper SA (formerly African Minerals Barbados Limited SPRL). A 5%, non-dilutable interest in Kamoa Copper SA was transferred to the DRC government on September 11, 2012, for no consideration, pursuant to the DRC Mining Code. Ivanhoe also has offered to sell an additional 15% interest to the DRC government on commercial terms to be negotiated.

Kamoa is the world's largest undeveloped, high-grade copper deposit. On January 17, 2013, an updated mineral resource estimate was announced that increased Kamoa's Indicated Mineral Resources to a total of 739 million tonnes grading 2.67% copper and containing 43.5 billion pounds of copper. This was an increase of 115% over the previous estimate in September 2011 of 348 million tonnes grading 2.64% copper and containing 20.2 billion pounds of copper. Both estimates used a 1.0% copper cut-off grade and a minimum vertical mining thickness of three metres.

In addition to the Indicated Resources, the updated estimate included Inferred Mineral Resources of 227 million tonnes grading 1.96% copper and containing 9.8 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum vertical mining thickness of three metres.

At a higher, 2.0% copper cut-off grade, Kamoa's Indicated Resources total an estimated 550 million tonnes grading 3.04% copper and containing 36.9 billion pounds of copper. At the 2.0% cut-off, Kamoa also has 93 million tonnes of Inferred Resources grading 2.64% copper, which contain an estimated 5.4 billion pounds of copper.

Figure 1: Kamoia drilling conducted in 2014 (shown in red).



Diamond drilling focussed on initial mining area and new exploration targets

Drilling during Q4 2014 was focused on resource infill, exploration and geotechnical investigation. In total, 656 metres were completed in six holes, including 513 metres (four holes) drilled for infill in Kansoko Sud, 126 metres (one hole) drilled in the Kakula area for exploration and 17 metres (one hole) drilled into Kansoko Sud's planned decline area for geotechnical purposes.

The main focus of 2014 drilling was resource infill and metallurgical studies. Six drill rigs were in operation during Q1, with a gradual reduction toward the end of the year. A total of 31,179 metres were completed during the year, comprised of 19,215 metres for resource evaluation and variability; 2,488 metres for metallurgical testing in the Kamoia Sud, Kansoko Central, Kansoko Sud and Makalu areas; 721 metres of exploration drilling in the Kansoko East area; and 7,418 metres of exploration drilling at Kakula. By the end of the second quarter, Ivanhoe entirely focused on infill drilling of Kansoko Sud to 100-metre centres and exploration drilling at Kakula. In addition, 333 metres were drilled into the decline to give a preliminary indication of the condition of the rock pre-decline tendering and cover drilling. Cover drilling is planned to take place during 2015.

A separate hydro-geological drill program was completed for future supply of mine water south of the Makalu Dome, with 1,004 metres completed in four large-diameter production boreholes. Testing has indicated that these four holes could provide a sustainable water supply for permanent operation of the mine and process plant for the initial phase of the project.

Ivanhoe plans to continue drilling in 2015 with two company-owned rigs and a recently purchased new rig that is capable of drilling to a depth of 1,000 metres. The 2015 exploration program will focus on the southern portion of the project area where the successful 2014 program highlighted a promising target – the Kakula discovery, which is similar in style and stratigraphic position to the high-grade Kansoko trend. Exploration also will continue to look for shallow, high-grade zones in the Kamoia North area.

Preparation for construction of first declines

The construction of the box cut for the first access declines to the initial, planned underground mine was completed at the end of 2014. This will enable the construction of the twin declines that have been designed to intersect the high-grade copper mineralization in the Kansoko Sud area, approximately 150 metres below the surface.

Figure 2: Completed box cut with access roadway under construction.



Ivanhoe's drilling program in this area has defined a thick, near-surface zone of high-grade copper mineralization, where a recent drill hole intercepted 15.7 metres (true width) of 7.04% copper, at a 1.5% total copper cut-off.

A tender for construction of the twin declines to the first mining area and a raise-bore ventilation shaft was issued at the end of November. The tendered work will include bolting, meshing and shotcreting still required for the permanent support of the walls of the box cut. The construction of a concrete roadway, drains and de-watering sump in the box cut began at the end of 2014 and is due to be completed in Q3 2015.

Progress on pre-feasibility mine design, with initial development planned at Kansoko Sud

In line with the phased approach to project development outlined in the 2013 Kamoanga preliminary economic assessment, the Kamoanga pre-feasibility study (PFS) is progressing based on the planned first phase of the project, which will be the construction of an underground operation producing three million tonnes a year and feeding an adjacent concentrator.

The design, scheduling and cost estimation of the mining portion of the phase one PFS is nearing completion. Given the relatively un-deformed, continuous mineralization of the Kamoanga resource, it is considered amenable to large-scale, mechanized stepped-room-and-pillar mining, transitioning to drift-and-fill mining in the deeper sections of the mine. Design is continuing of the paste backfill system planned to be used in the drift-and-fill mining.

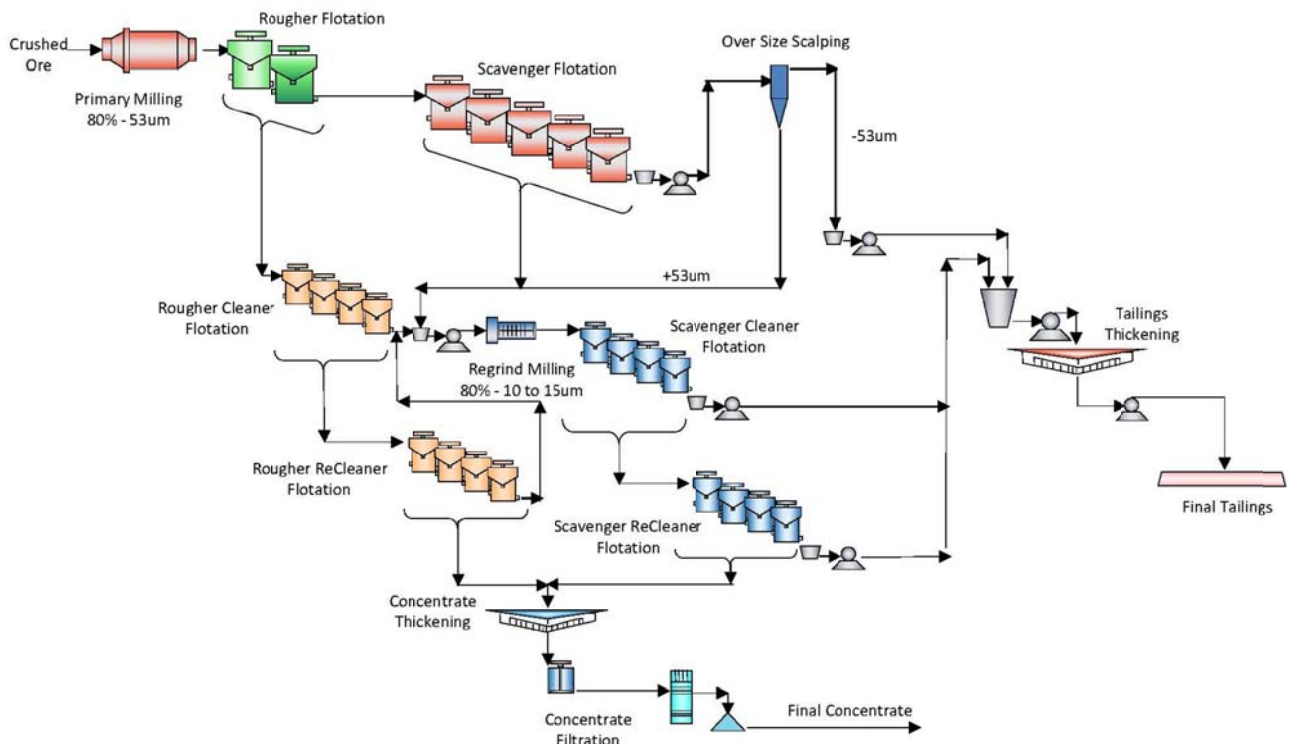
Improved metallurgical test results

During 2014, bench-scale metallurgical test work for the PFS design of the concentrator was completed at the XPS laboratory in Sudbury, Canada, and the Mintek laboratory in Johannesburg, South Africa. The process flow sheet was developed based on test work on a composite sample representing the first four years of mining. The selected circuit then was subjected to additional, high-level variability tests to investigate the circuit response to feed changes later in the mine life. The results obtained confirmed composite results.

The selected processing circuit achieved a copper recovery of 88.3% and a copper concentrate grade of 39.0% on a master composite sample that was representative of the planned early years of mining. Additional test work on composite samples from early and later mining areas returned very good sulphide copper recovery results, often in excess of 90%. In addition, very low arsenic levels of 0.01% were reported. Future planned test work will include signature plots for ultrafine grinding-mill sizing, settling and filtration tests and variability test work.

A request for tender for the design of the PFS processing plant and infrastructure was issued to six potential engineering consultants; South African based MDM Engineering has been selected.

Figure 3: Kamoia concentrator flow sheet



Continued focus on sustainability

There remains a key focus on safety, health, environmental management and community relations at the Kamoia site. By the end of 2014, 3.9 million lost-time injury-free (LTIF) hours had been worked since the previous LTI in 2012. Ivanhoe is continuing to maintain health programs relating to malaria and HIV monitoring, prevention and treatment.

A comprehensive environmental monitoring program is in place, which includes the measurement of the levels and quality of surface and ground water and dust fallout, noise, vibration and erosion. Only one environmental concern was observed in 2014, which related to soil erosion and was immediately repaired.

A total of 495 community and stakeholder meetings were recorded in 2014 involving 6,588 participants ranging from community members and traditional leaders to governmental officials. Social and livelihood projects in 2014 included the supply of potable water to the village of Israel, the construction of a school at the village of Kaponda and support for 429 small-scale maize-farmers cultivating 343 hectares of land.

Improved systems for monitoring and recording of environmental and community statistics were implemented. Resettlement planning and updating of the environmental and social impact assessment await the finalization of the project schedule.

PLATREEF PROJECT

The Platreef Project, in South Africa's Limpopo province, is 64%-owned by Ivanhoe through its subsidiary, Ivanplats (Pty) Ltd. (Ivanplats) and 10%-owned by a Japanese consortium of ITOCHU Corporation; ITC Platinum, an ITOCHU affiliate; Japan Oil, Gas and Metals National Corporation; and Japan Gas Corporation. The Japanese consortium's 10% interest in the Platreef Project was acquired in two tranches for a total investment of \$290 million. The remaining 26% interest is held by Ivanhoe's broad-based, black economic empowerment (B-BBEE) partners, which include communities, employees and entrepreneurs. Ivanplats achieved Level 3 status in its first verification assessment on a B-BBEE scorecard, the highest-ranking platinum-sector mining company in compliance with South Africa's black empowerment laws.

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

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

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

Figure 4: Aerial view of Platreef Project, March 11, 2015.



Mining right activated

The Ivanplats mining right was officially executed by the national government's Department of Mineral Resources on November 4, 2014. The mining right authorizes the Company to exclusively mine and process platinum-group metals, nickel, copper, gold, silver, cobalt, iron, vanadium and chrome from the mining area for an initial period of 30 years, and may be renewed for an unlimited number of

consecutive periods each of up to 30 years, in accordance with section 24 of the Mineral and Petroleum Resources Development Act.

Mining operations must be conducted in accordance with the Mining Work Program (MWP) and any amendment to such MWP, and with an approved Environmental Management Plan (EMP). The Company commenced the roll-out of its Social and Labour Plan (SLP), which includes the planning, implementation and execution of local economic development projects, human resource development and enterprise/supplier development.

Shaft 1 construction

The formal activation of the mining right followed a six-month suspension of construction activity at the site of Ivanhoe's planned Platreef underground mine. Equipment was returned to the site on December 1, 2014, and normal operations have been successfully re-established.

Figure 5: First blast at Shaft 1 box cut.



The main focus at site is the completion of the excavation at the box cut to establish access for the construction of the large concrete surface collar for Shaft 1. Other work on site includes the terrace for the 5MVA temporary power supply, pollution-control dam, offices and training facilities. The project completed the first successful blasts in the Shaft 1 box cut and the pollution control dam in February 2015.

A total of 70% of the 700 permanent and contract workers currently employed by the company are from the local area.

Figure 6: Some of the members of the Platreef Project's construction and refurbishment teams.



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

The Company completed a pre-feasibility study (PFS) in January 2015 that covered the first phase of development that is expected to include construction of an underground mine, concentrator and other associated infrastructure to support initial concentrate production by 2019. As the first phase is being developed and commissioned, there will be opportunities to refine the timing and scope of subsequent phases of production.

PFS highlights

- Development of a large, mechanized, underground mine with an initial four-million-tonne per year concentrator and associated infrastructure.
- Planned initial average annual production rate of 433,000 ounces (oz) of platinum, palladium, rhodium and gold (3PE+Au), plus 19 million pounds of nickel and 12 million pounds of copper.
- Estimated pre-production capital requirement of approximately \$1.2 billion, including \$114 million in contingencies, at a ZAR:USD exchange rate of 11 to 1.
- Platreef would rank at the bottom of the cash-cost curve, at an estimated \$322 per ounce of 3PE+Au, net of by-products.
- The planned Platreef mine is projected to require a workforce of approximately 2,200 within four years of the start of production.
- After-tax Net Present Value (NPV) of \$972 million, at an 8% discount rate.
- After-tax Internal Rate of Return (IRR) of 13%.

The scenarios describe a staged approach, where there would be opportunities to expand the operation depending on demand, smelting and refining capacity and capital availability. As the Phase 1 production scenario is developed and placed into production, there is expected to be an opportunity to modify and optimize the subsequent phases, allowing for changes to the timing of capacity expansions to suit market conditions.

The Company also has retained Whittle Consulting of Melbourne, Australia, to conduct an optimization study based on the Platreef PFS. This work has progressed well and certain recommendations from the study will be carried forward into the feasibility study during 2015.

Mineral resources in the Flatreef underground discovery

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 700 to 1,100 metres below the surface.

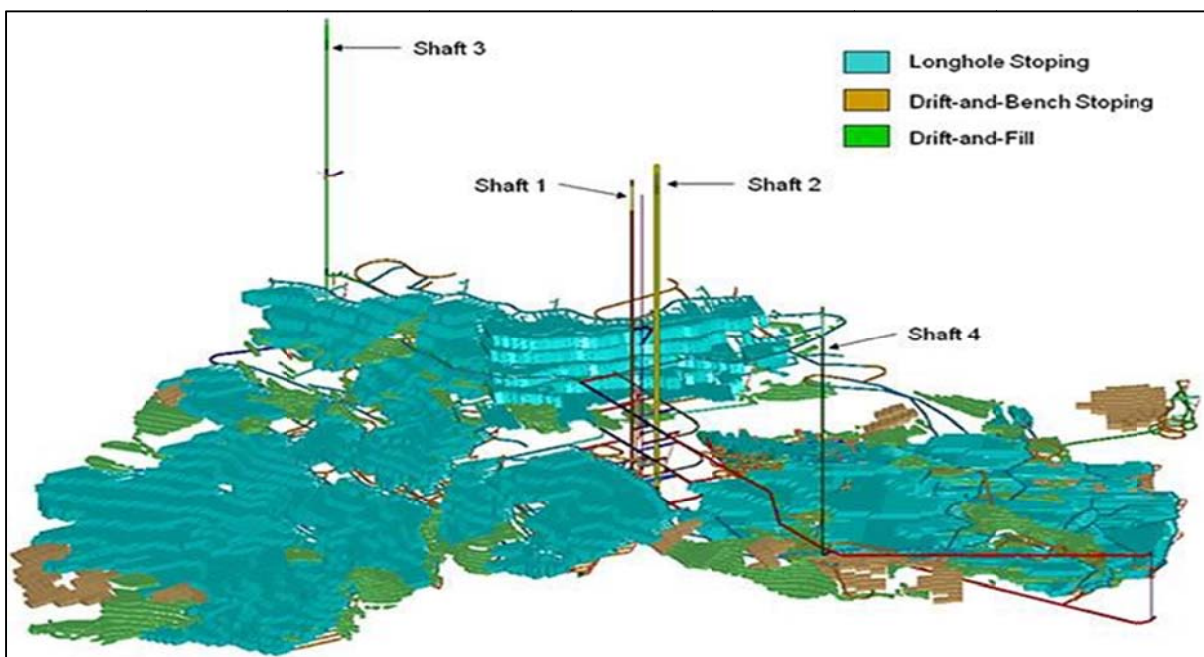
The Flatreef Deposit is characterized by its very large vertical thicknesses of high-grade mineralization and a platinum-to-palladium ratio of approximately 1:1, which is significantly higher than other recent PGM discoveries on the Bushveld's Northern Limb. The grade shells used to constrain mineralization in the Flatreef Indicated Mineral Resource area have average true thicknesses of approximately 24 metres at a cut-off grade of 2.0 grams per tonne (g/t) of platinum, palladium and gold (2PE+Au). The Indicated Mineral Resource grade at an equivalent 2.0 gram-per-tonne 3PE+Au cut-off is 4.1 g/t 3PE+Au, 0.34% nickel and 0.17% copper. Flatreef's Indicated Mineral Resources of 214 million tonnes contain an estimated 28.5 million ounces of platinum, palladium, gold and rhodium, 1.6 billion pounds of nickel and 0.8 billion pounds of copper. The Company has declared an initial Probable Mineral Reserve of 15.5 million ounces of platinum, palladium, rhodium and gold, using a declining Net Smelter Return (NSR) cut-off of \$100/t-\$80/t.

Mining methods

Mining zones in the current Platreef mine plan occur at depths ranging from approximately 700 metres to 1,200 metres below the surface. Four vertical shafts will provide access to the mine. Shaft 2 will host the main personnel, material and ore handling system, while Shafts 1, 3 and 4 will provide ventilation to and from the underground working. Shaft 1, now under development, will be used for initial access to the ore body and early underground development.

Mining will be performed using highly productive, mechanized methods, including long-hole stoping and drift-and-fill mining. The ore will be hauled from the stopes to the bottom of Shaft 2, where it will be crushed and hoisted to surface.

Figure 7: Elevated view of areas to be mined by different methods.



Metallurgical and processing

Metallurgical test work has focused on maximizing the recovery of platinum-group elements (PGE) and base metals, while producing an acceptably high-grade concentrate suitable for further processing and/or sale to a third party. The three main geo-metallurgical units and composites have produced smelter-grade final concentrates of approximately 85 g/t PGE + gold at acceptable PGE recoveries. Testwork also has shown that the material is amenable to treatment by conventional flotation without the need for re-grinding. Batch open-circuit and locked-cycle flotation testwork has been performed.

Comminution and flotation testwork has indicated that the optimum grind size is 80% passing 75 µm (micrometres), which is consistent with sizes commonly reported by platinum mines in South Africa. Improved flotation performance has been achieved using stainless-steel grinding media or high-chrome grinding media as opposed to carbon-steel media. The inclusion of post-mill conditioning of solids prior to flotation, as well as a split-cleaner flotation circuit configuration in which the fast-floating fraction is treated in a separate cleaner circuit to the medium- and slow-floating fractions, resulted in improved PGE, copper and nickel recoveries.

Platreef ore is classified as being hard to very hard, and thus not suitable for semi-autogenous grinding. A multi-stage crushing and ball-milling circuit is the preferred option.

A two-phased development approach was used for PFS flow-sheet design. The selected flow sheet is comprised of a four-million-tonne per year, three-stage crushing circuit, feeding crushed material to 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.

Shafts 1 and 2

Surface construction work for Shaft 1, which was suspended on May 26, 2014, continued following the execution of the mining right. Shaft 1 will have an internal diameter of 7.25 metres, with an annual planned hoisting capacity of 2.5 million tonnes. It is projected to reach a total depth of 975 metres in 2018. South Africa-based Aveng Mining, the shaft-sinking contractor, is responsible for the excavation of the box-cut access for the shaft collar and vent plenum and will be the sinking contractor for Shaft 1. The sinking stage and winding equipment have been refurbished and are being stored off-site. The fabrication of the temporary, sinking head frame and centre tower has begun.

Shaft 1, including some initial lateral, underground development work, is expected to be fully funded from dedicated funds remaining in Ivanhoe's treasury from the \$280 million received in 2011 for the sale of an 8% interest in the Platreef Project to the ITOCHU-led Japanese consortium.

Ivanhoe awarded the contract for design and engineering of Shaft 2, the 10-metre-diameter main production shaft that will be capable of hoisting six million tonnes a year, to South Africa-based Murray & Roberts Cementation in June 2014. This will enable Ivanhoe to start Shaft 2 development works in 2015, subject to necessary approvals and funding. The box-cut designs are complete and the contract for the early engineering works for the winding equipment has been awarded to South Africa-based FLSmidth.

Figure 8: Refurbished winding equipment for Shaft 1.



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 Igneous Complex. The project consists of the new De Hoop Dam, the raised wall of the Flag Boshielo Dam, and related pipeline infrastructure that ultimately will deliver water to Pruissen, southeast of the Northern Limb. The Pruissen Pipeline Project will 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.

Participants in the water development scheme are required to indicate their water requirements so that the total water demand may be calculated relative to the scheme's capacity. The Platreef Project's water requirement for the first phase of development is projected to peak at approximately 10 million litres per day. Ivanhoe also is investigating various alternative water sources.

The Platreef Project's power requirement for a four-million-tonne per year underground mine, concentrator and associated infrastructure has been estimated at approximately 100MVA. As power is required for the initial mine development (shaft sinking), prior to the main power supply being available, an agreement with Eskom has been reached for the supply of 5MVA of temporary construction power.

Exploration and resource expansion drilling

Zone 1 resource-expansion drilling, which was suspended on May 26, 2014, resumed on December 1, 2014, following the activation of the mining right. Total drilling for the fourth quarter was 6,838 metres in seven holes. The initial 2014 drill program was revised and rescheduled as a result of the suspension

of drilling activities between May and December. A total of 46 holes (46,550 metres) were drilled during 2014. The remainder of the metallurgical bulk sample and comminution drilling also was completed, totalling 4,464 meters in seven drill holes. The remaining 10 holes of the planned 2014 drilling program were completed on February 11, 2015.

Platreef geologists continue to focus on integrating the 3D seismic data acquired in 2014 with other geophysical data sources. A comprehensive logging and interpretative program was a major focus in 2014. This work is nearing completion and will form the basis of a new resource estimate for the upcoming feasibility study.

Job-skills training and environmental management commitments

As required under South African legislation, and in conjunction with the approval of the mining right, an integrated water-use licence application was submitted to the Department of Water and Sanitation (DWS); a waste-management licence application was submitted to the National Department of Environmental Affairs; and an application for environmental authorization was submitted to the Limpopo Department of Economic Development, Environment and Tourism (LEDET). Extensive environmental, social and engineering baseline studies were conducted in 2013 in support of these applications.

The Platreef Project received environmental authorization in June 2014 from LEDET. Ivanhoe is working closely with this department to ensure continual compliance during the implementation of the approved environmental management plan and the conditions stipulated in the environmental authorization. Authorization also was received from the DWS for the extraction of specified quantities of water from groundwater resources.

Ivanhoe has engaged with the South African Heritage Resources Agency (SAHRA) to obtain input and guidance on the management of archaeological and heritage resources in the area.

The Platreef Project recently achieved more than 3,800,000 LTIF man-hours. Ivanhoe is committed to developing, implementing and maintaining the highest standards of occupational health, safety, environment and welfare management. Through teamwork, and in partnership with employees, consultants and contractors, Ivanhoe will endeavour to develop and sustain a culture of preventing harm to employees, contractors, communities and other stakeholders, and the environment, through the implementation of an effective health, safety and environmental management system and best practices.

Following the activation of the mining right in November 2014, Ivanhoe began investing in its Social and Labour Plan, to which the Company has pledged a total of R160 million (\$14 million) during the next five years. The approved plan includes R67.2 million (\$6 million) for the development of job skills among local residents and R87.7 million (\$8 million) for local economic development projects. This allocation includes R26 million (\$2 million) to build a community skills development and training facility in the Mokopane area as part of Ivanhoe's objective of helping to establish a roster of qualified, local candidates for jobs at the mine and its associated minerals processing plant. The facility will be accredited by the Mining Qualifications Authority (MQA).

In addition to its SLP and B-BBEE commitments, Ivanhoe has begun an R11 million (\$1 million) water harvesting and sanitation project in its host communities. The Platreef Project will provide internships to help university students complete practical components of their studies and, in the process, provide the mine with potential candidates for permanent employment.

Figure 9: Families benefit from pilot project to collect rain water.



Ivanhoe has initiated a R24 million (\$2 million) partnership between South Africa's University of Limpopo and Laurentian University in Canada to develop and equip Limpopo's geology department to improve its curriculum choices for students, conduct research on the Platreef Project and offer post-graduate studies in geology. Ivanhoe will allocate approximately R12 million (\$1 million) to the University of Limpopo and R12 million (\$1 million) to Laurentian University over the next five years, and has committed to renewing the partnership for a further five-year period.

KIPUSHI PROJECT

The Kipushi copper-zinc-germanium-lead mine, in the Democratic Republic of Congo's southern Katanga province, is adjacent to the town of Kipushi and approximately 30 kilometres southwest of the provincial capital of Lubumbashi. It also is located on the Central African Copperbelt, southeast of Ivanhoe's Kamoa 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).

Project development and infrastructure

Work began in early March 2014 on the planned underground diamond-drilling program at the Kipushi Project, a major advance made possible by the ongoing dewatering program directed by Ivanhoe during the past three years following its acquisition of the historic mine in November 2011.

The 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. Water reached 851 metres below surface at its peak. 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 support the drilling program. Recent improvements have included the establishment of pump stations at the 1,112-metre and 1,272-metre levels, ventilation along the hanging-wall drift on the 1,272-metre level, continued removal of corroded ventilation column from Shaft 5 and inspections of all shaft conveyances, ropes and guides.

Water levels are stabilized below the 1,150-metre-level haulway and 1,272-metre-level hanging-wall drift, enabling access for drilling, with two rigs targeting the Série Récurrente and Big Zinc mineralization.

Figure 10: New winder control centre at Shaft 5.



Figure 11: Refurbished shaft equipment.



Figure 12: Underground tunnel upgrading work.



Confirmatory and exploration drilling

Ivanhoe's underground drilling program at Kipushi is designed to confirm and update the mine's estimated historical resources and to further expand the resources along strike and at depth. More than 13,000 metres of drilling had been completed by the end of 2014.

A total of 4,078 metres in 19 drill holes were completed in Q4 2014 in the Big Zinc, Série Récurrente and Nord Riche zones. A total of 13,227 metres were drilled in 70 holes in 2014.

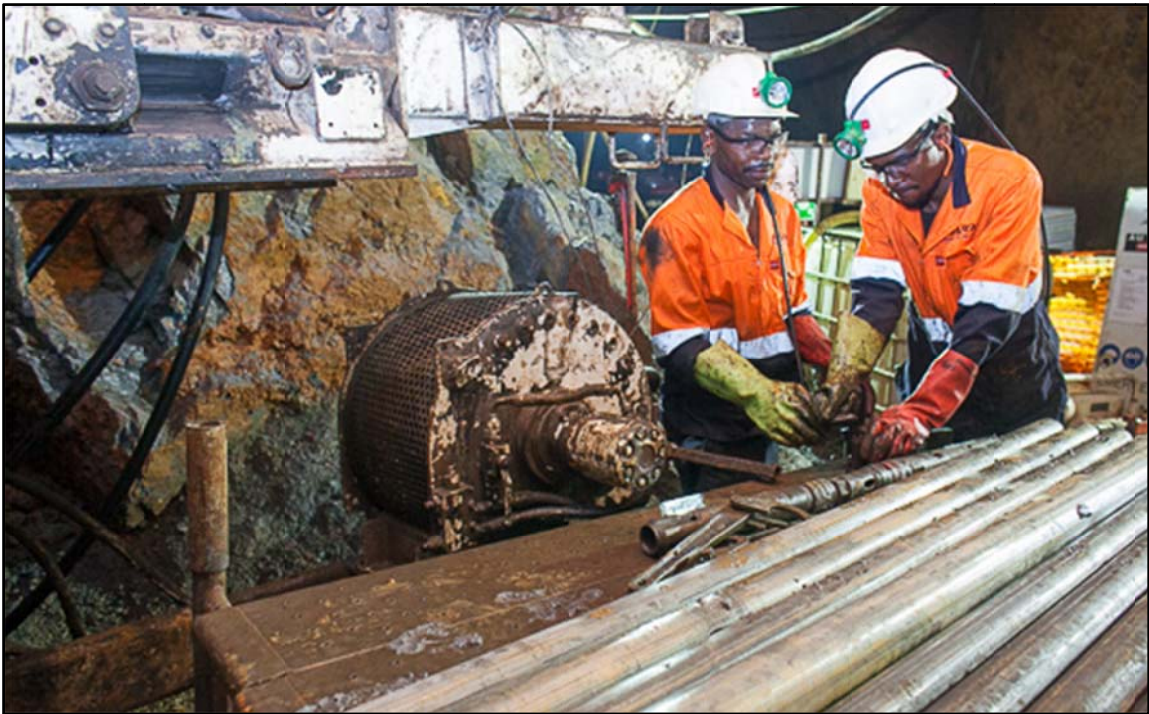
Ivanhoe released additional drill results from the Kipushi Project on November 24, 2014, including:

Hole	Target zone	Intercept width (m)*	Zinc (%)	Copper (%)	Silver (g/t)	Germanium (g/t)	Gold (g/t)
KPU040	Big Zinc	70	43.0	5.5	244	71	
	including	34.5	35.1	10.7	479	77	0.30
	including	9.7	19.9	21.1	1,573	65	0.80
KPU042	Big Zinc	43.2	42.0	0.5	14	45	
KPU042	Big Zinc	12.9	46.9	0.3	5.0	86	
KPU033	Big Zinc	37.9	42.0	0.3	10	36	
KPU037	Big Zinc	27.5	40.6	0.4	19	43	
KPU026	Série Récurrente	4.4	17.3	15.6	38.0		
KPU045	Série Récurrente	5.0	41.3	3.3	24.0		
KPU028	Nord Riche	7.1	0.1	3.6	6.0		
KPU032	Nord Riche	24.2	23.8	2.8	8.0		
	including	6.0	24.2	10.9	31		

Figure 13: Underground exploration drilling.



Figures 14: A total of 13,227 metres were drilled in 70 holes in 2014.



Ivanhoe Mines also reported the following additional assay results on February 17, 2015:

Hole	Target zone	Intercept width (m)*	Zinc (%)	Copper (%)	Silver (g/t)	Germanium (g/t)	Gold (g/t)
KPU051	Big Zinc	188.5	49.7	0.3	15	58	
KPU055	Big Zinc	162.9	51.1	0.4	11	59	
KPU057	Big Zinc	175.7	50.3	0.3	11	27	
KPU058	Big Zinc	41.4	42.1	3.8	54	71	
	including	6.0	6.0	22.6	203	177	
KPU061	Big Zinc	75.6	46.2	0.3	20	89	
KPU061	Big Zinc	64.9	44.7	1.1	14	128	
KPU049	Série Récurrente	9.7 true	11.8	6.0	73.0		
	including	6.4 true	7.7	16.8	104		

* Intercept widths are measured along core axis and do not represent true widths, except where indicated.

The February 17, 2015, news release also included the intersection of a potential new zone of mineralization in Hole KPU072, 140 metres below the base of Big Zinc's historical Indicated Resources, including mixed massive sphalerite, chalcopyrite and minor pyrite from 417.32 metres to 420.55 metres; massive sphalerite from 420.55 metres to 468.09 metres; and massive pyrite with accessory chalcopyrite and sphalerite from 468.09 metres to 477.17 metres. The core intersection angles suggest the zone may have a true width of approximately 30 metres.

Full details of the drill results reported in November 24, 2014 and February 17, 2015 are included in news releases posted on Ivanhoe Mines website at www.ivanhoemines.com.

Drilling in the Big Zinc was designed to test previous resource drilling by Gécamines through the drilling of twin holes, replacement holes (where sampling was insufficient) and infill holes. In addition, further holes have been used to test the extent of the mineralized zone. Generally, the boundaries of the Big Zinc remain unchanged and the Gécamines model has been confirmed. However, additional drilling has expanded the southern limit of the Big Zinc beyond the Gécamines model.

Drilling in the Upper Kakontwe/Série Récurrente zone during 2014 located a copper-rich massive sulphide body at the level of drilling (from 1,200 metres to 1,300 metres below surface). This mineralized zone is below the level of historical Gécamines drilling, and historical Measured and Indicated Resources on the Série Récurrente zone.

Figure 15: Plan at -1,260 metre-level showing intercepts in the Série Récurrente Zone.

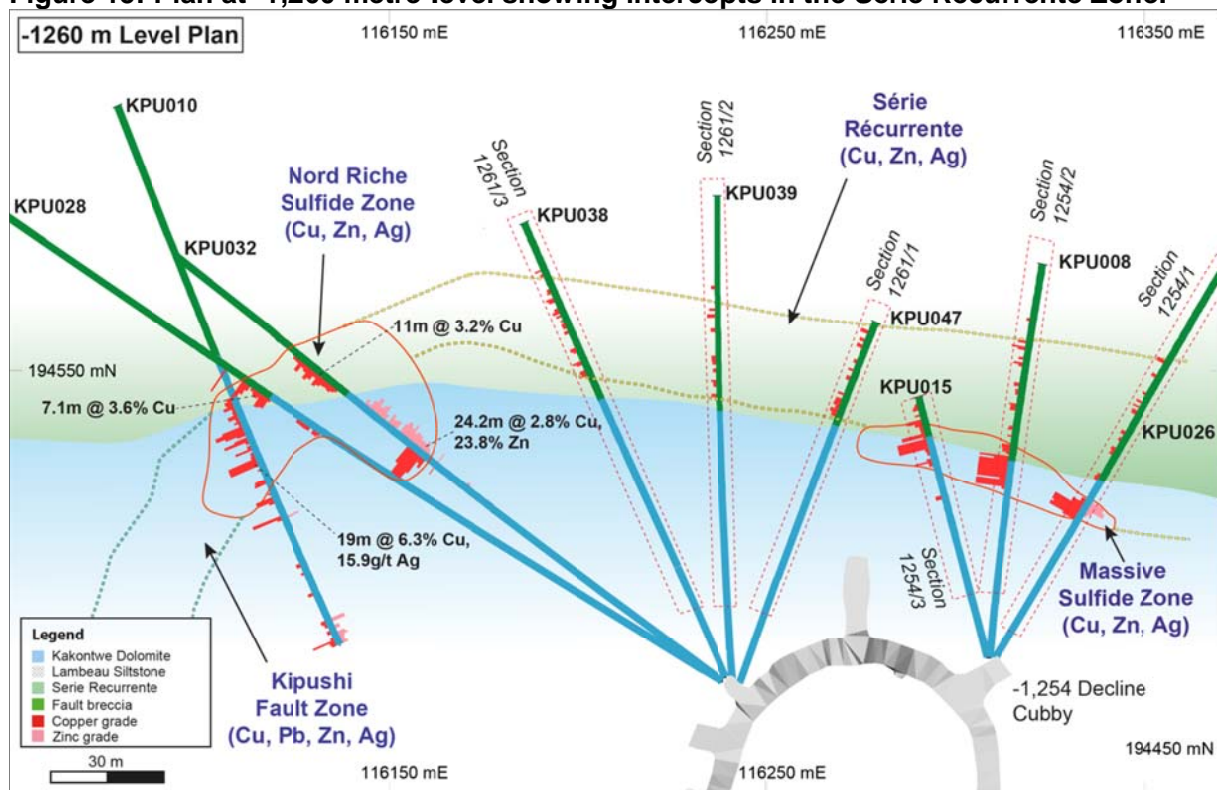
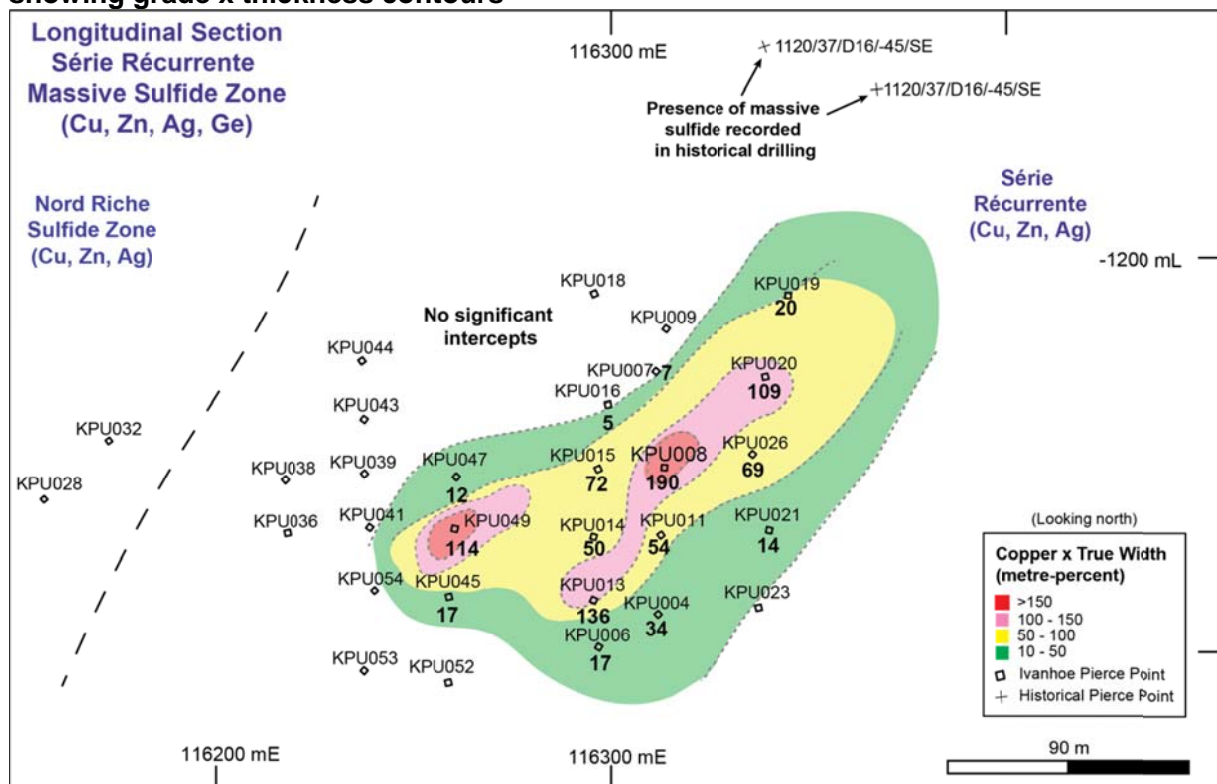


Figure 16: Long section of the Série Récurrente Zone's pierce points showing grade x thickness contours.



Kipushi's 68 years of production history

Following its start-up in 1924 as the Prince Léopold Mine, available records show that Kipushi produced a total of 6.6 million tonnes of zinc and 4.0 million tonnes of copper – from 60 million tonnes grading 11% zinc and approximately 7% copper – until political instability prompted the suspension of operations in 1993. The mine also produced 278 tonnes of germanium between 1956 and 1978.

In addition to the recorded production of copper, zinc, lead and germanium, Gécamines' mine-level plans for Kipushi also report the presence of precious metals, specifically silver and rhenium. There is no formal record of the production of precious metals on the property.

Historical resources

IMC Group Consulting, which prepared the current Kipushi Technical Report, considers the historical estimate prepared by Techpro Mining and Metallurgy (Techpro) in 1997 to be the most reliable. Techpro reported the following resources:

Resource Category	Tonnes	Copper %	Zinc %
Measured	8,899,979	2.53	9.99
Indicated	8,029,127	2.09	24.21
Total	16,929,106	2.32	16.76
Inferred	9,046,352	1.93	23.32
Totals shown above include the following Big Zinc resources:			
Measured	793,086	1.16	33.52
Indicated	3,918,366	0.68	39.57
Measured & Indicated	4,711,452	0.76	38.55

IMC is of the opinion that the Techpro estimate generally is fair and reasonable for demonstrated Measured plus Indicated Resources and that Inferred Mineral Resources largely represent the projection of Kipushi's Fault Zone mineralization from the 1,500-metre level to the 1,800-metre level.

A Qualified Person has not done sufficient work to classify the historical estimates as current Mineral Resources and Ivanhoe Mines is not treating such estimates as current Mineral Resources. The Techpro estimate was prepared in accordance with the Australasian JORC Code. Ivanhoe Mines will need to validate previous work through new drilling, sampling, assaying and other procedures to produce a Mineral Resource that is current for CIM purposes.

SELECTED ANNUAL FINANCIAL INFORMATION

This selected financial information is in accordance with IFRS as presented in the annual consolidated financial statements. 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.

	For the year ended December 31,		
	2014	2013	2012
	\$'000	\$'000	\$'000
Exploration and project expenditure	136,189	173,843	128,435
Share-based payments	97,294	8,308	6,265
General administrative expenditure	31,252	31,076	21,915
Mark-to-market gain on revaluation of warrants	(9,524)	-	-
Impairment of mineral property, goodwill and other	-	334,338	-
Legal settlement	-	10,000	-
Finance costs	2,241	1,644	26 670
Deferred tax recovery	(46)	(75,701)	-
Total comprehensive loss attributable to:			
Owners of the Company	227,347	373,720	166,485
Non-controlling interest	32,863	110,575	13,152
Loss per share (basic and diluted)	0.35	0.69	0.38
Total assets	253,077	287,576	726,682
Non-current liabilities	23,603	21,974	84,336

DISCUSSION OF RESULTS OF OPERATIONS

Review of the year ended December 31, 2014 vs. December 31, 2013

The Company's total comprehensive loss for the year ending December 31, 2014, of \$260.2 million was \$224.1 million lower than for the same period in 2013 (\$484.3 million). The decrease was attributable mainly to the impairment of the Kipushi mineral property, goodwill and related loans and advances that had a post-tax effect of \$258.6 million recognized in 2013. This was partially offset by the share-based payment expense of \$88.6 million as a result of the Platreef B-BBEE transaction in 2014. The remainder of the decrease resulted from the \$37.7 million year on year decrease in the exploration and project expenditure.

The mark-to-market gain on revaluation of warrants of \$9.5 million is as a result of the classification and treatment of the share-purchase warrants issued during the year as a financial liability at fair value, with changes in fair value included in net earnings. The Company's share-purchase warrants are valued using quoted prices in active markets. The legal settlement expense recognized in 2013 related to claims against the Company and totalled \$10 million, which has been settled in full.

Exploration and project expenditures at the Kamoia and Kipushi projects decreased by \$29.9 million and \$9.1 million respectively when compared to the same period in 2013, while expenditure at the Platreef Project increased by \$2.9 million.

During 2014, the focus for the Kamo Project had been the construction of the box cut for the first mining access declines, advancing the pre-feasibility work, and infill and exploration drilling within the Kamo mining licence. The Platreef Project focussed on its mining-right application, the construction of Shaft 1 and the completion of a four-million-tonne per year pre-feasibility study. At Kipushi, the emphasis was on the drilling program to confirm, update and expand Kipushi's estimated historical resources, as well as the ongoing dewatering and upgrading of the underground and surface infrastructure. The main classes of expenditure on the Company's material projects in the two preceding financial years are set out in the following table:

	Year ended December 31, 2014 \$'000	Year ended December 31, 2013 \$'000
Kamo Project		
Salaries and benefits	13,621	10,862
Drilling	10,886	17,530
Studies	6,567	16,317
Site security and safety	1,688	1,675
Travel	1,478	2,490
Indirect taxes	(3,200)	7,706
Other expenditure	10,628	15,032
Total project expenditure	41,668	71,612
Platreef Project		
Studies	8,546	9,417
Drilling	5,554	6 906
Salaries and benefits	6,730	3,738
Assaying and sampling	433	377
Other expenditure	10,307	8,244
Total project expenditure	31,570	28,682
Kipushi Project		
Salaries and benefits	17,486	10,059
Electricity	6,870	11,007
Drilling	5,449	-
Repair and maintenance	4,553	11,599
Contracting work	2,531	10,349
Site security and safety	1,701	1,337
Indirect taxes	1,463	4,464
Equipment rental	1,440	2,268
Other expenditure	8,294	7,814
Total project expenditure	49,787	58,897

Financial position as at December 31, 2014 vs. December 31, 2013

The Company's total assets decreased by \$34.5 million, from \$287.6 million as at December 31, 2013, to \$253.1 million as at December 31, 2014. This mainly was due to a \$57.8 million decrease in short-term deposits and cash and cash equivalents that was partially offset by the increase in property, plant and equipment of \$15.4 million.

The Company utilized \$173.0 million of its cash resources in its operations and earned interest income of \$1.0 million on cash balances in the year ended December 31, 2014. A total of \$26.2 million was spent to acquire property, plant and equipment. This mainly was for the initial development of the Platreef Project's Shaft 1 and the Kamoa Project's box cut.

The Company generated cash inflow from financing activities during the year ending December 31, 2014, of \$153 million. This mainly was a result of the public offering and a concurrent private placement that Ivanhoe completed in June and July for a total issuance of 115,000,767 units. Each unit consisted of one Class A common share and one Class A common share purchase warrant, which were sold at a price of C\$1.50 per unit and raised total gross proceeds of C\$173 million (net proceeds of \$151 million).

The Company's total liabilities decreased to \$50.7 million as at December 31, 2014, from \$60.3 million as at December 31, 2013. This mainly was due to the settlement of the unpaid legal settlement expense on the receipt of the Platreef Project's mining right, as well as a decrease in indirect taxes payable of \$10.3 million. The financial liability arose with the issuance of the purchase warrants in Q2 2014 and had a fair value of \$6.9 million at December 31, 2014.

The Company intends to dispose of its Australian subsidiaries and therefore has classified the related assets and liabilities as held for sale. On November 23, 2014, the Company agreed to dispose of the entirety of its Australian assets to a subsidiary of Clean Teq Holdings Limited (Clean Teq). The Company will receive approximately A\$1 million worth of shares of Clean Teq, an A\$3 million promissory note and a 2.5% NSR royalty over these assets. The transaction is expected to be completed by the end of the first quarter of 2015. As at December 31, 2014, the carrying value of assets held for sale amounted to \$3.0 million.

SELECTED QUARTERLY 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			
	December 31,	September 30,	June 30,	March 31,
	2014	2014	2014	2014
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure	26,122	33,385	39,580	37,102
General administrative expenditure	8,976	8,045	4,913	9,318
Shared-based payments	2,245	7,060	85,428	2,561
Impairment of mineral property, goodwill and other	-	-	-	-
Finance costs	382	377	1,124	358
Mark-to-market (gain) loss on revaluation of warrants	(2,316)	(12,360)	5,152	-
Deferred tax recovery	(46)	-	-	-
Total comprehensive loss attributable to:				
Owners of the Company	31,649	23,474	129,474	42,750
Non-controlling interest	5,434	15,092	6,280	6,057
Loss per share (basic and diluted)	0.05	0.03	0.21	0.07

	3 Months ended			
	December 31,	September 30,	June 30,	March 31,
	2013	2013	2013	2013
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure	60,638	39,793	41,281	32,131
General administrative expenditure	11,567	6,259	6,270	6,980
Shared-based payments	2,029	1,898	2,143	2,238
Impairment of mineral property, goodwill and other	334,338	-	-	-
Legal settlement	-	10,000	-	-
Finance costs	559	543	319	223
Deferred tax recovery	(75,701)	-	-	-
Total comprehensive loss attributable to:				
Owners of the Company	240,262	51,787	43,804	37,372
Non-controlling interest	92,606	6,248	7,198	5,018
Loss per share (basic and diluted)	0.41	0.10	0.08	0.07

Review of the Three Months Ended December 31, 2014 vs. 2013

The Company's total comprehensive loss for Q4 2014 of \$37.1 million was \$295.8 million lower than for the same period in 2013 (\$332.9 million). The decrease mainly was due to the impairment of the Kipushi mineral property and goodwill in 2013, which had a post-tax effect of \$258.6 million, as well as a \$33.5 million decrease in exploration and project expenditure.

Exploration and project expenditures for the three months ending December 31, 2014, were \$34.6 million less than for the same period in 2013. Expenditure at the Kamoa Project decreased by \$20.3 million compared to the same period in 2013 as a result of the indirect tax expense being significantly lower than expected due to a favourable tax audit and the costs directly attributable to the construction of the Kamoa box cut were capitalized as development costs and therefore do not form part of the expensed amount.

Expenditure at the Platreef Project decreased to \$6.0 million in the quarter (Q4 2013: \$11.4 million) as Ivanhoe awaited the execution of the project's mining right, which ultimately was activated in November 2014. Expenditure at the Kipushi Project decreased by \$7.5 million compared to the same period in 2013 as a result of the extensive repairs and maintenance expenditure incurred in Q4 2013 to prepare Kipushi for the drilling program that started in 2014. The main classes of expenditure on the Company's material projects in Q4 2014 and 2013 are set out in the following table:

	Three months ended December 31, 2014 \$'000	Three months ended December 31, 2013 \$'000
Kamoa Project		
Salaries and benefits	3,253	3,454
Studies	1,497	3,742
Drilling	942	4,737
Site security and safety	458	711
Travel	324	555
Indirect taxes	(4,127)	6,584
Other expenditure	2,848	5,732
Total project expenditure	<u>5,195</u>	<u>25,515</u>
Platreef Project		
Salaries and benefits	2,207	1,196
Studies	1,253	3,925
Drilling	780	3,364
Assaying and sampling	59	200
Other expenditure	1,680	2,739
Total project expenditure	<u>5,979</u>	<u>11,424</u>
Kipushi Project		
Salaries and benefits	4,986	3,941
Electricity	2,349	1,057
Drilling	1,010	-
Contracting work	471	677
Repair and maintenance	467	8,583
Site security and safety	342	597
Equipment rental	273	433
Other expenditure	1,640	3,793
Total project expenditure	<u>11,538</u>	<u>19,081</u>

LIQUIDITY AND CAPITAL RESOURCES

The Company closed a non-brokered private placement for C\$108 million (\$105 million) in Q4 2013 and completed a public offering and concurrent private placement for gross proceeds of C\$169 million (\$154 million) in Q2 2014. In addition, Robert Friedland also fully exercised his option to purchase an additional 2.5 million units, for net proceeds to the Company of C\$3.75 million in July 2014.

The Company had \$111.0 million in cash and cash equivalents and \$55.2 million in short-term deposits as at December 31, 2014. Certain of the Company's cash and cash equivalents and short-term deposits, having an aggregate value of \$108.8 million, are subject to contractual restrictions as to their use and are reserved for the Platreef Project.

As at December 31, 2014, the Company had consolidated working capital of approximately \$162.1 million, compared to \$201.7 million at December 31, 2013. The Platreef Project working capital is restricted and amounted to \$104.3 million at December 31, 2014, and \$161.6 million at December 31, 2013. Excluding the Platreef Project working capital, the resultant working capital was \$57.8 million at December 31, 2014, and \$40.1 million at December 31, 2013. The Company believes it has sufficient resources to cover its short-term cash requirements. However, the Company's access to financing is always uncertain and there can be no assurance that additional funding will be available to the Company in the near future.

On March 23, 2015, the Company announced that China-based Zijin Mining Group has agreed to acquire a 9.9% interest in Ivanhoe Mines by investing approximately C\$105 million to help advance Ivanhoe's three mine-development projects in Africa. Under terms of the agreement, Ivanhoe will issue 76,817,020 common shares to Zijin through a private placement at a price of C\$1.36 per share. The private placement is scheduled to close on or about April 20, 2015, subject to receipt of the approval of the Toronto Stock Exchange, and receipt by Zijin of approvals from the Chinese government or its relevant authorized departments.

The Company's main objectives for 2015 at the Kamoa Project are the finalization of the phase 1 PFS, commencement of the phase 1 feasibility study, subject to funding, starting construction of the twin decline at Kamoa and the continuation of drilling; to finalize the optimization study, commence the feasibility study and complete the Shaft 2 design at the Platreef Project; and to complete the underground drilling program and a development plan for the Kipushi Project.

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 (\$3.7 million) and £0.9 million (\$1.4 million) respectively. The first is fully repayable during May 2015, 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 \$19.8 million as at December 31, 2014, and a contractual amount due of \$29.0 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 \$9.2 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan.

On March 21, 2014, a financing agreement was entered into between the Company and La Société Nationale d'Electricité SARL (SNEL) relating to the 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 Company's DRC projects. Under the agreement, the Company has agreed to provide a loan relating to the power upgrade, which is estimated to be \$141 million (including a \$4.5 million pre-finance loan), but is capped at a maximum commitment of \$250 million. The term for repayment of the loan and payment 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 ultimately will 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 six-month LIBOR + 3%. The Company is given a priority electricity right by which SNEL commits to make available to the Company, as per an agreed power requirements schedule, sufficient energy from its grid to meet the energy needs of the Company's DRC projects, and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the Company's production and mine expansion scenarios.

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 December 31, 2014	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	34,048	3,656	473	877	29,042
Operating Leases	561	369	192	-	-
Advancement of interest free loan	250,000	1,152	248,848	-	-
Total Contractual Obligations	284,609	5,177	249,513	877	29,042

USE OF PROCEEDS

The below table describes how the proceeds from the public offering and concurrent private placement that closed on June 10, 2014, have been used to date, against how the proceeds were expected to be used as disclosed in the final prospectus.

Principal Purpose	Use of proceeds				Total use to date
	Intendec	Q2 2014	Q3 2014	Q4 2014	
	\$'million	\$'million	\$'million	\$'million	\$'million
Kamoa Project					
Box cut and decline	15	-	4	7	11
Power Supply	15	1	1	2	4
Project studies	11	3	3	3	9
Drilling	9	4	5	1	10
Subtotal	50	8	13	13	34
Kipushi Project					
Site costs (including dewatering)	28	5	8	12	25
Drilling & Studies	10	1	2	2	5
Refurbishing infrastructure	7	1	3	1	5
Subtotal	45	7	13	15	35
Other					
Regional Exploration and General & Administrative Expenses	37	7	5	14	26
Subtotal	37	7	5	14	26
TOTAL (exclusive of Over-Allotment Option and Private Placement Option)	132	22	31	42	95
Exploration and pre-development activities of the Projects and general corporate purposes	15	2	2	6	10
TOTAL NET PROCEEDS	147	24	33	48	105

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:

	2014	2013
	\$'000	\$'000
Global Mining Management Corporation (a)	3,711	4,150
Ivanhoe Capital Aviation LLC (b)	1,200	825
Ivanhoe Capital Services Ltd. (c)	506	673
Global Mining Services Ltd. (d)	421	715
HCF International Advisers (e)	363	369
Ivanhoe Capital Pte Ltd (f)	269	131
Ivanhoe Capital Corporation (UK) Limited (g)	8	139
	6,478	7,002
Salaries and benefits	4,525	5,412
Travel	95	,843
Office and administration	1 442	337
Consulting	416	410
	6,478	7,002

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 December 31, 2014, trade and other payables included \$0.4 million (December 31, 2013: \$0.2 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 provide for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.
- (d) 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.
- (e) 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.

- (f) 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.
- (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, 2014. 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) Impairment Analysis of Assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective assets.

Changes in any of the assumptions used to determine impairment testing could materially affect the results of the analysis.

At December 31, 2013, the Company reviewed the carrying value of its assets and recognized an impairment loss of \$334.3 million on the Kipushi mineral property, goodwill and related long-term loan receivable and advances payable. The Company concluded that, as at December 31, 2014, there were no significant changes to the assumptions used.

(ii) *Income Taxes*

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the statements of financial position and their corresponding tax values, generally using the substantively enacted or enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource-related pools and other deductions. A deferred tax asset is only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

A deferred tax liability is generally recognized for all taxable temporary differences. The Company recognizes net deferred tax liabilities as it believes it does not control the timing of the reversal of these temporary differences even though management has made the judgment that the reversal is not expected to occur in the foreseeable future.

(iii) *Mineral Property and Exploration Costs*

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) *Business Combinations*

Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and

circumstances. If an acquired set of assets and liabilities includes goodwill, the set of assets and liabilities is presumed to be a business.

(v) *Functional Currency*

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions, which determine the primary economic environment.

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, 2014, 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.

- IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments): Introduction of an exception from the requirement to consolidate a subsidiary for an investment entity.
- IAS 32 Financial Instruments: Presentation (Amendment): Clarification of the application of the requirements of offsetting financial assets and financial liabilities.
- IAS 36 Impairment of assets (Amendment): Clarification of the recoverable amount disclosures for impaired assets if this amount is based on fair value less cost of disposal.
- IAS 39 Financial Instruments: Recognition and Measurement (Amendment): Clarification of the novation of derivatives and continuation of hedge accounting.
- IFRIC 21: Levies.

Accounting standards issued but not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2014:

- IFRS 7 Financial Instruments: (Amendment): Outlines the disclosures when applying IFRS 9, the new financial instruments standard. (i)
- IFRS 9 Financial Instruments: New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and liabilities. (ii)
- IFRS 15 Revenue from contracts with customers: Establishes principles to apply in order to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. (iii)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations: Provides guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. (iv)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation. (iv)
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (v)
- IFRSs (Amendment) Annual Improvements to IFRSs 2010-2012. (v)
- IFRSs (Amendment) Annual Improvements to IFRSs 2011-2013. (v)

- (i) Effective for annual periods beginning on or after January 1, 2015
- (ii) The IASB tentatively decided to set January 1, 2018 as the effective date for the mandatory application of IFRS 9.
- (iii) Effective for annual periods beginning on or after January 1, 2017
- (iv) Effective for annual periods beginning on or after January 1, 2016
- (v) Effective for annual periods beginning on or after 1 July 2014

The Company has not yet adopted these new and amended standards and is currently assessing the impact of adoption.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

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

Financial instrument	Classification	December 31, 2014 \$'000	December 31, 2013 \$'000
Financial assets			
Cash and cash equivalents	Loans and receivables	110,983	143,789
Short-term deposits	Loans and receivables	55,223	80,264
Trade and other receivables	Loans and receivables	4,115	5,691
Financial liabilities			
Trade and other payables	Other liabilities	16,214	34,390
Borrowings	Other liabilities	24,789	23,797
Share purchase warrants	Fair value through profit and loss	6,945	-

IAS 32 - "*Financial Instruments: Presentation*", 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 requires an entity to develop its own assumptions.

The Company's financial instruments include cash and cash equivalents, short-term deposits, trade and other receivables, borrowings, share purchase warrants (Post-IPO) and trade and other payables.

The fair value of borrowings is determined in accordance with generally accepted pricing models based on discounted 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 Company's share purchase warrants are valued using quoted prices in active markets and as such are classified as Level 1 of the fair value hierarchy. The share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. The fair value of the share purchase warrants is determined using quoted prices in active markets.

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

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:

	December 31, 2014	December 31, 2013
	\$'000	\$'000
Assets		
Canadian dollar	19,659	53,404
Australian dollar	66	90
South African rand	28,068	14,546
British pounds	5,880	521
Liabilities		
Canadian dollar	(425)	(396)
Australian dollar	(249)	(230)
South African rand	(10,936)	(2,498)
British pounds	(1,255)	-

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.

	2014	2013
	\$'000	\$'000
Decrease in loss for the period	819	3,272

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 issued by major banks and companies with high credit ratings assigned by international credit-rating agencies. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years.

The following table details the Company's aging of accounts receivable:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at December 31, 2014					
Trade and other receivables	-	4,115	-	-	4,115
	-	4,115	-	-	4,115
As at December 31, 2013					
Trade and other receivables	-	5,691	-	-	5,691
	-	5,691	-	-	5,691

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 December 31, 2014					
Trade and other payables	-	16,214	-	-	16,214
Current income tax liabilities	200	-	-	-	200
Non-current borrowings	-	-	-	30,392	30,392
Current borrowings	3,656	-	-	-	3,656
As at December 31, 2013					
Trade and other payables	-	34,390	-	-	34,390
Current income tax liabilities	69	-	-	-	69
Non-current borrowings	-	-	-	29,848	29,848
Current borrowings	3,905	-	-	-	3,905

DESCRIPTION OF CAPITAL STOCK

As at March 25, 2015, 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 together with the Class A Shares, the "**Common Shares**"), an unlimited number of preferred shares without par value, warrants and options. At this date 6,865,700 Class B Shares, 695,277,087 Class A Shares and nil preferred shares were issued and outstanding.

The Company granted 14,175,000 options to certain employees during 2014, per the amended and restated employees' and directors' equity incentive plan (the Equity Incentive Plan). 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 March 25, 2015, there were 16,095,000 options, from individual stock-option agreements exercisable into 16,095,000 Class A Shares and 11,620,000 options issued in terms of the Equity Incentive Plan exercisable into 23,845,000 Class A Shares.

As at March 25, 2015, 115,000,767 warrants, issued on June 10 and July 10, 2014, are outstanding, each of which entitles the holder thereof to purchase equity securities in the capital of the Company, exercisable into 115,000,767 Class A Shares. These warrants expire on December 8, 2015, if not exercised by this date.

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 and operating effectiveness of the Company's DC&P and ICFR as of December 31, 2014 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.

As at December 31, 2014, management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this MD&A, the Company's disclosure controls and procedures were effective.

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 December 31, 2014 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.

As at December 31, 2014, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective.

During the year ended December 31, 2014, 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 risk factors 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 Kamoa Project, the Platreef Project and the Kipushi Project, which are available under the Company's SEDAR profile at www.sedar.com. These technical reports include relevant information regarding the effective date and the assumptions, parameters and methods of the mineral resource estimates on the Kamoa Project and Platreef 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 Kamoa Project, Platreef Project and Kipushi Project.