

Consolidated financial statements of

Ivanhoe Mines Ltd.

December 31, 2015
(Stated in U.S. dollars)

Ivanhoe Mines Ltd.

December 31, 2015

Table of contents

Independent Auditor's Report	1-2
Consolidated statements of comprehensive income	3
Consolidated statements of financial position.....	4
Consolidated statements of changes in equity	5
Consolidated statements of cash flows.....	6
Notes to the consolidated financial statements.....	7-55



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, 2015 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Director's responsibility for the consolidated financial statements

The company's directors are 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 audit. We conducted our audit 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 is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

The consolidated financial statements for the year ended December 31, 2014 were audited by the predecessor auditor, who issued a report without modification dated March 25, 2015.

*PricewaterhouseCoopers Inc., 2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa
T: +27 (11) 797 4000, F: +27 (11) 797 5800, www.pwc.co.za*

Chief Executive Officer: T D Shango

Management Committee: T P Blandin de Chalaïn, S N Madikane, P J Mothibe, C Richardson, F Tonelli, C Volschenk

The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.

Reg. no. 1998/012055/21, VAT reg.no. 4950174682

**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, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterLouwCoppers Inc.

Chartered Accountants

March 23, 2016

Johannesburg,
South Africa

Ivanhoe Mines Ltd.

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

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

	Notes	2015	2014
		\$	\$
Expenses			
Exploration and project expenditure	5	40,751	97,933
Salaries and benefits		8,995	15,136
Share-based payments	17	7,722	97,294
Office and administration		2,333	5,089
Travel		2,168	2,935
Professional fees		1,624	2,595
Foreign exchange loss		833	3,073
Legal		218	310
Other expenditure		1,274	1,860
Loss from operating activities		65,918	226,225
Gain on partial sale of subsidiary	6	(357,671)	-
Re-measurement to fair value of the interest retained in joint venture	6	(376,148)	-
Other income	18	(9,317)	(132)
Mark-to-market gain on revaluation of warrants	14(d)	(6,945)	(9,524)
Interest income		(2,204)	(1,041)
Finance costs	19	1,674	2,241
Share of losses from joint venture	6	1,030	-
(Profit) loss before income taxes		(683,663)	217,769
Income tax expense			
Current	12	578	193
Deferred tax recovery	12	(1,624)	(46)
		(1,046)	147
(PROFIT) LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(684,709)	217,916
Subsidiaries held for sale and partial sale			
(Gain) loss from subsidiary held for partial sale	10	(4,319)	38,537
(Gain) loss from subsidiary held for sale	10	-	(795)
(PROFIT) LOSS FOR THE YEAR		(689,028)	255,658
Other comprehensive loss			
Items that may subsequently be reclassified to loss:			
Exchange losses on translation of foreign operations - continuing operations		20,723	4,527
Exchange losses on translation of foreign operations - subsidiary held for sale		-	25
Other comprehensive loss for the year, net of tax		20,723	4,552
TOTAL COMPREHENSIVE (PROFIT) LOSS FOR THE YEAR		(668,305)	260,210
(Gain) loss attributable to:			
Owners of the Company - continuing operations		(695,824)	185,461
Owners of the Company - subsidiary held for partial sale		(4,559)	38,537
Owners of the Company - subsidiary held for sale		-	(795)
Non-controlling interests		11,355	32,455
		(689,028)	255,658
Total comprehensive (gain) loss attributable to:			
Owners of the Company - continuing operations		(676,715)	189,580
Owners of the Company - subsidiary held for partial sale		(4,559)	38,537
Owners of the Company - subsidiary held for sale		-	(770)
Non-controlling interests	16	12,969	32,863
		(668,305)	260,210
Basic and diluted (profit) loss per share - continuing operations	20	(0.90)	0.29
Basic and diluted (profit) loss per share - subsidiaries held for sale and partial sale	20	(0.01)	0.06
Weighted average number of basic and diluted shares outstanding	20	755,701,320	649,017,001

Ivanhoe Mines Ltd.

Consolidated statements of financial position

as at December 31,

(stated in thousands of U.S. dollars)

	Notes	December 31, 2015 \$	December 31, 2014 \$
ASSETS			
Non-current assets			
Property, plant and equipment	4	77,386	50,859
Mineral properties	5	6,940	6,940
Investment in joint venture	6	411,984	-
Purchase price receivable	6	70,072	-
Promissary notes receivable	7	9,076	-
Deferred tax asset	12	1,621	-
Other assets		6,462	13,030
Total non-current assets		583,541	70,829
Current assets			
Purchase price receivable	6	121,784	-
Other receivables	8	15,627	4,115
Prepaid expenses		6,651	8,965
Financial assets at fair value through profit or loss	10	1,027	-
Short-term deposits	9	-	55,223
Cash and cash equivalents	9	293,948	110,983
Total current assets		439,037	179,286
Assets of subsidiary held for sale	10	-	2,962
Total assets		1,022,578	253,077
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	1,124,032	1,038,868
Share option reserve	14	131,129	124,179
Currency translation reserve	15	(30,658)	(11,549)
Accumulated deficit		(127,505)	(827,888)
Equity attributable to owners of the Company		1,096,998	323,610
Non-controlling interests	16	(118,174)	(121,207)
Total equity		978,824	202,403
Non-current liabilities			
Non-current borrowings	11	26,021	21,133
Deferred tax liabilities	12	2,082	2,037
Other non-current liabilities		-	433
Total non-current liabilities		28,103	23,603
Current liabilities			
Financial liability		1,204	6,945
Current borrowings	11	-	3,656
Trade and other payables	13	14,327	16,214
Current tax liabilities		120	200
Total current liabilities		15,651	27,015
Total liabilities		43,754	50,618
Liabilities directly associated with assets held for sale	10	-	56
Total equity and liabilities		1,022,578	253,077

Continuing operations (Note 1)

Commitments and contingencies (Note 26)

(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 shares	Amount	Number of warrants	Warrant reserve	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Equity attributable to owners	Non-controlling interests	Total
		\$		\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2014	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 16)	-	-	-	-	-	-	-	-	889	889
Share-based payments										
charged to operations (Note 17)	-	-	-	-	96,861	-	-	96,861	-	96,861
Bonus shares issued (Note 14(b))	2,084,808	1,805	-	-	-	-	-	1,805	-	1,805
Shares issued, net of issue cost (Note 14(a))	115,000,767	134,977	-	-	-	-	-	134,977	-	134,977
Expiry of warrants (Note 14(d))	-	-	(13,941,940)	(7,949)	-	-	7,949	-	-	-
Options exercised (Note 14(c))	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
Net profit for the year	-	-	-	-	-	-	700,383	700,383	(11,355)	689,028
Other comprehensive loss	-	-	-	-	-	(19,109)	-	(19,109)	(1,614)	(20,723)
Total comprehensive profit	-	-	-	-	-	(19,109)	700,383	681,274	(12,969)	668,305
<i>Transactions with owners</i>										
Changes in non-controlling interest on sale of subsidiary (Note 6)	-	-	-	-	-	-	-	-	16,002	16,002
Share-based payments										
charged to operations (Note 17)	-	-	-	-	6,950	-	-	6,950	-	6,950
Shares issued (Note 14(a))	76,817,020	85,164	-	-	-	-	-	85,164	-	85,164
Balance at December 31, 2015	778,959,807	1,124,032	-	-	131,129	(30,658)	(127,505)	1,096,998	(118,174)	978,824

Ivanhoe Mines Ltd.

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

	Notes	2015	2014
		\$	\$
Cash flows from operating activities			
Profit (loss) before income taxes including gain or loss from subsidiaries held for sale and partial sale		687,982	(255,511)
Items not involving cash			
Share-based payments	17	7,722	97,294
Depreciation and amortization	4	5,465	5,723
Bonus shares issued		-	1,805
Interest income and finance costs		(530)	1,200
Unrealized foreign exchange loss		2,249	767
Gain on partial sale of subsidiary	6	(357,671)	-
Re-measurement to fair value of the interest retained in joint venture	6	(376,148)	-
Share of losses from joint venture	6	1,030	-
Loss on disposal of property, plant and equipment		(12)	20
Loss on disposal of assets held for sale		309	-
Mark-to-market gain on revaluation of warrants	14(d)	(6,945)	(9,524)
		(36,549)	(158,226)
Change in non-cash working capital items	22	(9,089)	(15,198)
Working capital items classified as held for sale		-	2
Income taxes paid		(449)	(1)
Interest received		1,298	1,041
Interest paid		(222)	(596)
Net cash used in operating activities		(45,011)	(172,978)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		82	97
Property, plant and equipment acquired	4	(87,515)	(26,182)
Proceeds from the sale of other assets		2,737	2,352
Decrease in investment in short-term deposits		55,223	25,041
Investment in joint venture		(5,000)	-
Other assets acquired		(2,227)	(9,288)
Net cash used in investing activities		(36,700)	(7,980)
Cash flows from financing activities			
Proceeds from the partial sale of subsidiary	6	206,000	-
Transaction costs on partial sale of subsidiary		(11,069)	-
Cash transferred on sale of subsidiary		(9,143)	-
Issue of shares, net of issue costs		85,164	134,977
Proceeds from financial liability (warrants)	14(d)	-	16,156
Proceeds from sale of interest in subsidiary		-	889
Options exercised		-	843
Net cash generated by financing activities		270,952	152,865
Effect of foreign exchange rate changes on cash		(6,276)	(4,713)
Net cash inflow (outflow)		182,965	(32,806)
Cash and cash equivalents, beginning of year		110,983	143,789
Cash and cash equivalents, end of year		293,948	110,983
Cash and cash equivalents consists of			
Cash		260,846	106,962
Short-term fixed deposits		33,102	4,021
		293,948	110,983

Supplemental cash flow information (Note 22)

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

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

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are also prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. Refer to note 2 (o) for further information relating to the Company's judgements on the Company's ability to continue as a going concern.

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, 2015. 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, 2015

(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. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(c) *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. The Company has two joint operations, as described in note 6.

When a group entity undertakes its activities under joint operations, the Company as a joint operator recognizes in relation to its interest in the 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 Company 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 Company'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 Company does not recognize its share of the gains and losses until it resells those assets to a third party.

(d) *Interests in joint ventures*

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of 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.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and the other comprehensive income of the joint venture. When the Company's share of losses of the joint venture exceeds the Company's interest in that joint venture (which includes any long term interests that in substance form part of the Company's net investment in the joint venture), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(d) *Interests in joint ventures (continued)*

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When a group entity transacts with a joint venture of the Company, profits and losses resulting from the transactions with the joint venture are recognised in the Company's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Company.

(e) *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).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(e) *Foreign currencies (continued)*

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.

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.

(f) *Cash and cash equivalents*

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

(g) *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 as property, plant and equipment. 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. Amortization of mineral properties will commence when commercial production starts. Mineral properties will be amortized over the expected life of mine.

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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(h) *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.

All of the Company's financial assets, other than the financial assets at fair value through profit or loss, 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.

(i) *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 and equipment | 5 years |
| • Buildings | 10 years |

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

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

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.

Assets in the course of construction for production, supply or administrative purposes, including development costs, 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 assets are initially grouped under the assets under construction category, and 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.

(j) *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.

(k) *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, 2015 and December 31, 2014, there was no material rehabilitation provision.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(l) *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.

(m) *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, 2015

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

2. Significant accounting policies (continued)

(m) *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.

(n) *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 share options 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. Share 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. Note 14(c) summarizes the assumptions used in the Black-Scholes option valuation model.

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

The share-based payment expense relating to the B-BBEE transaction described in note 17, 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.

Restricted share units are equity settled share-based payments and are valued using the fair value of a common share at time of grant and are recorded in profit and loss over their vesting periods.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(o) *Significant accounting estimates and judgements*

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

Recoverability of assets

Property, plant and equipment and finite lived intangible assets

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

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

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

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, 2015

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

2. Significant accounting policies (continued)

(o) Significant accounting estimates and judgements (continued)

Share-based payments

The Monte Carlo simulation of the underlying share (together with its dividends), used to estimate the share-based payment expense and the closing share price at vesting date relating to the B-BBEE transaction described in note 17, required several input assumptions 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

Determination of functional currency

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

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

The Company's functional currency is U.S. dollar. The Company's subsidiaries have a variety of functional currencies that include, but are not limited to, South African Rand ("ZAR"), U.S. dollar ("USD") and Canadian dollar ("C\$").

Technical feasibility and commercial viability of projects

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, 2015

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

2. Significant accounting policies (continued)

(o) Significant accounting estimates and judgements (continued)

Classification of Kamoa Holding Limited as a joint venture

Kamoa Holding Limited is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Kamoa Holding Limited is classified as a joint venture of the Company. See note 6 for details.

Preparation of the financial statements on a going concern basis

The Company has an accumulated deficit of \$127.5 million at December 31, 2015. Continuation of the Company as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties. Although the Company has been successful in raising funds in the past, there can be no assurance that it will be able to raise sufficient funds in the future. The Company's total current assets exceeds the Company's total liabilities and spending plan for 2016. As at December 31, 2015, the Company's total assets exceeds its total liabilities by \$979 million and current assets exceeds current liabilities by \$423 million. The Company therefore believes it has sufficient resources to continue as a going concern for the foreseeable future.

(p) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The Company's executive management team has been identified as the chief operating decision-makers, and are responsible for allocating resources and assessing performance of the operating segments.

(q) Earnings per share

The basic earnings per share is computed by dividing the loss attributable to the owners of the Company from continuing operations and discontinued operations by the weighted average number of common shares outstanding during the year. The diluted earnings per share reflects the potential dilution of common share equivalents, such as preference shares, outstanding share options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

(r) Assets held for sale and discontinued operations

The Company refers to its discontinued operations, Kamoa Holding Limited and subsidiaries, as a subsidiary held for partial sale. Kamoa Holding Limited was partly disposed during 2015, which resulted in a loss of control where after Kamoa Holding Limited is classified as a joint venture.

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 asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. 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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(r) Assets held for sale and discontinued operations (continued)

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

A component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations is to be treated as a discontinued operation.

(s) 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, 2015:

International Financial Reporting Standards and amendments issued but not effective for 31 December 2015 year-end

- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets. The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. (i)

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

- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. (i)

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

- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation.
In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. (i)

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

- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative. In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. (i)

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(s) Future accounting changes (continued)

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. (i)

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

International Financial Reporting Standards and amendments issued but not effective for 31 December 2015 year-end (continued)

- Amendments to IAS 27, 'Separate financial statements' on equity accounting. In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. (i)

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

- Amendment to IAS 12 – Income taxes. The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. (ii)

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

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

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

- IFRS 15 – Revenue from contracts with customers. The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. (iii)

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(s) Future accounting changes (continued)

- IFRS 9 – Financial Instruments (2009 & 2010), This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. (iii)

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

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

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

- IFRS 16 – Leases. After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. (iv)

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

Annual Improvements 2014, issued September 2014

In September 2014, the IASB issued Annual improvements to IFRSs 2012 – 2014 Cycle, which contains five amendments to four standards, excluding consequential amendments. The amendments are effective for annual periods beginning on or after 1 January 2016.

- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. (i)
- IFRS 7 – 'Financial Instruments: Disclosures'. Applicability of the off-setting disclosures to condensed interim financial statements. (i)
- IFRS 7 – 'Financial Instruments: Disclosures'. Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. (i)

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

2. Significant accounting policies (continued)

(s) Future accounting changes (continued)

- IAS 19 – ‘Employee Benefits’. Discount rate: regional market issue - The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. (i)

(i) Effective for annual periods beginning on or after January 1, 2016

(ii) Effective for annual periods beginning on or after January 1, 2017

(iii) Effective for annual periods beginning on or after January 1, 2018

(iv) Effective for annual periods beginning on or after January 1, 2019

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

3. Application of new and revised standards

(a) Newly adopted accounting standards

The Company has adopted the below standards and they did not have a material impact on its consolidated financial statements.

International Financial Reporting Standards and amendments effective for the first time for 31 December 2015 year-end

- Amendment to IAS 19 ‘Employee benefits’, regarding defined benefit plans. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Annual Improvements 2012 issued December 2013

Improvements to IFRSs (Issued Dec 2013) was issued by the IASB as part the ‘annual improvements process’ resulting in the following amendments to standards issued and effective for the first time for 31 December 2015 year-ends:

- Amendment to IFRS 2, ‘Share based payment’. The amendment clarifies the definition of a ‘vesting condition’ and separately defines ‘performance condition’ and ‘service condition’.
- Amendment to IFRS 3, ‘Business combinations’. The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, ‘Financial instruments: Presentation’.

The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss.

Consequential changes are also made to IFRS 9, IAS 37 and IAS 39.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

3. Application of new and revised standards (continued)

(a) Newly adopted accounting standards (continued)

Annual Improvements 2012 issued December 2013 (continued)

- Amendment to IFRS 8, 'Operating segments'. The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.
 - Amendment to IFRS 13, 'Fair value measurement'. When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.
 - IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets'. Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- IAS 24, 'Related party disclosures'. The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

Annual Improvements 2013, issued December 2013

The IASB published the final standard for the 2011 – 2013 cycle of the annual improvements with amendments that affected 4 standards issued and effective for the first time for 31 December 2015 year-ends.

- IFRS 1, 'First-time adoption of International Financial Reporting Standards'. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.
- IFRS 13, 'Fair value measurement'. The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.
- IAS 40, 'Investment property'. The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.
- IFRS 3, 'Business combinations'. The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
2015							
Cost							
Beginning of the year	2,005	14,768	6,673	6,857	19,128	18,778	68,209
Additions	555	3 629	552	2	1,099	81,678	87,515
Disposals	-	(21)	(233)	(287)	(57)	-	(598)
Partial sale of subsidiary	(90)	(1,136)	(1,849)	(4,253)	(5,238)	(38,542)	(51,108)
Foreign exchange translation	(556)	(1,663)	(825)	(310)	(325)	(11,049)	(14,728)
End of the year	1,914	15,577	4,318	2,009	14,607	50,865	89,290
Accumulated depreciation and impairment							
Beginning of the year	-	892	4,064	4,339	8,055	-	17,350
Depreciation	-	555	1,085	631	3,194	-	5,465
Disposals	-	(14)	(207)	(287)	(20)	-	(528)
Partial sale of subsidiary	-	(249)	(1,479)	(3,691)	(3,956)	-	(9,375)
Foreign exchange translation	-	(177)	(637)	(26)	(168)	-	(1,008)
End of the year	-	1,007	2,826	966	7,105	-	11,904
Carrying value							
Beginning of the year	2,005	13,876	2,609	2,518	11,073	18,778	50,859
End of the year	1,914	14,570	1,492	1,043	7,502	50,865	77,386

Assets under construction

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

Assets pledged as security

Buildings with a carrying amount of \$10.8 million (December 31, 2014 - \$9.9 million) have been pledged to secure borrowings of the Company (see note 11). 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, 2015

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

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
2014							
Cost							
Beginning of the year	4,744	10,755	6,142	6,286	15,647	4,732	48,306
Additions	-	4,982	1,087	863	3,590	15,660	26,182
Disposals	-	-	(133)	(159)	(5)	-	(297)
Reclassified to assets held for sale	(3,476)	-	(52)	-	-	-	(3,528)
Foreign exchange translation	737	(969)	(371)	(133)	(104)	(1,614)	(2,454)
End of the year	2,005	14,768	6,673	6,857	19,128	18,778	68,209
Accumulated depreciation and impairment							
Beginning of the year	619	475	2,953	3,750	5,076	-	12,873
Depreciation	-	461	1,526	695	3,041	-	5,723
Disposals	-	-	(125)	(50)	(4)	-	(179)
Reclassified to assets held for sale	(569)	-	(52)	-	-	-	(621)
Foreign exchange translation	(50)	(44)	(238)	(56)	(58)	-	(446)
End of the year	-	892	4,064	4,339	8,055	-	17,350
Carrying value							
Beginning of the year	4,125	10,280	3,189	2,536	10,571	4,732	35,433
End of the year	2,005	13,876	2,609	2,518	11,073	18,778	50,859

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

5. Mineral properties and exploration expenditures

Mineral Properties

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

	December 31, 2015	December 31, 2014
	\$	\$
Platreef property, South Africa (b)	6,940	6,940
	6,940	6,940

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

Exploration and project expenditure

The following table summarizes the exploration and project expenditures for the year ended December 31, 2015 and 2014, as well as the accumulated aggregate exploration expenditures from inception which have been charged to the statement of comprehensive income:

	December 31, 2015	December 31, 2014
	\$	\$
Exploration and project expenditure		
Salaries and benefits	16,639	32,715
Utilities	6,010	7,032
Drilling	3,133	11,370
Depreciation	2,978	3,441
Office and administration	2,247	7,223
Travel	714	2,066
Studies	712	9,143
Legal	553	1,910
Licenses	386	1,514
Consulting	352	3,774
Assay and sampling	341	937
Camp costs	63	951
Other	6,623	15,857
	40,751	97,933
Accumulated aggregate exploration and project expenditures		
Kamoa properties - to the date of partial sale (a)	293,737	286,970
Platreef property (b)	197,063	196,798
Kipushi properties (c)	170,988	137,347
Other (d)	33,953	33,875
	695,741	654,990

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

5. Mineral properties and exploration expenditures (continued)

(a) 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 transfer an additional 15% interest to the DRC government on terms to be negotiated.

Title to the Kamoa Project resides with Kamoa Copper SA, who is the holder of the Kamoa Exploitation Licences. Kamoa Copper SA is a joint venture of Ivanhoe after Ivanhoe sold a 50.5% stake in Kamoa Holding Limited during December 2015 (refer to note 6). 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, 2020.

During the year the Company determined that the Kamoa properties was technically feasible and commercially viable, where after development costs on the properties were capitalized. Development costs have been capitalized as property, plant and equipment to the extent that they are necessary to bring the property to commercial production.

Included in the exploration and project expenditure of the Kamoa properties is all exploration and project expenditure of the Kamoa project up to the date of the partial disposal of the subsidiary, December 8, 2015.

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

Itochu, 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 17).

During the year the Company determined that the Platreef property was technically feasible and commercially viable, where after development costs were capitalized. Development costs have been capitalized as property, plant and equipment to the extent that they are necessary to bring the property to commercial production.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

5. Mineral properties and exploration expenditures (continued)

(c) 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 zinc, copper and cobalt as well as the underground workings and related infrastructure, inclusive of a series of vertical mine shafts.

(d) Other properties

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 permits 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, however the Company has requested relinquishment of both the exploration rights held in Gabon.

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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

6. Joint arrangements

Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The company's share of the buildings have a carrying value of \$10.8 million (2014: \$9.9 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.

Joint venture

Partial sale of Kamoa Holding Limited

The Company sold a 50.5% stake in Kamoa Holding Limited ("Kamoa Holding"), the company that owns 95% of the Kamoa project.

The Company sold a 49.5% stake to Zijin Mining Group Co., Ltd. ("Zijin") – through its subsidiary, Gold Mountains (H.K.) International Mining Company Limited. Under the terms of the share acquisition agreement, Zijin bought a 49.5% share interest for an aggregate consideration of \$412 million. The purchase price was satisfied by an initial payment of \$206 million in cash upon the closing of the transaction. The agreements specify that the remaining \$206 million will be paid in five equal instalments, payable every 3.5 months from closing and continuing through 2016 and into 2017.

In addition, the Company has sold 1% of its share interest in Kamoa Holding to Crystal River Global Limited ("Crystal River") for \$8.32 million – which Crystal River will pay through a non-interest-bearing, 10-year promissory note. Crystal River is a private company incorporated in the British Virgin Islands.

Upon closing of the transaction, each shareholder is required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest.

(a) Consideration received

Zijin bought a 49.5% share interest in Kamoa Holding for an aggregate consideration of \$412 million. In addition, the Company sold 1% of its share interest in Kamoa Holding to Crystal River for \$8.32 million, which Crystal River will pay through a non-interest-bearing, 10 year promissory note. The consideration received, net of transaction costs, was discounted using a risk free rate adjusted for country risk premium of 8.3% on the date of closing, resulting in a purchase price receivable of \$390.4 million.

Zijin paid \$206 million of the purchase consideration on closing and the remaining \$206 million will be received in five equal instalments, payable every 3.5 months from the date of closing. The present value of the remaining consideration receivable, net of transaction costs, was \$192 million as at December 31, 2015, of which \$122 million is expected to be received before December 31, 2016 and the remaining \$70 million in the year thereafter.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

6. Joint arrangements (continued)

Joint venture (continued)

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

	December 31, 2015
Non-current assets	
Property, plant and equipment	41,731
Current assets	
Prepaid expenses	4,154
Cash and cash equivalents	9,143
Current liabilities	
Trade and other payables	(6,254)
	48,774

(c) Gain on partial sale of subsidiary

	December 31, 2015
Present value of consideration received (net of transaction costs)	390,382
Fair value of interest retained	408,213
	798,595
Net assets disposed of	(48,774)
Non-controlling interest	(16,002)
Re-measurement to fair value of the interest retained in joint venture	(376,148)
	357,671

Non-controlling interest of \$16 million relating to Kamo Holding up until the date control was lost has been re-allocated to the statement of comprehensive income as part of the gain on the partial sale of subsidiary.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

6. Joint arrangements (continued)

The following table summarizes the Company's share of comprehensive loss of Kamo Holding for the year ending December 31, 2015.

	100%	49.5%
	\$	\$
Interest expense	1,806	894
Salaries and wages	171	85
Intergroup cost recovery	138	68
Office and administration costs	78	39
Professional fees	45	23
Exploration expenses	31	16
Other expenses	19	8
Foreign exchange gains	(117)	(58)
Loss for the period	2,171	1,075
Non-controlling interest	(89)	(45)
Total comprehensive loss for the period	2,082	1,030

The assets and liabilities of the joint venture at December 31, 2015 are as follows:

	100%	49.5%
	\$	\$
Non-current assets		
Property, plant and equipment	44,281	21,919
Other assets	3,133	1,551
Mineral property	802,022	397,001
Current assets		
Prepaid expenses	3,537	1,751
Cash and cash equivalents	9,836	4,869
Current liabilities		
Accruals and payables	(5,376)	(2,661)
Non-controlling interest	(25,143)	(12,446)
Company's share of net assets in joint venture	832,290	411,984

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

6. Joint arrangements (continued)

Commitments in respect of joint venture

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

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

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

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

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

7. Promissory notes receivable

The Company has the following promissory notes receivable:

	December 31, 2015	December 31, 2014
	\$	\$
A\$3 million promissory note receivable (a)	1,827	-
Promissory note receivable from Crystal River (b)	7,249	-
	9,076	-

- (a) The promissory note receivable with a carrying value of \$1.8 million is an A\$3 million promissory note which bears no interest and is receivable on March 31, 2018. This note was received as part of the purchase consideration when the Company sold its Australian subsidiaries (refer to note 10).
- (b) The promissory note receivable with a carrying value of \$7.2 million is a \$8.32 million non-interest-bearing, 10 year promissory note which the Company received as the purchase consideration for selling 1% of its share in Kamoa Holding (refer to note 6).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

8. Other receivables

	December 31, 2015	December 31, 2014
	\$	\$
Refundable taxes (a)	9,587	1,647
Advances	1,046	1,052
Loan receivable from joint venture	2,537	-
Other	2,457	1,416
	15,627	4,115

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

9. Cash and cash equivalents and short-term deposits

As at December 31, 2015, the cash and cash equivalents of \$293.9 million (December 31, 2014 - \$111.0 million) included \$57.1 million (December 31, 2014 - \$53.6 million) which are reserved for the Platreef Project and were not available for the Company's general corporate purposes. The Company had short-term deposits of \$55.2 million at December 31, 2014 which were also reserved for the Platreef Project. These deposits have since been transferred to cash and cash equivalents.

10. Subsidiaries held for sale and partial sale

Subsidiary held for sale - Australian subsidiaries

On March 31, 2015, the Company disposed of its Australian subsidiaries to Clean Teq Metals Pty Ltd. The carrying value of assets net of liabilities immediately prior to the sale amounted to \$2.9 million. The Company received 7,373,053 listed shares in Clean Teq Holdings Limited with a value of \$0.8 million, which has been classified as financial assets at fair value through profit or loss, and an A\$3 million promissory note with a deemed present value of \$1.8 million as the purchase consideration. The loss recognised on sale of \$0.3 million has been included in other expenditure on the statements of comprehensive loss. The trading value of the listed shares as at December 31, 2015 is \$1.0 million.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

10. Subsidiaries held for sale and partial sale (continued)

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

	December 31, 2015	December 31, 2014
	\$	\$
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

Subsidiary held for partial sale – Kamoa Holding Limited and subsidiaries

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

The comprehensive (gain) loss from the subsidiaries held for sale and partial sale is set out in the table below:

	December 31, 2015	December 31, 2014
	\$	\$
<i>Subsidiary partially sold</i>		
<i>Kamoa Holding Limited and subsidiaries</i>		
Exploration and project expenditure	4,518	38,256
Professional fees	150	42
Legal fees	40	-
Foreign exchange losses	202	211
Other expenses	21	28
Other income	(9,250)	-
	(4,319)	38,537
<i>Subsidiary sold - Australian subsidiaries</i>		
Exploration and project expenditure	-	(795)
	-	(795)

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

10. Subsidiaries held for sale and partial sale (continued)

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

	December 31, 2015	December 31, 2014
	\$	\$
Cash flow from (used in) operating activities	2,997	(32,396)
Cash used in investing activities	(30,477)	(7,426)
Cash flow from financing activities	185,788	-
Net cash inflow (outflow)	158,308	(39,822)

11. Borrowings

	December 31, 2015	December 31, 2014
	\$	\$
<i>Unsecured - at amortised cost</i>		
(a) Loans from other entities	21,235	19,783
<i>Secured - at amortised cost</i>		
(b) Citi bank loan	3,495	3,656
(c) Citi bank loan	1,291	1,350
	26,021	24,789
Current	-	3,656
Non-current	26,021	21,133
	26,021	24,789

- (a) On June 6, 2013, the Company became party to a \$28.0 million loan payable to ITC Platinum Development Limited, through its subsidiary Ivanplats (Pty) Ltd, ("Ivanplats") the owner of the Platreef Project. The loan is repayable only once Ivanplats has residual cashflow, which is defined in the loan agreement as gross revenue generated by Ivanplats, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not compounded. Using prevailing market interest rates for an equivalent loan of LIBOR plus 7% at June 6, 2013, the fair value of the loan as at December 31, 2015, is estimated at \$21.2 million (2014: \$19.8 million). The difference of \$8.5 million (2014: \$9.3 million) on initial recognition 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 \$1.4 million (2014: \$1.3 million) was recognised during the year ended December 31, 2015.
- (b) The Citi bank loan of \$3.5 million (£2.36 million) is secured by the Rhenfield property acquired during May, 2007 (see note 4), is an interest only term loan repayable at June 30, 2020, and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears.
- (c) The Citi bank loan of \$1.3 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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

12. Income taxes

(a) Rate reconciliation

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

	2015	2014
	\$	\$
(Profit) Loss before income taxes	(683,663)	217,769
Statutory tax rate	26.00%	26.00%
Expected recovery of income taxes based on combined Canadian Federal and provincial statutory rates	177,752	(56,620)
Add (deduct):		
Non-taxable profit on sale of interest in subsidiary	(212,159)	-
Non-capital loss carryforwards in subsidiary sold	102,853	-
Different effective tax rates in foreign jurisdictions	17,797	(7,583)
Realisation of foreign exchange gains	12,682	-
Tax effect of tax losses and temporary differences not recognized	(104,698)	31,381
Non-deductible expenses and non-taxable income	(6,335)	29,834
Effect of change in future tax rates	-	75
Amendments to prior year tax submissions	2,408	(6,964)
Tax effect of difference on loss on disposal of subsidiary	2,839	-
Tax effect of recognised temporary differences on unrealised foreign exchange	(1,624)	-
Effect of foreign exchange on temporary differences not recognized	7,439	10,024
Income tax expense (recovery)	(1,046)	147

(b) Deferred tax balances

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

	2015	2014
	\$	\$
<i>Deferred tax liability to be recovered after more than 12 months</i>		
Property, plant and equipment	(2,082)	(2,037)
Deferred income tax liabilities	(2,082)	(2,037)
<i>Deferred tax assets to be recovered after more than 12 months</i>		
Unrealised foreign exchange losses	1,597	-
<i>Deferred tax asset to be recovered within 12 months</i>		
Provisions and prepayments	24	-
Deferred income tax assets	1,621	-

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Future taxable profits are considered to be probable in the relevant service entity as a profit has been recognized in the current and prior year.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

12. 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:

	2015	2014
	\$	\$
Non-capital loss carryforwards	400,383	779,722
Capital loss carryforwards	1,798	-
Investment in RK1 (Note 6)	11,289	11,289
Foreign exploration expenses and share issuance costs	9,952	17,487
Capital assets	144	153
Unrecognized deductible temporary differences	423,566	808,651

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	1,826,118	119,152	(a)
Congolese franc	CDF	180,367,647	198,206	(b)
Canadian dollar	\$	85,111	61,468	2015 to 2034
Zambian kwacha	ZMK	7,679	1	2015 to 2019
English Pound	£	2,458	3,647	(a)
Barbados	BBD	9,656	4,828	(a)
Luxembourg (EURO)	€	616	674	(a)
Namibian dollar	NAD	4,304	281	(a)
			388,257	

(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.

The Company has foreign subsidiaries that have undistributed earnings of \$884.9 million (2014: \$801.9 million). The Company can control the timing of repatriation and it is probable that these amounts will not be repatriated for the foreseeable future. Therefore, deferred tax has not been provided in respect of these earnings.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

13. Trade and other payables

	December 31, 2015	December 31, 2014
	\$	\$
Trade payables	8,384	9,917
Indirect taxes payable	280	404
Trade accruals	3,720	2,729
Other payables	1,943	3,164
	14,327	16,214

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

14. Share capital

(a) Shares issued

The Company is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares (together with the Class A Shares, the "common shares") and an unlimited number of Preferred Shares. As at December 31, 2015, 772,179,162 Class A Shares, 6,780,645 Class B Shares and nil Preferred Shares were issued and outstanding. As at December 31, 2015, 43,059,696 shares were subject to a lock-up, pursuant to lock-up agreements and were not freely tradable.

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

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 14(d)).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

14. Share capital (continued)

(b) Bonus shares

During December 2014, a total of 2,084,808 common shares were issued to senior executives as a performance reward in the form of bonus shares, with a deemed market value of \$1,805,460. No bonus shares were issued in 2015.

(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, 2015, 38,775,000 share options have been granted and exercised, and 40,825,000 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:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of year	40,190,000	1.92	31,479,000	2.36
Granted	6,350,000	0.47	14,175,000	0.92
Exercised	-	-	(634,000)	1.33
Expired	(4,690,000)	1.80	(2,470,000)	1.57
Forfeited	(1,025,000)	2.95	(2,360,000)	2.44
Balance, end of year	40,825,000	1.68	40,190,000	1.92

An expense of \$1.3 million for the options granted during the year ended December 31, 2015 (2014: \$6.1 million) will be amortized over the vesting period, of which \$0.1 million was recognized in the year ended December 31, 2015 (2014: \$0.4 million).

The weighted average grant-date fair value of share options granted during 2015 was \$0.47 (2014: \$0.43). The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions was used for the share option grants in 2015 and 2014:

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

14. Share capital (continued)

(c) Options (continued)

The following table summarizes information about share options outstanding and exercisable as at December 31, 2015:

Expiry date	Options outstanding		Options exercisable	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
February 17, 2016	7,330,000	2.40	7,330,000	2.40
March 22, 2017	100,000	3.00	80,000	3.00
April 1, 2017	1,000,000	3.00	800,000	3.00
April 20, 2017	2,500,000	3.00	2,000,000	3.00
January 11, 2018	1,650,000	4.90	825,000	4.90
February 1, 2018	100,000	4.81	50,000	4.81
April 1, 2018	530,000	4.45	397,500	4.45
May 17, 2018	30,000	2.44	22,500	2.44
August 14, 2018	100,000	1.44	50,000	1.44
August 16, 2018	750,000	1.45	375,000	1.45
December 13, 2018	6,210,000	1.86	3,105,000	1.86
March 31, 2019	200,000	1.57	50,000	1.57
June 16, 2019	500,000	1.20	125,000	1.57
August 15, 2019	1,000,000	1.33	250,000	1.33
December 8, 2019	12,475,000	0.86	3,118,750	1.33
December 15, 2020	6,350,000	0.47	-	1.33
	40,825,000	1.67	18,578,750	2.34

(d) Warrants

The Company had two types of warrants, 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).

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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

14. Share capital (continued)

(d) Warrants (continued)

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 entitled 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, 2015, there was a derivative gain of \$6.9 million (2014: \$9.5 million). The Post-IPO warrants were issued on June 10, 2014, remained unexercised and expired on December 10, 2015. The following table provides a detailed 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
Mark-to-market gain on revaluation of warrants	-	(6,945)
Expired warrants	(115,000,767)	-
Balance as at December 31, 2015	-	-

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

(e) Restricted share units

The Company started issuing restricted share units ("RSUs") as a security based compensation arrangement during December 2015. Each restricted share unit represents the right of an eligible participant to receive one Class A Share or a cash payment equal to the equivalent thereof. If cash settlement is elected, the Company would issue that number of vested Class A Shares to a licensed securities broker, who would then sell such shares in the public market and deliver the net proceeds thereof to the eligible participant. If share settlement is elected, the Company will issue the vested Class A Shares to the eligible participant.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

14. Share capital (continued)

(e) Restricted share units (continued)

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

During December 2015, a total of 7,277,081 restricted share units were issued to senior executives and some employees as a performance reward. An expense of \$3.4 million for the RSUs granted during the year ended December 31, 2015, using the fair value of a common share at time of grant, will be amortized over the vesting period, of which \$0.1 million was recognized in the year ended December 31, 2015 (refer to note 17).

A summary of changes in the Company's RSUs is presented below:

	Number of RSUs issued
	\$
Balance as at January 1, 2015	-
RSUs issued	7,277,081
Balance as at December 31, 2015	7,277,081

15. Foreign currency translation reserve

	2015	2014
	\$	\$
Balance at the beginning of the year	(11,549)	(7,405)
Exchange differences arising on translating the foreign operations	(19,109)	(4,144)
Balance at the end of the year	(30,658)	(11,549)

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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

16. Non-controlling interests

	2015	2014
	\$	\$
Balance at beginning of the year	(121,207)	(89,233)
Share of comprehensive losses for the year	(12,969)	(32,863)
Changes in non-controlling interest on partial sale of subsidiary (Note 6b)	16,002	-
Change in non-controlling interest arising from a sale of 0.1% of Ivanplats (Pty) Ltd to self-funded historically disadvantaged entrepreneurs	-	889
Balance at the end of the year	(118,174)	(121,207)

The total non-controlling interest at December 31, 2015 is \$118.2 million (2014: \$121.2 million), of which \$60.8 million (2014: \$57.6 million) is for Ivanplats (Pty) Ltd and \$58.9 million (2014: \$48.4 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		Kipushi Corporation SA	
	2015	2014	2015	2014
	\$	\$	\$	\$
Non-current assets	61,653	28,017	9,965	11,821
Non-current liabilities	(315,694)	(249,131)	(185,020)	(152,557)
Total non-current net assets	(254,041)	(221,114)	(175,055)	(140,736)
Current assets	8,685	10,165	12,178	4,062
Current liabilities	(5,905)	(6,487)	(6,172)	(9,599)
Current net assets	2,780	3,678	6,006	(5,537)
Net assets	(251,261)	(217,436)	(169,049)	(146,273)

Summarised income statement

	Ivanplats (Pty) Ltd		Kipushi Corporation SA	
	2015	2014	2015	2014
	\$	\$	\$	\$
Loss for the year	8,135	130,914	32,777	53,237
Other comprehensive loss	(16,142)	4,080	-	(4)
Total comprehensive loss	(8,007)	134,994	32,777	53,233
Total comprehensive loss allocated to non-controlling interests	2,428	12,610	10,489	17,036

On September 3, 2014, as part of the Company's broad-based black economic empowerment transaction (see note 17), self-funded historically disadvantaged entrepreneurs purchased an effective 0.1% in Ivanplats (Pty) Ltd for \$0.9 million.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

17. Share-based payments

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

	December 31, 2015	December 31, 2014
	\$	\$
<i>Equity settled share-based payments</i>		
B-BBEE transaction expense	-	88,194
Options granted (note 14(c))	6,900	8,667
Restricted share unit expense (note 14(e))	50	-
<i>Cash settled share-based payments</i>		
B-BBEE transaction expense	772	433
	7,722	97,294

In addition to the share-based payments noted above the Company issued restricted share units during the year (note 14(e)).

In conjunction with the Mining Right Application for Ivanplats (Pty) Ltd ("Ivanplats"), 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 Ivanplats on June 26, 2014. The Company transferred 26% of Ivanplats to a B-BBEE special purpose vehicle (B-BBEE SPV) for the benefit of communities, employees and entrepreneurs in and around the Ivanplats 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 Ivanplats 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 Ivanplats 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 Ivanplats, 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 Ivanplats with the required B-BBEE credentials to enable Ivanplats 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, 2015, \$0.7 million (2014: \$88.6 million) related to the B-BBEE transaction, with the remaining \$7.0 million (2014: \$8.7 million) being the expense for options granted to employees recognised over the vesting period.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

18. Other Income

Other income is summarized as follows:

	December 31, 2015	December 31, 2014
	\$	\$
Refundable taxes recovered	(8,203)	-
Other income	(1,114)	(132)
	(9,317)	(132)

Other income includes refundable taxes recovered which had previously been provided for as the recoverability of the refundable taxes in this jurisdiction are considered uncertain.

19. Finance costs

The finance costs of the Company are summarized as follows:

	December 31, 2015	December 31, 2014
	\$	\$
Interest on non-current borrowings (Note 11)	1,520	1,375
Transaction costs on issue of the warrants	-	758
Interest on current borrowings (Note 11)	-	107
Other financing costs	154	1
	1,674	2,241

20. Earnings per share

The basic earnings per share is computed by dividing the loss attributable to the owners of the Company from continuing operations and discontinued 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 share 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, 2015 and 2014.

	December 31, 2015	December 31, 2014
	\$	\$
Basic and diluted (profit) loss per share - continuing operations	(0.90)	0.29
Basic and diluted (profit) loss per share - subsidiaries held for sale and partial sale	(0.01)	0.06
Weighted average number of basic and diluted shares outstanding	755,701,320	649,017,001

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

21. Related party transactions

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

Name	Country of Incorporation	% equity interest as at	
		December 31, 2015	December 31, 2014
Subsidiaries			
Ivanhoe Mines (Barbados) Ltd.	Barbados	100%	100%
Ivanplats Holding SARL	Luxembourg	97%	97%
Ivanplats Finance Limited	Ireland	100%	100%
Gabon Holding Company Ltd.	Barbados	100%	100%
Ivanhoe (Zambia) Ltd.	Zambia	100%	100%
Kipushi Holding Limited	Barbados	100%	100%
Kipushi Corporation SA	Democratic Republic of Congo	68%	68%
Ivanhoe Mines Exploration DRC SARL	Democratic Republic of Congo	100%	100%
Ivanhoe Mines DRC SARL	Democratic Republic of Congo	100%	100%
Africa Consolidated Mineral Exploration (Pty) Ltd.	South Africa	100%	100%
Ivanplats (Pty) Ltd.	South Africa	64%	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%
Ivanhoe Gabon SA	Gabon	100%	100%
Ivanplats Syerston (Pty) Ltd.	Australia	0%	100%
Ivanplats Uranium (Pty) Ltd.	Australia	0%	100%
Joint ventures			
Kamoa Holding Limited	Barbados	49.5%	100%
Joint operations			
Rhenfield Limited	British Virgin Islands	50%	50%
RK1 Consortium	South Africa	25%	25%

During the year, the Company's share of transactions, entered into in the ordinary course of business, in which the Company is a venturer is as follows:

	December 31, 2015	December 31, 2014
	\$	\$
Other income - administration consulting fees	95	-
Amounts included in:		
Trade and other payables	217	-
Other receivables	2,046	-

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

21. 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, 2015	December 31, 2014
	\$	\$
Global Mining Management Corporation (a)	2,501	3,711
Ivanhoe Capital Aviation LLC (b)	1,200	1 200
Ivanhoe Capital Services Ltd. (d)	553	506
Ivanhoe Capital Pte Ltd (f)	397	269
HCF International Advisers (e)	183	363
Global Mining Services Ltd. (c)	111	421
Ivanhoe Capital Corporation (UK) Limited (g)	25	8
	4,970	6,478
Salaries and benefits	2,282	4,525
Travel	1,551	1 442
Office and administration	871	95
Consulting	266	416
	4,970	6,478

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, 2015, trade and other payables included \$0.4 million (2014: \$0.4 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

- (a) Global Mining Management Corporation ("Global") is a private company based in Vancouver. The Company holds an equity interest in Global, and 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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

21. 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.

22. Cash flow information

Net change in non-cash working capital items:

	December 31, 2015	December 31, 2014
	\$	\$
Net (increase) decrease in		
Other receivables	(11,512)	1,576
Other receivables - effects of joint venture	3,998	-
Prepaid expenses	2,314	1,402
Prepaid expenses - effects of joint venture	(1,709)	-
Net decrease in		
Trade and other payables	(1,887)	(18,176)
Trade and other payables - effects of joint venture	(293)	-
	(9,089)	(15,198)

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

23. Financial instruments

(a) Fair value of financial instruments

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

Financial instrument	Level	December 31, 2015	December 31, 2014
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	1,027	-
<i>Loans and receivables</i>			
Purchase price receivable	Level 2	191,856	-
Promissary note receivable	Level 2	9,076	-
Short-term deposits	Level 2	-	55,223
Financial liabilities			
<i>Other liabilities</i>			
Borrowings	Level 2	26,021	24,789

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

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

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited (note 11 (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 and financial assets at fair value through profit or loss are valued using quoted prices in active markets and as such are classified as Level 1 of the fair value hierarchy. Changes in the fair values are included in net earnings.

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

23. 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, 2015	December 31, 2014
	\$	\$
Assets		
Canadian dollar	1,786	19,659
Australian dollar	-	66
South African rand	22,266	28,068
British pounds	1,316	5,880
Liabilities		
Canadian dollar	(246)	(425)
Australian dollar	(21)	(249)
South African rand	(4,262)	(10,936)
British pounds	(92)	(1,255)

Foreign currency sensitivity analysis

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

	December 31, 2015	December 31, 2014
	\$	\$
Canadian dollar	77	962
Australian dollar	(1)	(11)
South African rand	(63)	(70)
British pounds	1	(62)
	14	819

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

23. Financial instruments (continued)

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

(ii) Credit risk

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

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

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

(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, 2015					
Trade and other payables	10,335	3,185	10	797	14,327
Current income tax liabilities	120	-	-	-	120
Non-current borrowings	-	-	-	34,460	34,460
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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

23. Financial instruments (continued)

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

(iv) Cash flow and fair value interest rate risk

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

24. 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.

25. Key management personnel compensation

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

	December 31, 2015	December 31, 2014
	\$	\$
Short-term benefits	10,166	11,142
Share-based payments	4,810	6,671
	14,976	17,813

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

26. Commitments and contingencies

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

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

As at December 31, 2015, 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
	\$	\$	\$	\$	\$
Shaft 1 construction					
- Platreef Project	16,385	9,770	-	-	26,155
Operating leases	170	-	-	-	170
	16,555	-	-	-	26,325

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

27. Segmented information

At December 31, 2015, the Company has four reportable segments, being the Platreef property, the Kamoanga property and joint venture, the Kipushi property and the Company's treasury offices.

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

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

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

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

	South Africa	DRC	Other	Total
	\$	\$	\$	\$
Non-current assets				
As at December 31, 2015	62,150	499,649	21,742	583,541
As at December 31, 2014	35,960	24,694	10,175	70,829

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

27. Segmented information (continued)

	December 31, 2015	December 31, 2014
	\$	\$
Segment assets		
Platreef properties	120,822	138,871
Kamoa Holding Limited joint venture	414,521	11,443
Kipushi properties	22,173	15,885
Treasury (ii)	438,976	57,940
Unallocated (i)	26,086	28,938
Total	1,022,578	253,077
Segment liabilities		
Platreef properties	25,799	13,586
Kamoa Holding Limited joint venture	101	4,314
Kipushi properties	3,720	4,834
Treasury (ii)	6,475	10,829
Unallocated (i)	7,659	17,111
Total	43,754	50,674
Segment (profits) losses		
Platreef properties	1,217	121,671
Kamoa Holding Limited joint venture	(530,969)	36,490
Kipushi properties	68,275	43,556
Treasury (ii)	(172,363)	13,367
Unallocated (i)	(55,188)	40,574
Total	(689,028)	255,658
Capital expenditures		
Platreef properties	51,192	14,283
Kamoa Holding Limited joint venture	33,873	6,776
Kipushi properties	479	3,233
Unallocated (i)	1,970	1,890
Total	87,514	26,182
Exploration expenditure		
Platreef properties	265	31,570
Kamoa properties	4,728	36,217
Kipushi properties	29,785	43,274
Unallocated (i)	10,492	25,128
Total	45,270	136,189
Kamoa properties eliminated (joint venture)	(4,519)	-
Consolidated exploration expenditure	40,751	136,189

- (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.
- (ii) Treasury includes cash balances and the purchase price receivable.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2015

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

28. Subsequent event

On March 23, 2016 the Company received the first of 5 equal installments of \$41.2 million from Zijin in accordance with the terms in the share acquisition agreement.

29. Approval of the financial statements

The Consolidated Financial Statements of Ivanhoe Mines Ltd., for the year ended December 31, 2015 were approved and authorized for issue by the Board of Directors on March 23, 2016.

IVANHOE MINES

NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

DATED: MARCH 23, 2016

INTRODUCTION

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited financial statements of Ivanhoe Mines Ltd. ("Ivanhoe" or the "Company"), for the years ended December 31, 2015, 2014 and 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar figures stated herein are in U.S. dollars, unless otherwise specified. References to "C\$" mean Canadian dollars and references to "R" mean South African Rands.

The effective date of this MD&A is **March 23, 2016**. Additional information relating to the Company is available on SEDAR. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. See "*Forward-Looking Statements*" and "*Risk Factors*".

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws, including without limitation, the timing and results of: (i) statements regarding the projected depth of Shaft 1 at the Platreef Project in 2018 and the timing of the commencement of Shaft 2 development, including early works; (ii) statements regarding the operational and technical capacity of Shaft 1; (iii) statements regarding the internal diameter and hoisting capacity of Shaft 2 (iv) statements regarding peak water use of 10 million litres per day at the Platreef Project and development of the Pruisen Pipeline Project; (v) statements regarding the completion of a new resource estimate at the Platreef Project; (vi) the de-watering program at the Kipushi Project; (vii) statements regarding the completion of the Kipushi Project Environmental, Social and Health Impact Assessment (ESHIA) baseline study; (viii) statements regarding when a preliminary economic assessment for the Kipushi Project will be finalized and published; (ix) statements regarding the date that construction of the first set of Kamoa twin declines is expected to commence; (x) statements regarding the declines having been designed to intersect the high-grade copper mineralization in the Kansoko Sud area; (xi) statements regarding further drilling at Kakula; (xii) statements regarding the timing, size and objectives of drilling and other exploration programs for 2016 and future periods; (xiii) statements regarding the completion of installation and repair works at the Mwadingusha power plant.

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

As well, the results of the pre-feasibility study of the 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 45 and elsewhere in this MD&A.

REVIEW OF OPERATIONS

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

- **The Platreef Project.** Construction of the planned Platreef mine now is underway on the Company's discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of South Africa's Bushveld Complex. The South African beneficiaries of a broad-based, black economic empowerment structure have a combined 26% stake in the Platreef Project and the remaining 10% is owned by a Japanese consortium of ITOCHU Corporation and its affiliate, ITC Platinum Development Ltd.; Japan Oil, Gas and Metals Corporation; and Japan Gas Corporation. (See "*Platreef Project*".)
- **The Kipushi Project.** The existing Kipushi Mine is located on the Central African Copperbelt in the Democratic Republic of Congo's (DRC) southern Haut-Katanga province, one of Africa's major mining hubs. The mine, which operated between 1924 and 1993, is approximately 30 kilometres southwest of the provincial capital, Lubumbashi, and less than one kilometre from the DRC-Zambia border. Ivanhoe holds a 68% interest in Kipushi; the state-owned mining company, Gécamines, holds the remaining 32% interest. (See "*Kipushi Project*".)
- **The Kamoa Copper Project.** On December 8, 2015, Ivanhoe Mines and China's Zijin Mining Group completed a landmark agreement to co-develop Ivanhoe's world-scale Kamoa copper discovery in a previously unknown extension of the Central African Copperbelt in the Democratic Republic of Congo's southern Lualaba province. (See "*Kamoa Project*".)

PLATREEF PROJECT

The Platreef Project in South Africa's Limpopo Province is owned by Ivanplats (Pty.) Ltd., which is 64%-owned by Ivanhoe Mines. A Japanese consortium of ITOCHU Corporation and its affiliate, ITC Platinum, plus Japan Oil, Gas and Metals National Corporation and Japan Gas Corporation, owns a 10% interest in Ivanplats, which it 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. Ivanhoe announced in February 2015 that Ivanplats had 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. Ivanplats again achieved Level 3 status in February 2016, further demonstrating the Company's dedication and commitment toward transformation on all levels of business.

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

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

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

Figure 1: Aerial view of the Platreef Project site.



Health and safety at Platreef

The Platreef Project reached 5,379,302 million hours worked by February 29, 2016. The project recorded 4.8 million lost-time-injury-free hours at Platreef up until the end of Q3 2015. Two unfortunate lost-time injuries (LTIs) were recorded in October 2015 and since then, the project has recorded more than 750,000 worker hours without a LTI. The Platreef Project continues to strive toward its workplace objective of an environment that causes zero harm to employees, contractors, sub-contractors and consultants.

Shaft 1 construction

Shaft 1 development has made good progress. The pre-sinking activities have been completed and the shaft depth was 54 metres below surface on February 15, 2016. The changeover from pre-sinking

activities to main sinking activities is expected to be completed by April 2016, which will enable the start of the main sinking. Aveng Mining, the shaft sinking contractors, expects sinking to advance at an average daily rate of approximately 2.5 metres. Shaft 1 is expected to reach the Flatreef Deposit at a depth of 777 metres below surface by late 2017. Sinking will continue to a planned final depth of 975 metres below surface. Development work will include three stations at depths of 450 metres, 750 metres and 850 metres below surface.

Work has been completed on the internal electricity substation, which will have a capacity of five million volt-amperes (MVA). Construction is underway on the power transmission lines from Eskom, the South African public electricity utility, which will supply the electrical power to be used for the sinking of Shaft 1. Back-up generators have been installed to ensure continuous sinking operations even if the power supply from Eskom is interrupted.

Figure 2: Lowering of the five-deck stage and bank steelwork into Shaft 1.



Figure 3: Construction of headgear for main sinking operations.



Figure 4: Shaft 1 main-sink headgear.



Figure 5: Internal view of shaft-sinking activities during the pre-sink phase.



Other on-site work includes the construction of the primary terraces for Shaft 1, storm-water drains and ponds, workshops and stores. 511, or 74% of the 693 permanent and contract workers presently employed by Ivanplats, are from the local area.

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

Ivanhoe 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.

In August 2015, Ivanhoe started work on a feasibility study (FS) based on the first phase of development. The FS is being managed by principal consultant, DRA Global, along with other specialized sub-consultants including Stantec Consulting, Murray & Roberts Cementation, SRK, Golder Associates and Digby Wells Environmental. The FS is scheduled to be completed by Q2 2017.

There will be opportunities to refine and modify the timing and capacities of subsequent phases of production to suit market conditions during the development and commissioning of the first phase.

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 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 development scenarios describe a staged approach structured to provide opportunities to expand the operation based on demand, smelting and refining capacity and capital availability.

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. Ivanhoe 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.

Metallurgical testwork and processing

Metallurgical testwork 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 one stage of mainstream grinding followed by conventional flotation, without the need for concentrate 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. The circuit developed during 2014 and 2015 includes the use of industry-standard reagents and has replaced the previous circuit that included niche flotation reagents.

Platreef ore is classified as ranging from hard to very hard, which is 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 that will feed 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.

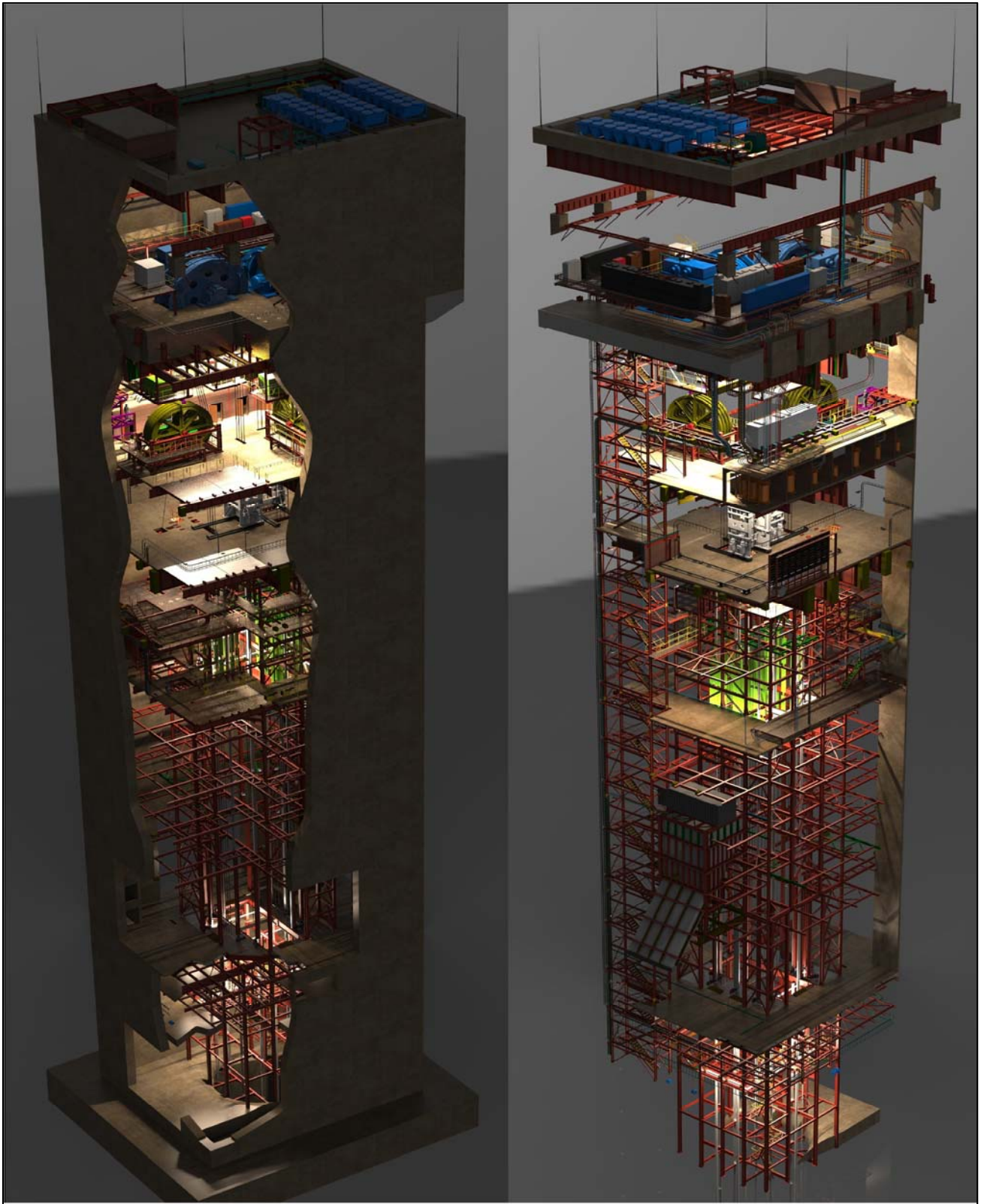
Planned mining methods

The selected mining areas in the current Platreef mine plan occur at depths ranging from approximately 700 metres to 1,200 metres below the surface. The main access to the ore body and ventilation system is expected to be comprised of four vertical shafts. Shaft 2 will host the main personnel transport cage, material and ore-handling systems, while Shafts 1, 3 and 4 will be utilized for ventilation to the underground workings. 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, drift-and-bench and drift-and-fill mining methods. The mined-out areas within the ore body will be backfilled with a paste mixture that utilizes tailings from the process plant and cement. The ore will be hauled from the stopes to a series of ore passes that connect to a main haulage level, which will be connected to Shaft 2, where it will be hoisted to the surface for further processing.

Shaft 1 will have an internal diameter of 7.25 metres. It is projected to intersect the Platreef deposit at a depth of 777 metres below surface in late 2017 and reach its total depth of 975 metres in 2018. South Africa-based Aveng Mining is the shaft-sinking contractor for Shaft 1.

Figure 6: Final design of Shaft 2 headgear.



Shaft 2 will have an internal diameter of 10.0 metres and will be capable of hoisting six million tonnes per year. The headgear design for the six-million-tonne-per-year permanent hoisting facility has been

completed by South Africa-based Murray & Roberts Cementation. Ivanhoe expects to start Shaft 2 early works in 2017, including civil work for the box-cut and hitch-foundation.

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. The Minister of Water & Sanitation has directed that the Trans-Caledon Tunnel Authority will serve as the implementing agent for the outstanding phases of the ORWRDP scheme, which include the Phase 2B pipeline from Flag Boshielo Dam to Mokopane.

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 continuing to investigate various alternative bulk water sources, including bulk grey water allocations from local municipalities.

The Platreef Project's electricity requirement for a four-million-tonne-per-year underground mine, concentrator and associated infrastructure has been estimated at approximately 100 million volt-amperes (MVA). As power is required for the initial mine development work, including shaft sinking, before the main power supply becomes available, an agreement with Eskom has been reached for the supply of 5MVA of temporary construction power. Ivanhoe opted for a self-build option for the permanent power, which enables Ivanhoe to manage the construction of the distribution lines from the Eskom Borutho substation to the Platreef Mine.

Figure 7: Construction of the Eskom Borutho substation.



Exploration and resource expansion drilling

There was no exploration diamond drilling undertaken during 2015. Exploration and resource development activities were focused on completing structural and geological interpretations across the property in preparation for a new resource estimate for the feasibility study.

Development of human resource and job skills

Work is progressing well on the further implementation of Ivanhoe's Social and Labour Plan (SLP), to which the Company has pledged a total of R160 million (\$10 million) during the first five years, until November 2019. The approved plan includes R67.2 million (\$4 million) for the development of job skills among local residents and R87.7 million (\$6 million) for local economic development projects. Additional internal training is planned to provide members of the current workforce with opportunities to expand their skills.

Adult basic education and training for the communities has begun in four community centres run by the Department of Higher Education and Training, forging a partnership between Ivanhoe and the Department.

The first 80 students to participate in Platreef's non-core training program started their training at the beginning of March 2016. Further related training programs are planned later in the year.

Ivanhoe awarded five fully-paid bursaries to local university students in 2015. To date in 2016, Ivanhoe awarded fully-paid bursaries to seven local university students in diverse disciplines. Ivanhoe also is investing in developing local artisans by establishing fully paid community Learnerships in Engineering.

Ivanhoe's R24 million (\$2 million) partnership between South Africa's University of Limpopo and Laurentian University in Canada to develop and equip Limpopo University's geology department is well underway. A principal goal of the five-year partnership, which is renewable for a further five years, is to develop and equip the University of Limpopo's geology department to become a centre of excellence in geosciences. Combined with a scholarship awarded to Laurentian by the International Development Research Centre, these funds will create educational opportunities for 35 University of Limpopo students to study in Canada. Ivanhoe also will provide in-service training opportunities for students from both universities and assist them in conducting research on the Northern Limb of the Bushveld Complex.

Local Enterprise and Supplier Development (ESD)

Ivanhoe continued its supplier development initiative with various local businesses following pre-assessments. The focus is on finding potential and developing businesses which can tender for possible construction contracts when they become available. The Company facilitated the start of three local community businesses: a mine-site kiosk, a mine-site laundry business and a manufacturer of personal protective equipment named Hema Manufacturing.

The Company embarked on basic computer literacy training and plan to reach 120 businesses during the course of 2016.

As part of the Ivanhoe commitment to develop the youth, 2016 will see the launch of the first Youth Development Program. Young people from the local communities, between 21 and 32 years of age, will be put through a development course that will work towards a final product of a bankable business plan to be submitted for funding.

Figure 8: Locally manufactured dust masks for sale in Mokopane following Ivanhoe’s successful ESD initiative.



Local economic development (LED)

During 2016, the Local Economic Development efforts will focus on the planning and development of a community centre close to the mine and communities. The centre firstly will accommodate selected and participating government institutions for social development, training, community safety and communication. Secondly, the Ivanplats ESD initiatives and community training activities will be driven from local facilities in the centre. Thirdly, the centre will provide a library, a board room, a heritage display area and utilization space for the B-BBEE Trust Advisory Council.

The school infrastructure support programme is continuing to deliver at beneficiary schools through the maintenance of recently provided facilities such as the computer laboratories and the start-up of an HIV & AIDS awareness campaign every six months. Ivanhoe will also assist the Mogalakwena Local Municipality to supply a 261-kilolitre water tank to supply water to the Mzombane community and surrounding areas.

Figure 9: Aerial view of the completed Lesedi Early Childhood Development Centre.



KIPUSHI PROJECT

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

Health and safety at Kipushi

The Kipushi Project achieved a total of 3,905,536 lost-time-injury-free hours (1,244 days) to the end of Q4 2015. Malaria remains the most frequent health concern at Kipushi; during 2015, there was an average of 11 cases each month among employees. In an effort to reduce the incidence of malaria in the Kipushi community, a Water Sanitation and Health (WASH) program has been initiated in cooperation with the Territorial Administrator and the local community. The main emphasis in the program's first phase is cleaning storm drains in the municipality to prevent the accumulation of ponded water, where malarial mosquitos breed.

Following DRC government approval of the Fionet program, training of medical staff at medical service providers in the Kipushi Health Zone on the use of the Deki™ rapid malaria test reader started in December 2015 and will continue on an ongoing basis. The objective is to establish the Fionet program in 37 medical centres in the Kipushi Health Zone. The program eventually will be rolled out to 300 clinics in the Haut-Katanga province.

Figure 10: Training on usage of the Fionet Deki™ Rapid Malaria Test reader at the Cinquantenaire Hospital in Kipushi.



Figure 11: Community relations officer Olivia Simamba assisting with the government-sponsored oral polio vaccine program.



Project development and infrastructure

Work began in March 2014 on the underground diamond-drilling program at the Kipushi Project, a major advance made possible by the successful dewatering program directed by Ivanhoe Mines during the previous three years following the Company's 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. At its peak, water reached 851 metres below the surface level. A major milestone was reached in December 2013 when Ivanhoe restored access to the mine's principal haulage level at 1,150 metres below the surface. Since then, crews have been upgrading underground infrastructure to permanently stabilize the water levels and support the drilling program.

Recent improvements on Shaft 5 included dewatering to expose the main pump station at the 1,200-metre-level, installation of new hoist ropes on the Shaft 5 Maryanne rescue hoist, stripping of the 1,200-metre-level pump station and refurbishment and commissioning of the friction-reeler gearbox. Other improvements included the design and construction of permanent dams and pumping infrastructure at the 1,112-metre-level Cascade shaft complex, the completion of emergency exit ladders and platforms in shafts P2, P3 and P15, the installation of an emergency hoist in Shaft 3 and safety-cage door interlocks in shafts P2, P3 and P5 Maryanne.

Water levels were stabilized below the 1,150-metre-level haulway and the 1,272-metre-level hanging-wall drift, enabling access for the drilling program that targeted the Série Récurrente, Fault and Big Zinc zones. The exploration drilling program has been completed and an updated resource has been declared on the previously underexplored Big Zinc deposit. A preliminary economic assessment for the Kipushi Project is being finalized and is expected to be published in the near future.

In March 2016, ongoing pumping succeeded in lowering the water in Shaft 5 below the 1,230-metre-level to facilitate cleaning out of the shaft bottom in advance of the installation of new hoist ropes on the personnel cage, as well as repairs and upgrades to the hoisting infrastructure.

Figure 12: Sulzer centrifugal pump at the 1,200-metre-level pump station in Shaft 5.



Figure 13: New Grifo centrifugal pumps to be installed at the 1,200-metre-level pump station in Shaft 5.



Figure 14: Delivering the new cable for the Shaft 5 man winder.



Environmental studies and sustainability

Golder Associates was engaged in early 2014 to conduct an International Finance Corporation-compliant Environmental, Social and Health Impact Assessment (ESHIA) baseline study to determine the impact of previous mining activities by Gécamines and provide a baseline for the future. Sampling of mine discharge, ground and surface water and air quality is ongoing to meet regulatory requirements.

Current sustainability programs include the continued maintenance and operation of the potable-water pump station and well field supplying the Kipushi municipality, logistical support to the Kipushi Health Zone and small-animal husbandry programs.

Confirmatory and exploration drilling

Drilling in Q4 2015 totalled 1,384 metres, for a total of 25,419 metres since Ivanhoe Mines started the Kipushi Project's drilling program in March 2014. The underground drilling program was completed in October 2015 and the contractor demobilized. Additional exploration drilling in Q3 and Q4 2015 in the southern extension area successfully confirmed that both the Big Zinc Zone and Fault Zone remain open at depth and to the south, with significant intersections on both structures. Additional high-grade copper-zinc-germanium mineralization also was discovered in the Fault Zone and in Fault Zone Splay in the immediate footwall of the Fault Zone. Results of the final exploration holes were included in the data set used for the calculation of an updated Mineral Resource estimate in January 2016.

Independent Mineral Resource estimate

Ivanhoe announced the new Mineral Resource estimate for Kipushi on January 27, 2016. The estimate was prepared in accordance with the 2014 CIM definition standards, incorporated by reference into Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects. Ivanhoe is preparing a NI 43-101-compliant Preliminary Economic Assessment for Kipushi.

Highlights of the initial estimate, prepared by the MSA Group, of Johannesburg, South Africa:

- Measured and Indicated Mineral Resources in the Big Zinc Zone of 10.2 million tonnes at grades of 34.89% zinc, 0.65% copper, 19 grams per tonne (g/t) silver and 51 g/t germanium, at a 7% zinc cut-off, containing an estimated 7.8 billion pounds of zinc.
- The zinc grade of Kipushi's Measured and Indicated Mineral Resources in the Big Zinc Zone is more than twice as high as the world's next-highest-grade zinc project, independently ranked by Wood Mackenzie, an international industry research and consulting group, based on contained zinc.
- Zinc-rich Inferred Mineral Resources total an additional 1.9 million tonnes at grades of 28.24% zinc, 1.18% copper, 10 g/t silver and 53 g/t germanium. The Inferred Mineral Resources are contained partially in the Big Zinc Zone and partially in the Southern Zinc Zone.
- Kipushi's copper-rich Measured and Indicated Mineral Resources contained in the adjacent Fault Zone, Fault Zone Splay and Série Récurrente Zone total an additional 1.63 million tonnes at grades of 4.01% copper, 2.87% zinc and 22 g/t silver, at a 1.5% copper cut-off, containing 144 million pounds of copper. Copper-rich Inferred Mineral Resources in these zones total an additional 1.64 million tonnes at grades of 3.30% copper, 6.97% zinc and 19 g/t silver.
- Ivanhoe's exploration program has demonstrated that zinc and copper mineralization of the Kipushi system remains open laterally and at depth. Results recently received from hole KPU081, drilled on section line 6S, confirm high-grade copper-zinc mineralization at depth. KPU081 intersected 60.5 metres (21.7 metres true thickness) grading 2.6% copper, 36.2% zinc, 19 g/t silver and 204 g/t germanium to a depth of 1,763 metres. Included in this interval was an intersection from 580.9 metres to 591.3 metres (3.8 metres true thickness) grading 56.3% zinc, 0.5% copper, 12 g/t silver and 397 g/t germanium.

The MSA Mineral Resource estimate was based on the results of 84 drill holes completed at Kipushi by Ivanhoe Mines and an additional 107 historical holes drilled by Gécamines. Mineral Resource estimates were completed below the -1,150-metre-level on the Big Zinc Zone, Southern Zinc Zone, Fault Zone and Série Récurrente Zone. The Mineral Resources were categorized either as zinc-rich resources or copper-rich resources, depending on the most abundant metal.

For the zinc-rich zones, the Mineral Resource is reported at a base-case cut-off grade of 7.0% zinc and the copper-rich zones at a base-case cut-off grade of 1.5% copper. Given the considerable revenue that could be obtained from the additional metals in each zone, MSA considers that mineralization at these cut-off grades will satisfy reasonable prospects for economic extraction.

Table 1: Kipushi Zinc-Rich Mineral Resource at 7% Zn Cut-Off Grade, January 23, 2016								
Zone	Category	Tonnes (Millions)	Zn %	Cu %	Pb %	Ag g/t	Co ppm	Ge g/t
Big Zinc	Measured	3.59	38.39	0.67	0.36	18	17	54
	Indicated	6.60	32.99	0.63	1.29	20	14	50
	Inferred	0.98	36.96	0.79	0.14	7	16	62
Southern Zinc Zone	Indicated	0.00	-	-	-	-	-	-
	Inferred	0.89	18.70	1.61	1.70	13	15	43
Total	Measured	3.59	38.39	0.67	0.36	18	17	54
	Indicated	6.60	32.99	0.63	1.29	20	14	50
	Measured & Indicated	10.18	34.89	0.65	0.96	19	15	51
	Inferred	1.87	28.24	1.18	0.88	10	15	53
			Contained Metal Quantities					
Zone	Category	Tonnes (Millions)	Zn Pounds (Millions)	Cu Pounds (Millions)	Pb Pounds (Millions)	Ag Ounces (Millions)	Co Pounds (Millions)	Ge Ounces (Millions)
Big Zinc	Measured	3.59	3035.8	53.1	28.7	2.08	0.13	6.18
	Indicated	6.60	4797.4	91.9	187.7	4.15	0.20	10.54
	Inferred	0.98	797.2	17.1	3.0	0.23	0.03	1.96
Southern Zinc Zone	Indicated	0.00	0.0	0.0	0.0	0.00	0.00	0.00
	Inferred	0.89	368.6	31.8	33.5	0.38	0.03	1.23
Total	Measured	3.59	3035.8	53.1	28.7	2.08	0.13	6.18
	Indicated	6.60	4797.4	91.9	187.7	4.15	0.20	10.54
	Measured & Indicated	10.18	7833.3	144.9	216.4	6.22	0.33	16.71
	Inferred	1.87	1168.7	49.6	36.8	0.61	0.06	3.21

Notes:

1. All tabulated data has been rounded and as a result minor computational errors may occur.
2. Mineral Resources that are not Mineral Reserves have no demonstrated economic viability.
3. The Mineral Resource is reported as the total in-situ Mineral Resource.
4. Metal quantities are reported in multiples of Troy Ounces or Avoirdupois Pounds.
5. The cut-off grade calculation was based on the following assumptions: zinc price of 1.02 USD/lb, mining cost of 50 USD/tonne, processing cost of 10 USD/tonne, G&A and holding cost of 10 USD/tonne, transport of 55% Zn concentrate at 375 USD/tonne, 90% zinc recovery and 85% payable zinc.

Table 2: Kipushi Copper-Rich Mineral Resource at 1.5% Cu Cut-Off Grade, January 23, 2016								
Zone	Category	Tonnes (Millions)	Cu %	Zn %	Pb %	Ag g/t	Co ppm	Ge g/t
Fault Zone	Measured	0.14	2.78	1.25	0.05	19	107	20
	Indicated	1.01	4.17	2.64	0.09	23	216	20
	Inferred	0.94	2.94	5.81	0.18	22	112	26
<i>Série Récurrente</i>	Indicated	0.48	4.01	3.82	0.02	21	56	6
	Inferred	0.34	2.57	1.02	0.06	8	29	1
Fault Zone Splay	Inferred	0.35	4.99	15.81	0.005	20	127	81
Total	Measured	0.14	2.78	1.25	0.05	19	107	20
	Indicated	1.49	4.12	3.02	0.07	22	165	15
	Measured & Indicated	1.63	4.01	2.87	0.06	22	160	16
	Inferred	1.64	3.30	6.97	0.12	19	98	33
			Contained Metal Quantities					
Zone	Category	Tonnes (Millions)	Cu Pounds (Millions)	Zn Pounds (Millions)	Pb Pounds (Millions)	Ag Ounces (Millions)	Co Pounds (Millions)	Ge Ounces (Millions)
Fault Zone	Measured	0.14	8.5	3.8	0.2	0.09	0.03	0.09
	Indicated	1.01	93.2	59.1	1.9	0.75	0.48	0.64
	Inferred	0.94	61.1	120.9	3.8	0.68	0.23	0.79
<i>Série Récurrente</i>	Indicated	0.48	42.4	40.5	0.2	0.32	0.06	0.09
	Inferred	0.34	19.4	7.7	0.4	0.09	0.02	0.01
Fault Zone Splay	Inferred	0.35	38.9	123.3	0.0	0.23	0.10	0.92
Total	Measured	0.14	8.5	3.8	0.2	0.09	0.03	0.09
	Indicated	1.49	135.7	99.6	2.1	1.08	0.54	0.73
	Measured & Indicated	1.63	144.1	103.4	2.3	1.16	0.58	0.82
	Inferred	1.64	119.4	251.8	4.3	1.00	0.35	1.73

Notes:

1. All tabulated data has been rounded and as a result minor computational errors may occur.
2. Mineral Resources that are not Mineral Reserves have no demonstrated economic viability.
3. The Mineral Resource is reported as the total in-situ Mineral Resource.
4. Metal quantities are reported in multiples of Troy Ounces or Avoirdupois Pounds.
5. The cut-off grade calculation was based on the following assumptions: copper price of 2.97 USD/lb, mining cost of 50 USD/tonne, processing cost of 10 USD/tonne, G&A and holding cost of 10 USD/tonne, 90% copper recovery and 96% payable copper.

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 the suspension of operations in 1993. The mine also produced 278 tonnes of germanium between 1956 and 1978.

KAMOA PROJECT

The Kamoa Copper Project, a joint venture between Ivanhoe Mines and Zijin Mining, is a 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 Lubumbashi. Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited (Kamoa Holding), the company that presently owns 95% of the Kamoa Project, to Zijin Mining for an aggregate consideration of \$412 million. In addition, Ivanhoe sold a 1% share interest in Kamoa Holding to privately-owned Crystal River Global Limited for \$8.32 million – which Crystal River will pay through a non-interest-bearing, 10-year promissory note.

A 5%, non-dilutable interest in the Kamoa Project was transferred to the DRC government on September 11, 2012, for no consideration, pursuant to the DRC Mining Code. Ivanhoe also has offered to transfer an additional 15% interest to the DRC government on terms to be negotiated. Constructive and cordial negotiations over the offer are continuing between Ivanhoe Mines, Zijin and senior DRC government officials. Subsequent to the sale to Zijin and Crystal River, Ivanhoe owns an effective 47% of the Kamoa Project, which will decrease to an effective 40% should the additional 15% interest be transferred to the DRC government.

Kamoa is the world's largest, undeveloped, high-grade copper deposit. On February 23, 2016, an updated Mineral Resource estimate was issued for the Kamoa Project, with an effective date of May 2014. Kamoa's Indicated Mineral Resources total 752 million tonnes grading 2.67% copper and containing 44.3 billion pounds of copper at a 1% copper cut-off grade and minimum thickness of three metres. In addition to the Indicated Resources, the updated estimate included Inferred Mineral Resources of 190 million tonnes grading 2.06% copper and containing 8.6 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum thickness of three metres.

Health and safety at Kamoa

Health and safety remain key priorities for workers and management alike at the Kamoa Project, where an excellent safety record has been achieved. By the end of 2015, a total of 4,562,671 hours had been worked without a lost-time injury.

The partnership with Fionet is a collaborative initiative to strengthen local responses to malaria in the DRC under the National Malaria Control Program. To date, 54 health centres in Haut-Katanga and Lualaba provinces are using the intelligent diagnostic device known as the Deki™ Reader. The device provides step-by-step guidance to health workers, helping to deliver rapid, accurate, diagnostic testing for malaria and transmitting results to a cloud database. The data then can be made available in real time to public health managers through the Fionet web portal for informed decision making and remote monitoring.

To date, 148 public health officials and healthcare providers have been trained as ultimate drivers of the program. Twelve master trainers from the Ministry of Health at the provincial level eventually will build capacity among health workers in a total of 300 healthcare facilities.

Figure 15: The Fionet program underway at a local clinic.



Diamond drilling progress

Limited drilling occurred in Q4 2015, with an additional 944 metres completed in four shallow holes. This brought the total metres drilled for the year to 2,664 metres in 17 holes. One hole was completed on the regional Makoko target and two holes were drilled in the Kakula area.

Kamoa's exploration team makes major new copper discovery at the Kakula exploration area at the Kamoa Copper Project

Ivanhoe Mines reported on January 25, 2016, that the Kamoa exploration team had made a new tier-one, high-grade, shallow and flat-lying stratiform copper discovery, ideally situated for low-cost mechanized mining, in the Kakula exploration area, approximately five kilometres southwest of the currently defined resources at the Kamoa copper deposit. The Kakula Discovery is situated within the 400-square-kilometre Kamoa Mining Licence area and represents a major extension of the Kamoa copper deposit, which the Company discovered in 2008.

Two exploration drill holes completed in late 2015 in the Kakula exploration area –DD996 and DD997 – rank among the highest-grade and highest-grade-thickness intersections drilled to date within the Kamoa copper deposit licence area.

DD996 intersected 24.16 metres (24.13 metres true width) of 3.48% copper, at a 1% copper cut off. At a higher cut-off of 2% copper, the intersection was 13.16 metres (13.14 metres true width) of 5.26% copper.

DD997 intersected 18.75 metres (18.47 metres true width) of 4.64% copper at a 1% copper cut-off and 15.17 metres (14.94 metres true width) of 5.33% copper at a 2% copper cut-off.

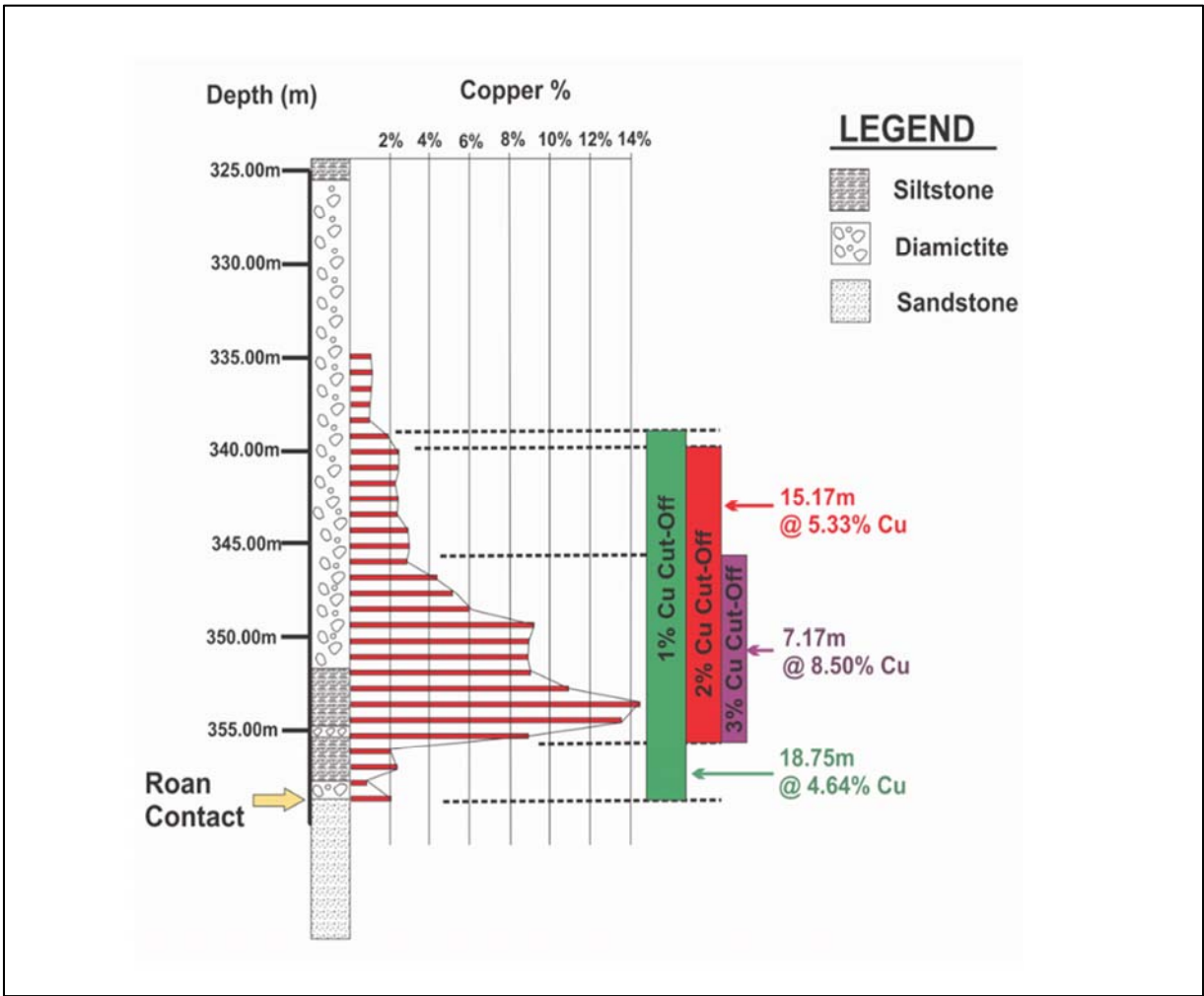
The two holes were drilled into an area of thick, high-grade copper mineralization first identified in 2014 – now called the Kakula Discovery area – within the large, 60-square-kilometre Kakula exploration area. The two holes represent 400-metre step-outs north and east from the high-grade copper intersected in drill hole DD942 that recorded 13.50 metres (13.49 metres true width) of 4.15% copper, at a 2% copper cut off.

Mineralization at Kakula appears to be consistent in nature with downward vertical zonation from chalcopyrite to bornite to chalcocite in every hole. Mineralization is consistently bottom loaded, with grades increasing downhole toward the contact between the host Grand Conglomerate and the underlying Mwashia sandstone. The highest copper grades are associated with a siltstone/sandstone unit and the base of an overlying diamictite unit. These units overlie a less mineralized, thin, sandy clast-rich diamictite above the Mwashia sandstone contact.

The bottom-loaded nature of Kakula mineralization could support the definition of selective mineralized zones at cut-offs well above the 1% copper cut-off used to define resources at Kamoa. For example, the lower portion of the mineralized intercepts in drill holes DD996 and DD997 intersected 5.59 metres grading 9.16% copper and 7.06 metres grading 8.50% copper, respectively, both at a 3% copper cut-off. (see figure 14 below for a drill log of DD997).

Given the significantly higher grades and thicknesses of the copper mineralization encountered in the Kakula Discovery area, the Kamoa exploration team plans to begin an accelerated, 800-metre-spacing infill grid drilling program at Kakula in May, 2016. The focus of the program is to delineate a zone of flat-lying, shallow copper resources at materially higher grades that could be incorporated in the Kamoa Phase One feasibility study.

Figure 16: DD997 log showing bottom-loaded distribution of copper mineralization at 1%, 2% and 3% copper cut-offs.



Updated estimate of Mineral Resources at Kamoa.

On February 23, 2016, Ivanhoe Mines released an updated estimate of Mineral Resources as part of its disclosure of the Kamoa pre-feasibility study. The Mineral Resources have been defined taking into account the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves.

Table 3: Kamoa Project Indicated and Inferred Mineral Resources (May 2014)

Category	Tonnage (Mt)	Area (km ²)	Copper (%)	True Thickness (m)	Contained Copper (kt)	Contained Copper (billions lbs)
Indicated	752	50.5	2.67	5.24	20,110	44.3
Inferred	185	16.8	2.08	3.87	3,840	8.5

- Dr. Harry Parker and Gordon Seibel, RM of SME, employees of Amec Foster Wheeler, are the Qualified Persons for the Mineral Resource estimate. The effective date of the estimate is May 5, 2014. Mineral Resources are reported inclusive of Mineral Reserves.
- Mineral Resources are reported using a total copper (TCu) cut-off grade of 1% TCu and an approximate minimum assumed thickness of 3 metres. There are reasonable prospects for eventual economic extraction under assumptions of a copper price of US\$3.30/lb; employment of underground mechanized room and pillar and drift-and-fill mining methods; and that copper concentrates will be produced and sold to a smelter. Mining costs are assumed to be \$34/t. Concentrator and General and Administrative costs are assumed to be \$19/t. Metallurgical recovery will be 77% (supergene) and 85% (hypogene) at the average grade of the resource.
- Reported Mineral Resources contain no allowances for hanging wall or footwall contact boundary loss and dilution. No mining recovery has been applied.
- For Indicated Mineral Resources, 97.4% of the resource model blocks have a true thickness greater than 3 metres (range from 2.3 metres to 15.8 metres), for Inferred Mineral Resources, 94.7% of the resource blocks have a true thickness greater than 3 metres (range from 2.7 metres to 8.4 metres).
- Depth of mineralization below the surface ranges from 10 metres to 1,320 metres for Indicated Mineral Resources and 20 metres to 1,560 metres for Inferred Mineral Resources.
- Approximate drillhole spacings are 800 metres for Inferred Mineral Resources and 400 metres for Indicated Mineral Resources.
- Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.

Preparation for construction of first declines

Byrnes Underground Congo SARL (BUCS) has been awarded the contract for the permanent support of the box-cut walls and the initial 1.2 kilometres of development for each of the two declines. BUCS staff, equipment and materials have been mobilized to site.

The project team at Kamoa has completed the construction of offices and workshops at the mine site, as well as power and fuel supply facilities to accommodate the decline development work. Upgrading and expansion of the Kamoa camp to accommodate the BUCS staff and other contractors is on schedule.

Figure 17: Double-boom drill rig parked in the BUCS temporary workshop.



Figure 18: Drilling of anchor-bolt holes at the Kamoja box cut.



Pre-feasibility study results announced

Results of the Kamoa pre-feasibility study (PFS), involving the first phase of proposed mine development, were announced in February 2016.

Highlights include:

- Mine production of three million tonnes per annum (Mtpa) at an average grade of 3.86% copper over a 24-year mine life, resulting in annual copper production of approximately 100,000 tonnes.
- Initial capital cost, including contingency, is \$1.2 billion, approximately \$200 million lower than estimated in the Kamoa 2013 PEA.
- Life-of-mine average mine-site cash cost is \$0.75/lb. of copper.
- After-tax net present value (NPV) at an 8% discount rate of \$986 million.
- After-tax internal rate of return (IRR) of 17.2% and a payback period of 4.6 years.
- High-grade copper concentrate with an average grade of 39.2% copper and very low arsenic levels.
- Improvements to the mining method have the potential to reduce average mine site cash cost during the first phase to \$0.61/lb. of copper, and improve the after-tax NPV at an 8% discount rate to \$1.182 billion, the IRR to 18.9% and the payback period to 4.3 years.

The Kamoa 2016 PFS identified several areas for further evaluation to optimize the project's economics, including:

- The use of controlled convergence room-and-pillar mining, which has been successfully used by KGHM Polska Miedź S.A. (KGHM) at its copper-mining operations in Poland for the past 20 years. Based on detailed analysis by KGHM Cuprum R&D Centre Ltd., this mining method appears to be well suited to the Kamoa deposit and, if implemented, potentially could provide significant cost savings as there would be no requirement for cemented backfill and ore extraction ratios would increase.
- Increased production up to 4 Mtpa from the proposed initial mining area, with only limited adjustments to the ore-handling and ventilation systems, thereby resulting in a more efficient use of capital.

Continued focus on community and sustainability

Upgrades to the Mbwetshi school were completed during Q4 2015, including the construction of two classrooms and the supply of desks and furniture. A number of activities related to community health improvement also were conducted.

Community projects for 2016 are under consideration and construction of an extension of the Musokantanda community clinic's maternity ward is being studied.

Figure 19: The recently upgraded Mbwetshi school.



Kamoa continued with its livelihood sustainability program. During Q4 2015, the team focused on the completion of the harvesting of the 2015 maize (corn) crop, as well as ploughing, fertilizing and planting of the 2016 crop. Additional community-based activities included vegetable production, training, the construction of poultry coops, and livestock and poultry management.

Kamoa continued with regular monitoring of air quality, ground and surface water and noise during Q4 2015.

Hydroelectric power plant upgrading project

The repairs to turbine number one at the Mwadingusha hydroelectric power plant are progressing and expected to be completed by the end of Q2 2016. The repairs are needed to allow the Mwadingusha plant to increase its output of electrical power to the national grid and thereby allow Kamoa to secure 10 megawatts of power from the grid for use during the development of the Kamoa Project.

Orders for the construction of the 120-kilovolt power line, which will supply construction power from the national grid and for the mobile substation (120/11kV), have been awarded. The supply of grid electrical power to the mine site and camp is expected to be available by Q4 2016.

Work on the full upgrade to the Mwadingusha power plant is progressing under the management of Kamoa's energy team and the EPCM contractor, Stucky. Bids have been requested from three potential suppliers for the complete upgrading of the four turbines.

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,		
	2015	2014	2013
	\$'000	\$'000	\$'000
Exploration and project expenditure*	40,751	97,933	104,022
Share-based payments	7,722	97,294	8,308
General administrative expenditure*	17,445	30,998	31,001
Gain on partial sale of subsidiary	(357,671)	-	-
Re-measurement to fair value of the interest retained in joint venture	(376,148)	-	-
Mark-to-market gain on revaluation of warrants	(6,945)	(9,524)	-
Finance costs	1,674	2,241	1,644
Share of losses from joint venture	1,030	-	-
Impairment of mineral property, goodwill and other	-	-	334,338
Legal settlement	-	-	10,000
Deferred tax recovery	(1,624)	(46)	(75,701)
(Gain) loss from subsidiary held for partial sale	(4,319)	38,537	69,896
Total comprehensive (profit) loss attributable to:			
Owners of the Company	(681,274)	227,347	373,720
Non-controlling interest	12,969	32,863	110,575
(Profit) loss per share (basic and diluted)	(0.91)	0.35	0.69
Total assets	1,022,578	253,077	287,576
Non-current liabilities	28,103	23,603	21,974

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

DISCUSSION OF RESULTS OF OPERATIONS

Review of the year ended December 31, 2015 vs. December 31, 2014

The Company recorded a total comprehensive profit of \$668.3 million for the year ending December 31, 2015 compared to a total comprehensive loss of \$260.2 million for the year ending December 31, 2014. The profit in 2015 was attributable mainly to the gain on the partial sale of Kamo Holding of \$357.7 million and the re-measurement to fair value of the interest retained in the joint venture of \$376.1 million.

The Company sold a 50.5% stake in Kamo Holding, the company that owns 95% of the Kamo project. The Company sold a 49.5% stake to Zijin Mining Group Co., Ltd. ("Zijin") – through its subsidiary, Gold Mountains (H.K.) International Mining Company Limited, in addition, the Company has sold 1% of its share interest to Crystal River Global Limited ("Crystal River"). Under the terms of the share acquisition agreement, Zijin bought a 49.5% share interest for an aggregate consideration of \$412 million. The purchase price was satisfied by an initial payment of \$206 million in cash upon the closing of the transaction. The agreement specifies that the remaining \$206 million will be paid in five equal

installments, payable every 3.5 months from closing and continuing through the remainder of 2016 and into 2017.

Crystal River paid its purchase consideration of \$8.32 million through a non-interest-bearing, 10-year promissory note. Upon closing of the transaction, each shareholder is required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest.

The present value of the purchase consideration at the closing date, net of transaction costs, amounted to \$390.4 million.

As required under IFRS, the Company:

- derecognized the assets and liabilities of Kamoa Holding from the consolidated statement of financial position which amounted to \$48.8 million immediately prior to the sale;
- derecognized the carrying value of non-controlling interest of \$16.0 million;
- recognized the investment retained at its fair value, deemed to be \$408.2 million;
- recognized the gain associated with the sale of \$357.7 million and the re-measurement to fair value of the interest retained in the joint venture of \$376.1 million; and
- subsequently accounted for Kamoa as a joint venture using the equity method of accounting.

The Company's share of the losses of the joint venture, from the closure of the sale until December 31, 2015, amounted to \$1.0 million.

When excluding the gain on the partial sale of Kamoa Holding of \$357.7 million and the re-measurement to fair value of the interest retained in the joint venture of \$376.1 million, the Company's total comprehensive loss for the year ending December 31, 2015 amounted to \$65.5 million. This is \$194.7 million lower than for the same period in 2014 (\$260.2 million). The decrease mainly was due to the share-based payment expense of \$88.6 million, recognized in 2014 as a result of the Platreef B-BBEE transaction, as well as the capitalization of development costs in the current period on the Platreef and Kamoa projects of \$48.8 million and \$32.9 million respectively.

The mark-to-market gain on revaluation of warrants of \$6.9 million (2014: \$9.5 million) is as a result of the classification and treatment of the share-purchase warrants issued in 2014 as a financial liability at fair value, with changes in fair value included in net earnings. The Company's share-purchase warrants were valued using quoted prices in active markets and expired during December 2015.

Exploration and project expenditures for the year ending December 31, 2015, were \$57.2 million less than for the same period in 2014. With the focus on development at the Kamoa and Platreef projects during 2015, \$33.6 million of the total \$40.8 million exploration and project expenditure was related to Kipushi. A total of \$4.1 million was related to retrenchment costs incurred in the closure of Ivanhoe's regional exploration company in the DRC.

Expenditure at the Kipushi Project decreased by \$16.1 million compared to the same period in 2014. The main classes of expenditure at the Kipushi Project for the year ending December 31, 2015 and 2014 are set out in the following table:

	Year ended December 31, 2015 \$'000	Year ended December 31, 2014 \$'000
Kipushi Project		
Salaries and benefits	11,693	17,486
Electricity	5,974	6,870
Drilling	3,291	5 449
Depreciation	2,903	2,542
Repair and maintenance	2,102	4,553
Indirect taxes	1,221	1,463
Contracting work	1,084	2,531
Site security and safety	997	1,701
Equipment rental	699	1,440
Other expenditure	3,677	5,752
Total project expenditure	<u>33,641</u>	<u>49,787</u>

Financial position as at December 31, 2015 vs. December 31, 2014

The Company's total assets increased by \$769.5 million, from \$253.1 million as at December 31, 2014, to \$1,022.6 million as at December 31, 2015. This mainly was due to the Company selling 50.5% of its shareholding in Kamoa Holding as described above.

Zijin paid \$206 million of the purchase consideration on closing, resulting in the increase in cash and cash equivalents. The remaining \$206 million will be received in five equal installments, payable every 3.5 months from the date of closing. The present value of the remaining consideration receivable, net of transaction costs, was \$192 million as at December 31, 2015. The first of the five installments was received on March 23, 2016.

As a result of the partial sale of Kamoa Holding, the Company treated Kamoa as a joint venture, with joint control being shared by Ivanhoe and Zijin from the date of sale. The carrying value of the Company's interest retained in the joint venture was \$412.0 million as at December 31, 2015.

The Company received a \$8.32 million non-interest-bearing, 10-year promissory note as the purchase consideration for selling 1% of its share in Kamoa Holding to Crystal River.

Property, plant and equipment increased by \$26.5 million, with a total of \$87.5 million being spent on project development and to acquire other property, plant and equipment. Development costs on the Platreef and Kamoa projects amounted to \$48.8 million and \$32.9 million respectively, however the carrying value of property, plant and equipment derecognized on the sale of Kamoa Holding amounted to \$41.7 million.

The Company utilized \$45.0 million of its cash resources in its operations and earned interest income of \$1.3 million on cash balances in the year ended December 31, 2015. A total of \$87.5 million was spent to acquire property, plant and equipment, and investments in short-term deposits of \$55.2 million were transferred to cash and cash equivalents.

The Company generated cash inflow from financing activities during the year ending December 31, 2015, of \$271.0 million. This mainly was a result of proceeds received from Zijin for the partial sale of Kamoa

Holding, as well as the proceeds from the 76,817,020 common shares issued to a Zijin subsidiary, through a private placement at a price of C\$1.36 per share, that yielded proceeds of \$85.2 million.

The Company's total liabilities decreased to \$43.8 million as at December 31, 2015, from \$50.7 million as at December 31, 2014. This mainly was due to the expiry of the share-purchase warrants issued in Q2 2014 that had a fair value of \$6.9 million at December 31, 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	3 Months ended			
	December 31,	September 30,	June 30,	March 31,
	2015	2015	2015	2015
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure *	10,271	8,553	9,009	12,918
General administrative expenditure *	5,833	4,430	1,323	5,859
Share-based payments	2,345	1,655	1,736	1,986
Gain on partial sale of subsidiary	(357,671)	-	-	-
Re-measurement to fair value of the interest retained in joint venture	(376,148)	-	-	-
Finance costs	1,556	36	48	34
Mark-to-market gain on revaluation of warrants	(429)	(970)	(1,334)	(4,212)
(Gain) loss from subsidiary held for partial sale	755	(7,958)	2,675	209
Total comprehensive loss attributable to:				
Owners of the Company	(717,213)	9,420	11,008	15,511
Non-controlling interest	2,468	3,439	3,564	3,498
(Profit) loss per share (basic and diluted)	(0.92)	0.01	0.01	0.02

	3 Months ended			
	December 31,	September 30,	June 30,	March 31,
	2014	2014	2014	2014
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure *	21,178	23,388	26,678	26,689
General administrative expenditure *	8,987	8,060	4,879	9,072
Share-based payments	2,245	7,060	85,428	2,561
Finance costs	382	377	1,124	358
Mark-to-market (gain) loss on revaluation of warrants	(2,316)	(12,360)	5,152	-
Loss from subsidiary held for partial sale	4,813	10,129	12,936	10,659
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

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

DISCUSSION OF RESULTS OF OPERATIONS

Review of the three months ended December 31, 2015 vs. 2014

The Company recorded a total comprehensive profit of \$714.7 million for Q4 2015 compared to a total comprehensive loss of \$37.1 million for the same period in 2014. The profit in 2015 was attributable mainly to the gain on the partial sale of Kamoa Holding of \$357.7 million and the re-measurement to fair value of the interest retained in the joint venture of \$376.1 million as described above.

Exploration and project expenditures for the three months ending December 31, 2015, were \$10.9 million less than for the same period in 2014. With the focus on development at the Platreef Project during 2015 and the Kamoa Project classified as held for partial sale, \$8.6 million of the total \$10.3 million exploration and project expenditure related to the Kipushi Project.

Expenditure at the Kipushi Project decreased by \$2.9 million compared to the same period in 2014. The main classes of expenditure at the Kipushi Project in Q4 2015 and Q4 2014 are set out in the following table:

	Three months ended December 31, 2015 \$'000	Three months ended December 31, 2014 \$'000
Kipushi Project		
Salaries and benefits	3,199	4,986
Electricity	1,257	2,349
Drilling	786	1,010
Depreciation	718	698
Repair and maintenance	689	467
Contracting work	330	471
Site security and safety	204	342
Other expenditure	1,414	1,215
Total project expenditure	<u>8,597</u>	<u>11,538</u>

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$293.9 million in cash and cash equivalents as at December 31, 2015. Certain of the Company's cash and cash equivalents, having an aggregate value of \$57.1 million, are subject to contractual restrictions as to their use and are reserved for the Platreef Project.

As at December 31, 2015, the Company had consolidated working capital of approximately \$424.6 million, compared to \$162.1 million at December 31, 2014. The Platreef Project working capital is restricted and amounted to \$53.2 million at December 31, 2015, and \$104.3 million at December 31, 2014. Excluding the Platreef Project working capital, the resultant working capital was \$371.4 million at December 31, 2015, and \$57.8 million at December 31, 2014. The Company believes it has sufficient resources to cover its short-term cash requirements. However, the Company's access to financing always is uncertain and there can be no assurance that additional funding will be available to the Company in the near future.

On December 8, 2015, Zijin completed its investment in Ivanhoe's Kamoa Copper Project. Zijin, through a subsidiary company, has acquired a 49.5% interest in Kamoa Holding for a total of \$412 million in a series of payments. Ivanhoe received an initial US\$206 million from Zijin on December 8, 2015; the remaining US\$206 million will be received in five equal installments, payable every 3.5 months from the closing date. Upon closing of the transaction, each shareholder is required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest.

The Company's main objectives for 2016 at the Platreef Project are the continuation of the phase one feasibility study and Shaft 1 construction. At Kipushi, the principal objective is the completion of a preliminary economic assessment and continued refurbishment of mining infrastructure. At the Kamoa Project, priorities are the continuation of drilling and the construction of the twin declines at Kamoa.

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 (\$3.5 million) and £0.9 million (\$1.3 million) respectively. The first is fully repayable on June 30, 2020, secured by the property and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears, with the latter also secured by the property, incurring interest at a rate of LIBOR plus 2.5% payable monthly in arrears. During the first three years, from June 2014 until May 2017, only interest will be payable.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of \$21.2 million as at December 31, 2015, and a contractual amount due of \$29.7 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 \$8.5 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan.

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

Contractual Obligations as at December 31, 2015	Payments Due By Period				
	Total \$'000	Less than 1 year \$'000	1-3 years \$'000	4-5 years \$'000	After 5 years \$'000
Debt	34,408	-	683	4,210	29,515
Operating leases	170	170	-	-	-
Shaft 1 construction – Platreef Project	26,155	16,385	9,770	-	-
Total contractual obligations	60,733	16,555	10,453	4,210	29,515

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

	2015	2014
	\$'000	\$'000
Global Mining Management Corporation (a)	2,501	3,711
Ivanhoe Capital Aviation LLC (b)	1,200	1,200
Ivanhoe Capital Services Ltd. (c)	553	506
Global Mining Services Ltd. (d)	397	421
HCF International Advisers (e)	183	363
Ivanhoe Capital Pte Ltd (f)	111	269
Ivanhoe Capital Corporation (UK) Limited (g)	25	8
	4,970	6,478
Salaries and benefits	2,282	4,525
Travel	1,551	1,442
Office and administration	871	95
Consulting	266	416
	4,970	6,478

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, 2015, trade and other payables included \$0.4 million (December 31, 2014: \$0.4 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

- (a) Global Mining Management Corporation (Global) is a private company based in Vancouver. The Company holds an equity interest in Global and the Executive Chairman has a significant shareholding in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.
- (b) Ivanhoe Capital Aviation LLC (Aviation) is a private company owned indirectly by the Executive Chairman of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.
- (c) Ivanhoe Capital Services Ltd. (Services) is a private company owned indirectly by the Executive Chairman of the Company. Services provides for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.

- (d) 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.
- (e) 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.
- (f) 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.
- (g) Ivanhoe Capital Corporation (UK) Limited (UK) is a private company owned indirectly by the Executive Chairman of the Company. UK provides administration, accounting and other services in London on a cost-recovery basis.

CRITICAL ACCOUNTING ESTIMATES

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

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

(i) Recoverability of assets

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

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

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

including any expansion projects, and its eventual disposal, based on the CGU development plans and latest technical reports. These cash flows were discounted using a discount rate that reflected current market assessments of the time value of money and the risks specific to the CGU.

(ii) *Determination of functional currency*

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

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

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

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

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

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

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

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

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

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, 2015, 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 7 Financial Instruments: (Amendment): Outlines the disclosures when applying IFRS 9, the new financial instruments standard.
- Annual Improvements to IFRSs: Annual Improvements 2012 issued December 2013.
- Annual Improvements to IFRSs: Annual Improvements issued December 2013 (2011-2013 cycle).
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions.

Accounting standards issued but not yet effective

- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets. (i)
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation. (i)
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation. (i)
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative. (i)
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation. (i)
- Amendments to IAS 27, 'Separate financial statements' on equity accounting. (i)
- Amendment to IAS 12 – Income taxes. The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. (ii)
- Amendment to IAS 7 – Cash flow statements. (ii)
- IFRS 15 – Revenue from contracts with customers. (iii)
- IFRS 9 – Financial Instruments (2009 & 2010), This IFRS is part of the IASB's project to replace IAS 39. (iii)
- Amendment to IFRS 9 - 'Financial instruments', on general hedge accounting.
- IFRS 16 – Leases. (iv)

- (i) Effective for annual periods beginning on or after January 1, 2016
- (ii) Effective for annual periods beginning on or after January 1, 2017
- (iii) Effective for annual periods beginning on or after January 1, 2018
- (iv) Effective for annual periods beginning on or after January 1, 2019

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

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

Financial instrument	Level	December 31, 2015 \$'000	December 31, 2014 \$'000
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	1,027	-
<i>Loans and receivables</i>			
Purchase price receivable	Level 2	191,856	-
Promissary note receivable	Level 2	9,076	-
Short-term deposits	Level 2	-	55,223
Financial liabilities			
<i>Other liabilities</i>			
Borrowings	Level 2	26,021	24,789

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

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

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited 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 and financial assets at fair value through profit or loss are valued using quoted prices in active markets and as such are classified as Level 1 of the fair value hierarchy. Changes in the fair values are included in net earnings.

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

Financial risk management objectives and policies

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

Foreign exchange risk

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

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

	December 31, 2015	December 31, 2014
	\$'000	\$'000
Assets		
Canadian dollar	1,786	19,659
Australian dollar	-	66
South African rand	22,266	28,068
British pounds	1,316	5,880
Liabilities		
Canadian dollar	(246)	(425)
Australian dollar	(21)	(249)
South African rand	(4,262)	(10,936)
British pounds	(92)	(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.

	December 31, 2015	December 31, 2014
	\$'000	\$'000
Canadian dollar	77	962
Australian dollar	(1)	(11)
South African rand	(63)	(70)
British pounds	1	(62)
	14	819

Credit risk

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

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

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

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, 2015					
Trade and other payables	10,335	3,185	10	797	14,327
Current income tax liabilities	120	-	-	-	120
Non-current borrowings	-	-	-	34,460	34,460
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

DESCRIPTION OF CAPITAL STOCK

As at March 23, 2016, the Company's capital structure consists of an unlimited number of Class A common shares without par value (the "**Class A Shares**"), an unlimited number of Class B common shares without par value (the "**Class B Shares**", and together with the Class A Shares, the "**Common Shares**"), an unlimited number of preferred shares without par value, warrants, options and restricted share units ("RSUs"). At this date 778,959,807 Class A Shares, nil Class B Shares, nil warrants and nil preferred shares were issued and outstanding.

The Company granted 6,350,000 options in 2015 and 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 23, 2016, there were 3,600,000 options, from individual stock-option agreements exercisable into 3,600,000 Class A Shares and 29,895,000 options issued in terms of the Equity Incentive Plan exercisable into 29,895,000 Class A Shares.

The Company granted 7,277,081 RSUs in 2015 per the Company's restricted share unit plan. As at March 23, 2016, there were 7,277,081 RSUs exercisable into 7,277,081 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operation of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design and operating effectiveness of the Company's DC&P and ICFR as of December 31, 2015 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, 2015, 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, 2015 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, 2015, 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, 2015, there were no changes in the Company's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISK FACTORS

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

DISCLOSURE OF TECHNICAL INFORMATION

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

Ivanhoe has prepared a current independent NI 43-101-compliant technical report for each of the Platreef Project, the Kipushi Project and the Kamoa 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 Platreef Project, the Kipushi Project and the Kamoa Project cited in this MD&A, as well as information regarding data verification, exploration procedures and other matters relevant to the scientific and technical disclosure contained in this MD&A in respect of the Platreef Project, Kipushi Project and Kamoa Project.