

Condensed consolidated interim financial statements of

Ivanhoe Mines Ltd.

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

(Unaudited)

Ivanhoe Mines Ltd.

June 30, 2016

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Ivanhoe Mines Ltd.

Condensed consolidated interim statements of comprehensive loss

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

(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Expenses					
Exploration and project expenditure		8,233	9,009	15,150	21,927
Salaries and benefits		1,857	1,714	3,706	3,104
Share-based payments	17	1,312	1,736	2,785	3,722
Travel		846	557	1,372	1,021
Office and administration		415	532	1,153	1,139
Professional fees		479	527	778	941
Legal		54	42	148	221
Other expenditure		238	378	652	1,055
Foreign exchange gains		(232)	(2,427)	(459)	(300)
Loss from operating activities		13,202	12,068	25,285	32,830
Other income		(2,495)	(648)	(3,517)	(706)
Finance income	18	(7,367)	(445)	(15,836)	(740)
Finance costs	19	445	48	873	82
Share of losses from joint venture	6	5,320	-	9,536	-
Mark-to-market (gain) on revaluation of warrants	14(c)	-	(1,334)	-	(5,546)
Loss before income taxes		9,105	9,689	16,341	25,920
Income tax expense					
Current		-	189	-	189
Deferred tax recovery		213	-	355	-
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		9,318	9,878	16,696	26,109
Subsidiaries held for partial sale					
Loss from subsidiary held for partial sale	11	-	2,675	-	2,884
LOSS FOR THE PERIOD		9,318	12,553	16,696	28,993
Other comprehensive loss					
Items that may subsequently be reclassified to loss:					
Exchange losses on translation of foreign operations - continuing operations		733	2,019	455	4,588
Other comprehensive loss for the period, net of tax		733	2,019	455	4,588
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		10,051	14,572	17,151	33,581
Loss attributable to:					
Owners of the Company - continuing operations		5,839	6,453	10,244	19,358
Owners of the Company - subsidiary held for partial sale		-	2,656	-	2,858
Non-controlling interest		3,479	3,444	6,452	6,777
		9,318	12,553	16,696	28,993
Total comprehensive loss attributable to:					
Owners of the Company - continuing operations		6,568	8,352	10,771	23,661
Owners of the Company - subsidiary held for partial sale		-	2,656	-	2,858
Non-controlling interest	16	3,483	3,564	6,380	7,062
		10,051	14,572	17,151	33,581
Basic and diluted loss per share - continuing operations	20	0.01	0.01	0.01	0.03
Basic and diluted loss per share - subsidiary held for partial sale	20	-	0.00	-	0.00
Weighted average number of basic and diluted shares outstanding	20	778,959,807	761,889,358	778,959,807	732,016,073

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of financial position as at

(stated in thousands of U.S. dollars)

(Unaudited)

	Notes	June 30, 2016 \$	December 31, 2015 \$
ASSETS			
Non-current assets			
Property, plant and equipment	4	96,486	77,386
Mineral properties	5	6,940	6,940
Investment in joint venture	6	418,479	411,984
Purchase price receivable	6	-	70,072
Promissory note receivable	7	9,668	9,076
Deferred tax asset		1,275	1,621
Other assets		3,392	6,462
Total non-current assets		536,240	583,541
Current assets			
Purchase price receivable	6	149,815	121,784
Other receivables	8	9,044	15,627
Prepaid expenses		10,556	6,651
Financial assets at fair value through profit or loss	9	2,348	1,027
Cash and cash equivalents	10	294,360	293,948
Total current assets		466,123	439,037
Total assets		1,002,363	1,022,578
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	1,124,032	1,124,032
Share option reserve	14	133,599	131,129
Foreign currency translation reserve	15	(31,185)	(30,658)
Accumulated deficit		(137,749)	(127,505)
Equity attributable to owners of the Company		1,088,697	1,096,998
Non-controlling interest	16	(124,554)	(118,174)
Total equity		964,143	978,824
Non-current liabilities			
Borrowings	12	26,343	26,021
Deferred tax liabilities		2,082	2,082
Total non-current liabilities		28,425	28,103
Current liabilities			
Financial Liability		1,520	1,204
Trade and other payables	13	8,226	14,327
Current tax liabilities		49	120
Total current liabilities		9,795	15,651
Total liabilities		38,220	43,754
Total equity and liabilities		1,002,363	1,022,578

Continuing operations (Note 1)

Commitments and contingencies (Note 24)

(Signed) Oyvind Hushovd

Oyvind Hushovd, Director

(Signed) Livia Mahler

Livia Mahler, Director

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of changes in equity

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

(Unaudited)

	Share capital		Share option reserve	Foreign currency translation reserve	Accumulated deficit	Equity attributable to owners	Non-controlling interest	Total
	Number of shares	Amount						
		\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2015	702,142,787	1,038,868	124,179	(11,549)	(827,888)	323,610	(121,207)	202,403
Loss for the period	-	-	-	-	(22,216)	(22,216)	(6,777)	(28,993)
Other comprehensive income	-	-	-	(4,303)	-	(4,303)	(285)	(4,588)
Total comprehensive loss	-	-	-	(4,303)	(22,216)	(26,519)	(7,062)	(33,581)
<i>Transactions with owners</i>								
Share based payments								
charged to operations (Note 17)	-	-	3,722	-	-	3,722	-	3,722
Shares issued (Note 14)	76,817,020	85,164	-	-	-	85,164	-	85,164
Balance at June 30, 2015	778,959,807	1,124,032	127,901	(15,852)	(850,104)	385,977	(128,269)	257,708
Balance at January 1, 2016	778,959,807	1,124,032	131,129	(30,658)	(127,505)	1,096,998	(118,174)	978,824
Loss for the period	-	-	-	-	(10,244)	(10,244)	(6,452)	(16,696)
Other comprehensive income	-	-	-	(527)	-	(527)	72	(455)
Total comprehensive loss	-	-	-	(527)	(10,244)	(10,771)	(6,380)	(17,151)
<i>Transactions with owners</i>								
Share based payments								
charged to operations (Note 17)	-	-	2,470	-	-	2,470	-	2,470
Balance at June 30, 2016	778,959,807	1,124,032	133,599	(31,185)	(137,749)	1,088,697	(124,554)	964,143

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of cash flows

(stated in thousands of U.S. dollars)

(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
		\$	\$	\$	\$
Cash flows from operating activities					
Loss before income taxes including loss from subsidiaries held for sale and partial sale		(9,105)	(12,364)	(16,341)	(28,804)
Items not involving cash					
Share of losses from joint venture	6	5,320	-	9,536	-
Share-based payments	17	1,312	1,936	2,785	4,130
Depreciation and amortization		1,034	1,904	2,182	2,792
Increase in fair value of financial asset		(1,506)	-	(1,321)	-
Transfer from other assets		990	-	990	-
Borrowing costs capitalized		-	404	-	701
Profit on disposal of property, plant and equipment		3	8	(7)	(13)
Loss of disposal of assets held for sale		-	-	-	309
Unrealized foreign exchange loss (gain)		183	(205)	(129)	1,143
Promissory note fair value adjustment		(133)	-	(436)	-
Mark-to-market gain on revaluation of warrants	14(c)	-	(1,334)	-	(5,546)
Finance income	18	(7,367)	(445)	(15,836)	(740)
Finance costs	19	445	48	873	82
		(8,824)	(10,048)	(17,704)	(25,946)
Change in non-cash working capital items	22	5,777	3,110	178	(1,429)
Income taxes paid		(238)	(184)	(238)	(374)
Interest received		664	445	1,340	740
Interest paid		(33)	(48)	(66)	(82)
Net cash used in operating activities		(2,654)	(6,725)	(16,490)	(27,091)
Cash flows from investing activities					
Property, plant and equipment acquired		(11,253)	(23,375)	(21,537)	(43,035)
Decrease in investment in other assets		-	161	-	1,272
Investment in joint venture		-	-	(7,725)	-
Other assets acquired		(375)	(2,673)	(2,345)	(3,202)
Proceeds from sale of property, plant and equipment		16	11	35	52
Increase in investment in short-term deposits		-	(10)	-	(22)
Net cash used in investing activities		(11,612)	(25,886)	(31,572)	(44,935)
Cash flows from financing activities					
Cash received from partial sale of subsidiary		-	-	51,947	-
Transaction costs paid on partial sale of subsidiary		(626)	-	(2,686)	-
Cash paid on behalf of joint venturer		-	-	(156)	-
Issue of units, net of issue costs		-	85,164	-	85,164
Net cash (used in) generated from financing activities		(626)	85,164	49,105	85,164
Effect of foreign exchange rate changes on cash		(4,755)	(54)	(631)	(2,552)
Net cash (out) inflow		(19,647)	52,499	412	10,586
Cash and cash equivalents, beginning of period		314,007	69,070	293,948	110,983
Cash included in assets held for sale		-	(1,830)	-	(1,830)
Cash and cash equivalents, end of period		294,360	119,739	294,360	119,739
Cash and cash equivalents consists of					
Cash		270,360	105,651	270,360	105,651
Short-term fixed deposits		24,000	14,088	24,000	14,088
		294,360	119,739	294,360	119,739

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

1. Basis of presentation and continuing operations

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

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

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

The Company has an accumulated deficit of \$137.7 million at June 30, 2016. Continuation of the Company as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties. Although the Company has been successful in raising funds in the past, there can be no assurance that it will be able to raise sufficient funds in the future. The Company's total current assets exceeds the Company's total liabilities and spending plan for 2016. As at June 30, 2016, the Company's total assets exceeds its total liabilities by \$964.1 million and current assets exceeds current liabilities by \$456.3 million. The Company therefore believes it has sufficient resources to continue as a going concern for the foreseeable future.

2. Significant accounting policies

(a) *Statement of compliance*

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

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

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

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

2. Significant accounting policies (continued)

(b) Significant accounting estimates and judgements

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

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

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

(c) Future accounting changes

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

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

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

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

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

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

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

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

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

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

(Unaudited)

2. Significant accounting policies (continued)

(c) Future accounting changes (continued)

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

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

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

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

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

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

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Notes to the condensed consolidated interim financial statements

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(Unaudited)

3. Application of new and revised standards

(a) Newly adopted accounting standards

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

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Notes to the condensed consolidated interim financial statements

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(Unaudited)

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance as at December 31, 2014	2,005	14,768	6,673	6,857	19,128	18,778	68,209
Additions	555	3,629	552	2	1,099	81,678	87,515
Disposals	-	(21)	(233)	(287)	(57)	-	(598)
Partial sale of subsidiary	(90)	(1,136)	(1,849)	(4,253)	(5,238)	(38,542)	(51,108)
Foreign exchange translation	(556)	(1,663)	(825)	(310)	(325)	(11,049)	(14,728)
Balance as at December 31, 2015	1,914	15,577	4,318	2,009	14,607	50,865	89,290
Additions	156	161	467	8	1,390	19,355	21,537
Disposals	-	-	(4)	(44)	(11)	-	(59)
Foreign exchange translation	20	(1,125)	(51)	8	(19)	791	(376)
Balance as at June 30, 2016	2,090	14,613	4,730	1,981	15,967	71,011	110,392
Accumulated depreciation and impairment							
Balance as at December 31, 2014	-	892	4,064	4,339	8,055	-	17,350
Depreciation	-	555	1,085	631	3,194	-	5,465
Disposals	-	(14)	(207)	(287)	(20)	-	(528)
Reclassified to assets held for sale	-	(249)	(1,479)	(3,691)	(3,956)	-	(9,375)
Foreign exchange translation	-	(177)	(637)	(26)	(168)	-	(1,008)
Balance as at December 31, 2015	-	1,007	2,826	966	7,105	-	11,904
Depreciation	-	299	308	127	1,447	-	2,181
Disposals	-	-	(3)	(23)	(6)	-	(32)
Foreign exchange translation	-	(98)	(36)	3	(16)	-	(147)
Balance as at June 30, 2016	-	1,208	3,095	1,073	8,530	-	13,906
Carrying value							
December 31, 2015	1,914	14,570	1,492	1,043	7,502	50,865	77,386
June 30, 2016	2,090	13,405	1,635	908	7,437	71,011	96,486

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 \$9.9 million (December 31, 2015 - \$10.6 million) have been pledged to secure borrowings of the Company (see Note 12). The buildings have been pledged as security for bank loans under a mortgage. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

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5. Mineral properties

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

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

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

Platreef property

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

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

Itochu, 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.

6. Joint arrangements

Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The buildings have a carrying value of \$9.9 million (December 31, 2015: \$10.6 million) and are included in Property, Plant and Equipment (see Note 4).

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

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(Unaudited)

6. Joint arrangements (continued)

Joint venture

Partial sale of Kamoa Holding Limited

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

(a) Consideration received

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

Zijin paid \$206.0 million of the purchase consideration on closing and the remaining \$206.0 million will be received in five equal instalments, payable every 3.5 months from the date of closing. The first two installments of \$41.2 million were received in March 2016 and July 2016 respectively. The present value of the remaining consideration receivable, net of transaction costs, is \$ 149.8 million as at June 30, 2016 (December 31, 2015: \$ 191.9 million).

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June 30, 2016

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

(Unaudited)

6. Joint arrangements (continued)

Joint venture (continued)

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

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

(c) Gain on partial sale of subsidiary

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

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

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(Unaudited)

6. Joint arrangements (continued)

Joint venture (continued)

Assets, liabilities and share of losses from joint venture

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

	Three months ended June 30, 2016	Six months ended June 30, 2016
	\$	\$
Interest expense	7,609	14,673
Exploration costs	3,571	5,255
Foreign exchange loss	68	257
Loss for the period	11,248	20,185
Non-controlling interest	(501)	(920)
Loss for the period	10,747	19,265
Share of losses from joint venture (49.5%)	5,320	9,536

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

	June 30, 2016		December 31, 2015	
	100%	49.5%	100%	49.5%
	\$	\$	\$	\$
Non-current assets				
Property, plant and equipment	76,164	37,701	44,281	21,919
Other assets	2,957	1,464	3,133	1,551
Mineral property	802,022	397,001	802,022	397,001
Current assets				
Prepaid expenses	2,377	1,177	3,537	1,751
Cash and cash equivalents	3,840	1,901	9,836	4,869
Current liabilities				
Accruals and payables	(17,725)	(8,774)	(5,376)	(2,661)
Non-controlling interest	(24,223)	(11,990)	(25,143)	(12,446)
Company's share of net assets in joint venture	845,412	418,479	832,290	411,984

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6. Joint arrangements (continued)

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

The loan advanced as at June 30, 2016 by the subsidiary of Kamoa Holding amounted to \$2.7 million (December 31, 2015: \$3.1 million) and is included in the investment in joint venture. The term for repayment of accrued interest and future costs is estimated to be 15 years, beginning after the expiry of a two year grace period from the signing date of the agreement. The actual repayment period will ultimately depend on the amount actually financed and on the amounts deducted from electricity bills based on a fixed percentage of the actual bill as per the terms of the loan repayment. The interest rate is 6 month LIBOR + 3%.

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

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7. Promissory notes receivable

The Company has the following promissory notes receivable:

	June 30, 2016	December 31, 2015
	\$	\$
A\$3 million promissory note receivable (a)	1,933	1,827
Promissory note receivable from Crystal River (b)	7,735	7,249
	9,668	9,076

(a) The promissory note receivable with a carrying value of \$1.9 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 received when the Company sold its Australian subsidiaries.

(b) The promissory note receivable with a carrying value of \$7.7 million is an \$8.70 million non-interest-bearing, 10 year promissory note, of which \$8.32 million was received by the Company as the purchase consideration for selling 1% of its share in Kamoā Holding (see Note 6).

8. Other receivables

	June 30, 2016	December 31, 2015
	\$	\$
Refundable taxes (a)	1,048	9,587
Advances	1,069	1,046
Loan receivable from joint venture	74	2,537
Administration consulting receivable from joint venture	5,253	1,462
Other	1,600	995
	9,044	15,627

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

9. Financial assets at fair value through profit or loss

On March 31, 2015, the Company disposed of its Australian subsidiaries. The Company received listed shares with a value of \$0.8 million as part of the acquisition consideration at the time, which has been classified as financial assets at fair value through profit or loss. The trading value of the listed shares as at June 30, 2016 is \$2.3 million (December 31, 2015 - \$1.0 million).

10. Cash and cash equivalents

As at June 30, 2016, the cash and cash equivalents of \$294.4 million (December 31, 2015 - \$293.9 million) included \$36.9 million (December 31, 2015 - \$57.1 million) which are subject to contractual restrictions as to their use and are reserved for the Platreef Project and were not available for the Company's general corporate purposes.

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(Unaudited)

11. Subsidiaries held for partial sale

Kamoa Holding Limited and subsidiaries

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Kamoa Holding Limited and subsidiaries</i>				
Exploration and project expenditure	-	2,520	-	2,843
Professional fees	-	5	-	10
Foreign exchange losses	-	132	-	44
Other income	-	18	-	(13)
Loss for the period	-	2,675	-	2,884

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Kamoa Holding Limited and subsidiaries</i>				
Cash used in operating activities	-	(8,742)	-	(9,281)
Cash used in investing activities	-	(9,766)	-	(15,761)
Cash used in financing activities	-	18,869	-	25,991
Net cash inflow	-	361	-	949

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(Unaudited)

12. Borrowings

	June 30, 2016	December 31, 2015
	\$	\$
<i>Unsecured - at amortised cost</i>		
(a) Loans from other entities	22,042	21,235
<i>Secured - at amortised cost</i>		
(b) Citi bank loan	3,141	3,495
(c) Citi bank loan	1,160	1,291
	26,343	26,021

- (a) On June 6, 2013, the Company became party to a \$28.0 million loan payable to ITC Platinum Development Limited, through its subsidiary Ivanplats (Pty) Ltd ("Ivanplats") the owner of the Platreef Project. The loan is repayable only once Ivanplats has residual cashflow, which is defined in the loan agreement as gross revenue generated by Ivanplats, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not compounded. Using prevailing market interest rates for an equivalent loan of LIBOR plus 7% at June 6, 2013, the fair value of the loan at June 30, 2016 was estimated at \$22.0 million. The difference of \$8.0 million on between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan. An interest expense of \$0.8 million (December 31, 2015: \$1.4 million) was recognised during the six months ended June 30, 2015.
- (b) The Citi bank loan of \$3.1 million (£2.36 million) is secured by the Rhenfield property acquired during May, 2007 (see Note 4), is an interest only term loan repayable at June 30, 2020, and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears.
- (c) The Citi bank loan of \$1.2 million (£0.87 million) is a five year mortgage bond, in which the first three years only interest will be payable. The loan is secured by the Rhenfield property purchased in June, 2013 (see Note 4) and incurs interest at a rate of LIBOR plus 2.5% payable monthly in arrears.

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(Unaudited)

13. Trade and other payables

	June 30, 2016	December 31, 2015
	\$	\$
Trade payables	2,161	8,384
Trade accruals	5,235	3,720
Indirect taxes payable	195	280
Other payables	635	1,943
	8,226	14,327

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

14. Share capital

(a) Shares issued

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

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

(b) Options

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

As at June 30, 2016, 38,775,000 share options have been granted and exercised, and 32,275,000 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.

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June 30, 2016

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(Unaudited)

14. Share capital (continued)

(b) Options

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

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning of year	40,825,000	1.68	40,190,000	1.92
Granted	-	-	6,350,000	0.47
Exercised	-	-	-	-
Expired	(7,330,000)	2.40	(4,690,000)	1.80
Forfeited	(1,220,000)	1.07	(1,025,000)	2.95
Balance, end of year	32,275,000	1.53	40,825,000	1.68

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

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

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

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(Unaudited)

14. Share capital (continued)

(b) Options (continued)

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

Expiry date	Options outstanding		Options exercisable	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
March 22, 2017	100,000	3.00	100,000	3.00
April 1, 2017	1,000,000	3.00	1,000,000	3.00
April 20, 2017	2,500,000	3.00	2,000,000	3.00
May 31, 2017	300,000	2.29	300,000	0.87
January 11, 2018	1,550,000	4.90	1,162,500	4.90
February 1, 2018	100,000	4.81	75,000	4.81
April 1, 2018	530,000	4.45	397,500	4.45
May 17, 2018	30,000	2.44	22,500	2.44
August 14, 2018	100,000	1.44	50,000	1.44
August 16, 2018	750,000	1.45	375,000	1.45
December 13, 2018	5,860,000	1.86	2,930,000	1.86
March 31, 2019	200,000	1.57	100,000	1.57
June 16, 2019	500,000	1.20	250,000	1.20
August 15, 2019	1,000,000	1.33	250,000	1.33
December 8, 2019	11,575,000	0.86	2,893,750	0.86
December 15, 2020	6,180,000	0.47	-	0.47
	32,275,000	1.53	11,906,250	2.25

(c) Warrants

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

(d) Restricted share units

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

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

During December 2015, a total of 7,277,081 restricted share units were issued to senior executives and some employees as a performance reward. An expense of \$3.4 million for the RSUs granted during the year ended December 31, 2015, using the fair value of a common share at time of grant, will be amortized over the vesting period, of which \$0.3 million was recognized in the six months ended June 30, 2016 (see Note 17).

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15. Foreign currency translation reserve

	June 30, 2016	December 31, 2015
	\$	\$
Balance at the beginning of the year	(30,658)	(11,549)
Exchange differences arising on translation of the foreign operations	(527)	(19,109)
Balance at the end of the period	(31,185)	(30,658)

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

16. Non-controlling interests

	June 30, 2016	December 31, 2015
	\$	\$
Balance at beginning of the year	(118,174)	(121,207)
Share of comprehensive loss for the period	(6,380)	(12,969)
Change in non-controlling interest on partial sale of subsidiary	-	16,002
Balance at end of the period	(124,554)	(118,174)

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

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17. Share-based payments

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<i>Equity settled share-based payments</i>				
Options granted (note 14(b))	1,019	1,736	2,207	3,722
Restricted share unit expense (note 14(d))	132	-	263	-
<i>Cash settled share-based payments</i>				
B-BBEE transaction expense	161	200	315	408
	1,312	1,936	2,785	4,130

Of the share-based payment expense recognised for the period ending June 30, 2016, \$0.3 million (2015: \$0.2 million) related to the B-BBEE transaction, with the remaining \$2.5 million (2015: \$3.7 million) being the expense for options and restricted share units granted to employees recognised over the vesting period.

18. Finance income

Finance income is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Unwinding discount	(2,935)	-	(7,220)	-
Interest from joint venture	(3,768)	-	(7,275)	-
Other interest income	(664)	(445)	(1,341)	(740)
	(7,367)	(445)	(15,836)	(740)

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

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19. Finance costs

The finance costs of the Company are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on non-current borrowings	445	10	872	20
Interest on current borrowings	-	22	-	46
Other financing costs	-	16	1	16
	445	48	873	82

20. Loss per share

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Basic diluted loss per share	0.01	0.01	0.01	0.03
Weighted average number of basic and diluted shares outstanding	778,959,807	761,889,358	778,959,807	732,016,073

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(Unaudited)

21. Related party transactions

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

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

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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:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Global Mining Management Corporation (a)	878	612	1,567	1,357
Ivanhoe Capital Aviation LLC (b)	500	300	800	600
HCF International Advisors (c)	114	46	169	91
Ivanhoe Capital Services Ltd. (d)	86	140	304	269
Ivanhoe Capital Pte Ltd (e)	60	89	126	111
Global Mining Services Ltd. (f)	15	73	15	112
Ivanhoe Capital Corporation (UK) Ltd (g)	1	-	1	5
	1,654	1,260	2,982	2,545
Salaries and benefits	770	787	1,479	1,651
Travel	561	371	938	690
Office and administration	196	30	374	70
Consulting	127	72	191	134
	1,654	1,260	2,982	2,545

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 June 30, 2016, trade and other payables included \$0.1 million (December 31, 2015: \$0.4 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

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(Unaudited)

21. Related party transactions (continued)

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

22. Cash flow information

Net change in non-cash working capital items:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net decrease (increase) in				
Other receivables	(258)	721	5,717	2,146
Prepaid expenses	5,544	181	563	24
Net (decrease) increase in				
Trade and other payables	491	2,208	(6,102)	(3,599)
	5,777	3,110	178	(1,429)

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23. Financial instruments

(a) Fair value of financial instruments

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

Financial instrument	Level	June 30, 2016	December 31, 2015
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	2,348	1,027
<i>Loans and receivables</i>			
Purchase price receivable	Level 2	149,815	191,856
Promissory note receivable	Level 2	9,668	9,076
Financial liabilities			
Borrowings	Level 2	26,343	26,021
Option liability	Level 2	1,520	1,204

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

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

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

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

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(Unaudited)

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:

	June 30, 2016	December 31, 2015
	\$	\$
Assets		
Canadian dollar	1,303	1,786
Australian dollar	-	-
South African rand	22,498	22,266
British pounds	995	1,316
Liabilities		
Canadian dollar	(60)	(246)
Australian dollar	-	(21)
South African rand	(3,841)	(4,262)
British pounds	-	(92)

Foreign currency sensitivity analysis

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

	Six months ended June 30,	
	2016	2015
	\$	\$
Canadian dollar	62	453
Australian dollar	-	(2)
South African rand	(21)	(260)
British pounds	-	(2)

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

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 first two instalments were received in March 2016 and July 2016. The installment payments owing from Zijin are secured by a pledge of shares of Kamoa Holding Limited owned by Zijin and which originally represented 24.75% of the outstanding shares of that entity. Should Zijin default on any installment payment, a subsidiary of the Company is entitled to enforce on the pledge of shares, including by requiring the re-transfer of ownership of 1/5th of the pledged shares back to a subsidiary of the Company, which, if it occurred, would result in a reduction in the share ownership of Kamoa Holding Limited by Zijin.

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

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

23. Financial instruments (continued)

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

(iii) Liquidity risk

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

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

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total un- discounted cash flows
	\$	\$	\$	\$	\$
As at June 30, 2016					
Trade and other payables	588	6,888	-	750	8,226
Current income tax liabilities	49	-	-	-	49
Non-current borrowings	-	-	-	34,291	34,291
As at December 31, 2015					
Trade and other payables	10,335	3,185	10	797	14,327
Current income tax liabilities	120	-	-	-	120
Non-current borrowings	-	-	-	34,460	34,460

(iv) Cash flow and fair value interest rate risk

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

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

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

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$	\$	\$	\$	\$
Shaft 1 construction Platreef project	15,731	3,994	-	-	19,725
Operating leases	25	-	-	-	25
	15,756	3994	-	-	19,750

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.

25. Segmented information

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

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

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

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

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 June 30, 2016	81,306	428,059	26,875	536,240
As at December 31, 2015	62,150	429,577	91,814	583,541

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

25. Segmented information (continued)

	June 30, 2016	December 31, 2015
	\$	\$
Segment assets		
Platreef properties	122,238	120,822
Kamoa Holding Limited joint venture	418,553	414,521
Kipushi properties	16,103	22,173
Treasury (ii)	417,928	438,976
Unallocated (i)	27,541	26,086
Total	1,002,363	1,022,578
Segment liabilities		
Platreef properties	26,110	25,799
Kamoa Holding Limited joint venture	-	101
Kipushi properties	2,999	3,720
Treasury (ii)	2,926	6,475
Unallocated (i)	6,185	7,659
Total	38,220	43,754

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2016

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

(Unaudited)

25. Segmented information (continued)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Segment losses (profits)				
Platreef properties	(91)	(2,078)	920	(1,188)
Kamoa Holding Limited joint venture	5,320	105	9,536	(3)
Kipushi properties	7,798	7,546	14,744	14,573
Treasury (ii)	(4,653)	1,503	(8,879)	2,959
Unallocated (i)	944	5,477	375	12,652
Total	9,318	12,553	16,696	28,993

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Capital expenditures				
Platreef properties	9,854	13,016	19,599	25,357
Kamoa Holding Limited joint venture	-	9,794	-	16,518
Kipushi properties	908	2	1,340	264
Unallocated (i)	491	563	598	896
Total	11,253	23,375	21,537	43,035

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Exploration and project expenditure				
Platreef properties	38	-	78	-
Kamoa Holding Limited joint venture	-	4	-	7
Kipushi properties	6,963	7,449	13,162	14,518
Unallocated (i)	1,232	1,556	1,910	7,402
Total	8,233	9,009	15,150	21,927

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

26. Subsequent event

On July 8, 2016, the Company received the second of 5 equal installments of \$41.2 million from Zijin in accordance with the terms in the share acquisition agreement.

27. Approval of the financial statements

The condensed consolidated interim financial statements of Ivanhoe Mines Ltd., for the three and six months ended June 30, 2016 were approved and authorized for issue by the Board of Directors on August 10, 2016.

IVANHOE MINES

NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2016**

DATED: AUGUST 10, 2016

INTRODUCTION

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

The effective date of this MD&A is **August 10, 2016**. Additional information relating to the Company is available on SEDAR. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. See "*Forward-Looking Statements*" and "*Risk Factors*".

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws, including without limitation, the timing and results of: (i) statements regarding Shaft 1 providing initial access for early underground development at the Platreef Deposit; (ii) statements regarding the sinking of Shaft 1, including at a daily rate of approximately 1.8 metres per day and 2.7 metres per day; statements regarding Shaft 1 reaching the planned, final depth at 1,025 metres below surface in 2018; (iii) statements regarding the timing of the commencement of Shaft 2 development, including early works; (iv) statements regarding the operational and technical capacity of Shaft 1; (v) statements regarding the internal diameter and hoisting capacity of Shaft 2; (vi) statements regarding the Company's plans to develop the Platreef Mine in three phases: an initial annual rate of four million tonnes per annum (Mtpa) to establish an operating platform to support future expansions; followed by a doubling of production to eight Mtpa; and then a third expansion phase to a steady-state 12 Mtpa; (vii) statements regarding the planned underground mining methods of the Platreef Project; (viii) statements regarding peak water use of 10 million litres per day at the Platreef Project and development of the Pruissen Pipeline Project; (ix) statements regarding the Platreef Project's electricity requirement; (x) statements regarding the de-watering program at the Kipushi Project; (xi) statements regarding the completion of the Kipushi Project Environmental, Social and Health Impact Assessment (ESHIA) baseline study; (xii) statements regarding the declines having been designed to intersect the high-grade copper mineralization in the Kansoko Sud area; (xiii) statements regarding the primary objective of the current drilling program at Kakula is to confirm and expand a thick, flat-lying, bottom-loaded zone of very high-grade copper mineralization at the southern part of the Kakula Discovery area that has the potential to have a significant, positive impact on the Kamoa Project's future development plans; (xiv) statements regarding the timing, size and objectives of drilling and other exploration programs for 2016 and future periods; (xv) statements regarding the expectation to have an initial independent Mineral Resource estimate prepared for the Kakula Discovery around the end of Q3 2016; (xvi) statements regarding the completion of installation and repair works at the Mwadingusha power plant; (xvii) statements regarding the implementation of Social and Labour Plan at the Platreef Project; (xviii) statements regarding the planned expansion of the Kakula drilling program to 34,000 metres of drilling; and (xix) statements regarding expected further expenditure in 2016 of \$27 million on further development at the Platreef Project; \$16 million at the Kipushi Project; and \$11 million on corporate overheads – as well as its proportionate funding of the Kamoa Project, expected to be \$40 million for the remainder of 2016.

Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast",

“predict” and other similar terminology, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. These statements reflect the Company’s current expectations regarding future events, performance and results and speak only as of the date of this MD&A.

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

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

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

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

the forward-looking statements contained herein to reflect events or circumstances occurring after the date of this MD&A.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors set forth below in the "Risk Factors" section beginning on page 41 and elsewhere in this MD&A.

REVIEW OF OPERATIONS

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

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

PLATREEF PROJECT

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

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

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

Since 2007, Ivanhoe has focused its exploration activities on defining and advancing the down-dip extension of its original 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.

Platreef Mineral Resources

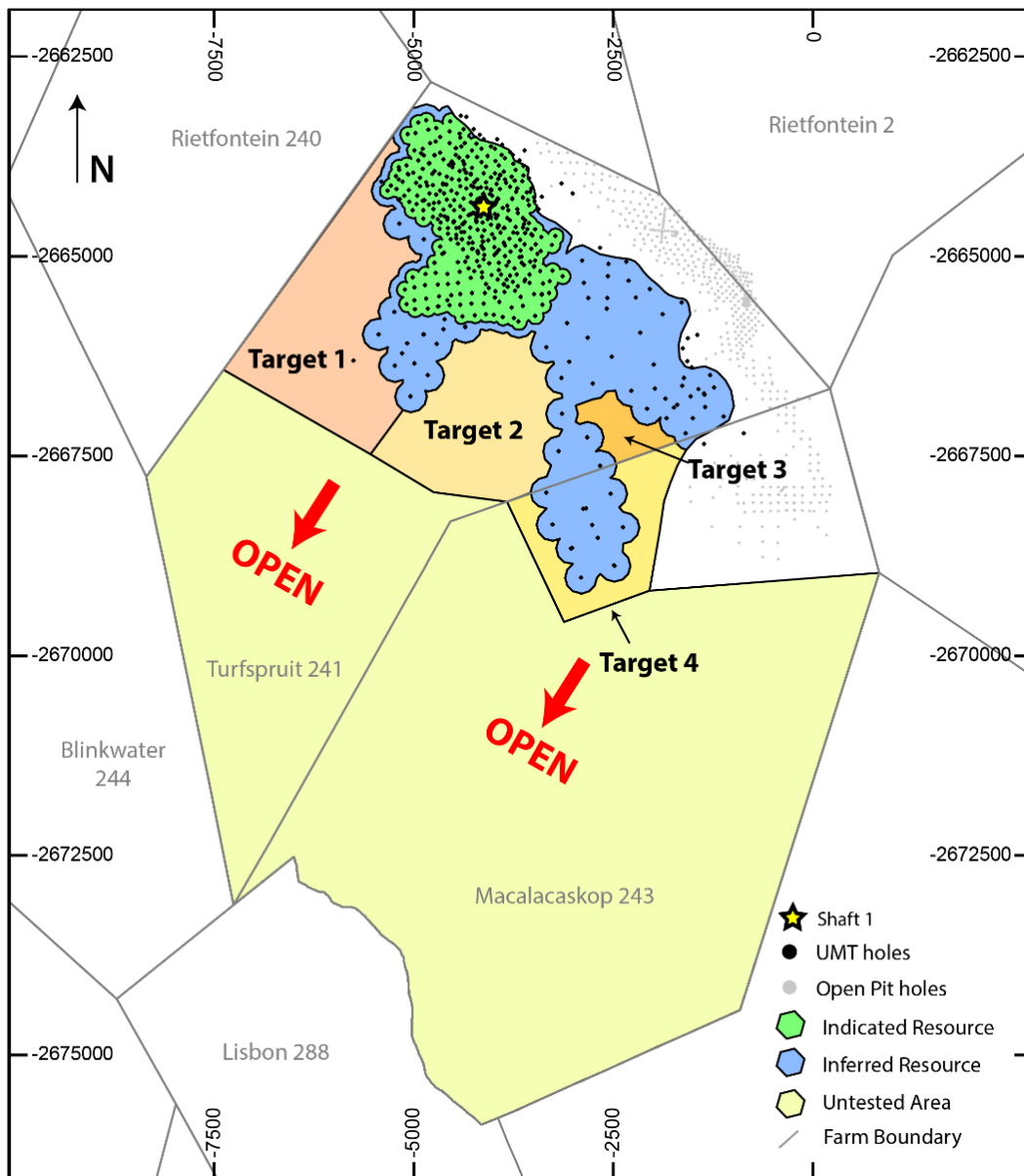
On May 11, 2016, Ivanhoe Mines announced a substantial increase in Indicated and Inferred Mineral Resources at the Platreef Project. The updated Mineral Resource estimate, which included updated UMT_TCU Mineral Resources, Bikkuri Mineral Resources and the Mineral Resources in the immediate footwall of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

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

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

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

Figure 1. Mineralization at the Platreef Project is open to expansion to the south and west, beyond the area of the current Indicated Mineral Resources, shown in green, and the Inferred Mineral Resources, shown in blue.



Health and safety at Platreef

The Platreef Project reached a total of 5,903,038 million hours in terms of the Mines Health and Safety Act and the Occupational Health and Safety Act by the end of June 2016. The project recorded 1,266,480 lost-time-injury-free (LTIF) hours at Platreef up until the end of Q2 2016. The Platreef Project continues to strive toward its workplace objective of an environment that causes zero harm to any employees, contractors, sub-contractors or consultants.

Figure 2: Ivanplats and Aveng Mining employees celebrating LTIF hours milestone.



Figure 3: Night view of Shaft 1 headgear.



Shaft 1 sinking progress

Shaft 1, with an internal diameter of 7.25 metres, will provide initial access to the ore body, and will enable the initial underground capital development to take place while Shaft 2 (the main production shaft) is being developed. Following the successful commissioning and licencing of the stage and kibble winders and ancillary equipment, the permanent sinking phase started in July 2016. The initial sinking rate is 1.8 metres per day and will continue until sufficient clearance between the shaft bottom and the stage has been created. The main sink is planned to commence at a depth of 107 metres below surface and the advance per day is expected to be increased to 2.7 metres. This phase will continue to a depth of 1,025 metres below surface, which is expected to be reached in early 2018.

Figure 4: Shaft sinking underway.



Work now is complete on the internal substation, which has a capacity of five million volt-amperes (MVA). Construction is underway on the power transmission lines from Eskom, the South African public electricity utility, which are expected to supply the electrical power to be used for shaft sinking. Back-up generators have been installed to ensure sinking operations continue despite any interruptions in power supply.

The new transmission lines from Eskom also are expected to provide power to an adjacent community near the Platreef Project, which will be a major community benefit. Other on-site work includes the construction of the storm-water drains and ponds.

National Road (N11) intersection construction

Construction began in April of the intersection on the National Road (N11) highway to provide safe and convenient access to the Platreef mine site. The work includes adding extra lanes to the existing roadway, exit and entry ramps, storm-water management and resurfacing of the intersection.

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

Ivanhoe plans to develop the Platreef Mine in phases. The initial annual rate of four million tonnes per annum (Mtpa) is designed to establish an operating platform to support future expansions. This is expected to be followed by a potential doubling of production to 8.0 Mtpa; and then a third expansion phase to a steady-state 12 Mtpa which would establish Platreef among the largest platinum-group-metals mines in the world.

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

Metallurgical testwork and processing

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

Comminution and flotation testwork has demonstrated that the optimum grind size of 80% passing 75 micrometres, in one stage of milling is sufficient to achieve recoveries referred to above. This simplifies the circuit and should enable Ivanhoe to optimize the capital and operating cost of the concentrator.

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

Planned mining methods to incorporate highly productive, mechanized methods

The selected mining areas in the current mine plan occur at depths ranging from approximately 700 metres to 1,200 metres below the surface. The main access to the Flatreef Deposit and ventilation system is expected to be 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 deposit and early underground development.

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

Shaft 2 is being designed to have an internal diameter of 10 metres and 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 is expected to deliver water to Pruissen, southeast of the Northern Limb. The Pruissen Pipeline Project is expected to be developed to deliver water onward from Pruissen to the municipalities, communities and mining projects on the Northern Limb. Ivanhoe is a member of the ORWRDP's Joint Water Forum. The Minister of Water & Sanitation has directed that the Trans-Caledon Tunnel Authority serve as the implementing agent for the outstanding phases of the ORWRDP scheme, which include the Phase 2B pipeline from Flag Boshielo Dam to Mokopane.

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

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

Development of human resources and SLP

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

KIPUSHI PROJECT

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

Health, safety and community development at Kipushi

The Kipushi Project achieved a total of 4,418,232 lost-time-injury-free hours (1,423 days) to the end of Q2 2016. Malaria remains the most frequent health concern at Kipushi; in Q2 2016, there was an average of 12 cases each month among employees, but numbers are declining with the dry season.

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

The Fionet program to combat malaria rolled out 37 Deki Readers, which provide rapid malaria tests, and provided training of operators at medical service providers in the Kipushi Health Zone. The program is expected to expand to a total of 300 Deki Readers in Q3 2016. Results from the initial six months of the program are strongly encouraging, as unnecessary medication is no longer prescribed to approximately half of all patients, who tested negative for malaria.

National Road rehabilitation through the center of Kipushi municipality was completed by MCK under contract to Ivanhoe. As part of a Haut Katanga provincial initiative, the Office of Roads and Drainage, in conjunction with the work completed by Ivanhoe, is completing the tarmac surface on the road.

Kipushi Mineral Resources

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

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

Copper rich Measured and Indicated Mineral Resources total an additional 1.63 million tonnes at grades of 4.01% copper, 2.87% zinc and 22 g/t silver, at a 1.5% copper cut-off, containing 144 million pounds of copper. Copper-rich Inferred Mineral Resources total an additional 1.64 million tonnes at grades of 3.30% copper, 6.97% zinc and 19 g/t silver at a 1.5% copper cut-off, containing 119 million pounds of copper.

Project development and infrastructure

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

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

Figure 5: Shaft 5 hoist operator at new control panel with CCTV monitors.



Figure 6: Main pump station in Shaft 5 at 1,200-metre-level with installation of Grifo centrifugal pump.



Environmental studies

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

The Kipushi underground drilling project was completed in October 2015 and no additional drilling has been undertaken since.

PEA released for the redevelopment of the Kipushi Project

Ivanhoe announced a positive preliminary economic assessment (PEA) for the redevelopment of the Kipushi Project on May 2, 2016. The PEA was prepared in compliance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects. On May 27, 2016, the NI 43-101 Technical Report on the PEA was filed on www.sedar.com and the Company's website.

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

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

A pre-feasibility study now is underway that will further refine the optimal development scenario for the existing underground mine at Kipushi.

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 in the Democratic Republic of Congo, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of Lubumbashi. Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited (Kamoa Holding), the company that presently owns 95% of the Kamoa Project, to Zijin Mining in December 2015 for an aggregate consideration of \$412 million. In addition, Ivanhoe sold a 1% share interest in Kamoa Holding to privately-owned Crystal River Global Limited for \$8.32 million – which Crystal River will pay through a non-interest-bearing, 10-year promissory note.

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

Subsequent to the sales to Zijin and Crystal River, Ivanhoe owns an effective 47% of the 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 5, 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 an approximate minimum true thickness of three metres. In addition to the Indicated Resources, the updated estimate included Inferred Mineral Resources of 185 million tonnes grading 2.08% copper and containing 8.5 billion pounds of copper, also at a 1.0% copper cut-off grade and an approximate minimum true thickness of three metres.

Kamoa PFS highlights

The Kamoa 2016 PFS, which focuses on the initial phase of development, was filed on March 30, 2016.

Highlights include:

- Mine production of three 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 NPV at an 8% discount rate of \$986 million.
- After-tax 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. 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. If implemented, it 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 4.0 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.

Ivanhoe and Zijin Mining are working together to define the scope of the feasibility study taking into account the conclusions and recommendations from the PFS, while critical path development such as upgrading of the hydro-electrical facilities at Koni and Mwadingusha continues to progress.

The mining portion of the feasibility study has been awarded to a number of specialist consultants, including Stantec for the mine, DRA for the underground engineering, KGHM Cuprum for geotechnical and mining method, SRK for the mine geotechnical and Golder for geohydrology. The work started in May 2016.

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. As of June 30, 2016, a total of 5,183,893 hours had been worked without a lost-time injury.

Exploration activities lead to a substantial expansion of the Kakula Discovery

During Q2 2016 the Company began its drilling program at the new Kakula Discovery area. The contractor, Titan Drilling Congo SARL, mobilized to the Kakula site on May 17, 2016, and seven rigs now are drilling at Kakula with two rigs on standby. A total of 30 holes were completed during the quarter, with six in progress, resulting in 11,563 metres of diamond drilling.

As a result of the ongoing success of the Kakula program and the extension along trend of the central, well-mineralized, chalcocite-rich core to the northwest and southeast at relatively shallow depths, the Kakula drilling program has been expanded by an additional 9,000 metres, to a total of 34,000 metres of exploration drilling. As the full scale of the discovery becomes apparent, further expansions to the program will be accelerated.

The 60-square-kilometre Kakula exploration area is approximately 10 kilometres southwest of the Kamoa Project's planned initial mining area at Kansoko Sud, see Figure 7 below. The primary objective of the current drilling program at Kakula is to confirm and expand a thick, flat-lying, bottom-loaded zone of very high-grade, stratabound copper mineralization at the southern part of the Kakula Discovery area that has the potential to be amenable to bulk, mechanized mining and have a significant, positive impact on the Kamoa Project's future development plans.

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

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

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

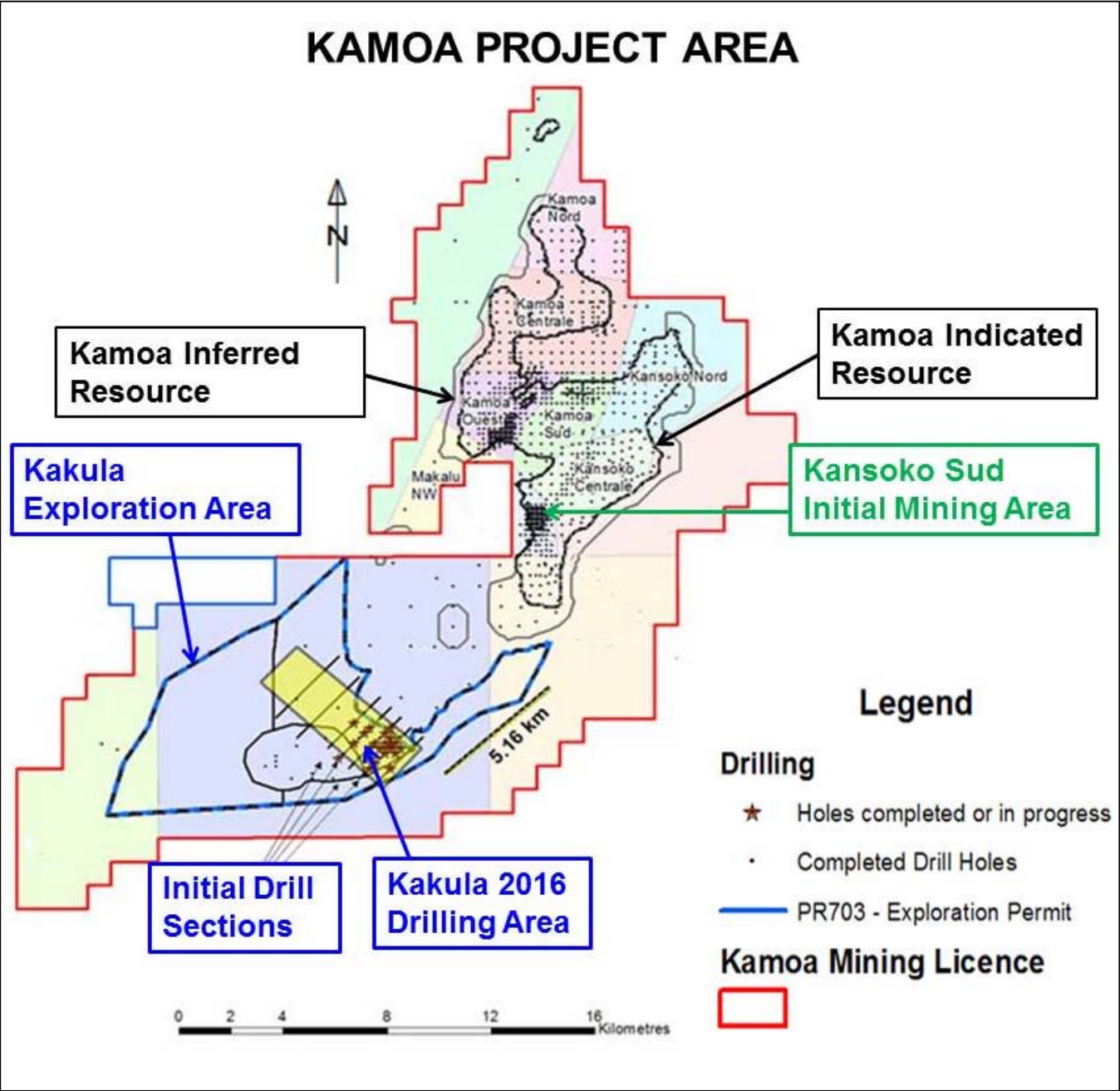
Earlier metallurgical testwork indicated that the Kamoa concentrates contain extremely low arsenic levels, by world standards – approximately 0.02%. Given this critical competitive marketing advantage, Kamoa's concentrates are expected to attract a significant premium from copper-concentrate traders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

Expanded drill program at Kakula Discovery

In June 2016, the Company provided an update on the Kakula program, which confirmed the exceptional grades and shallow, flat-lying geometry of the Kakula mineralized zone. Highlights from the results include:

- DD998 intersected 11.82 metres (true width) of 4.06% copper at a 2.5% copper cut-off, 11.82 metres (true width) of 4.06% copper at a 2% copper cut-off and 13.79 metres (true width) of 3.68% copper at a 1% copper cut-off.
- DD999 intersected 8.86 metres (true width) of 6.56% copper at a 2.5% copper cut-off, 11.62 metres (true width) of 5.52% copper at a 2% copper cut-off and 13.65 metres (true width) of 4.93% copper at a 1% copper cut-off.
- DD1002 intersected 6.42 metres (true width) of 5.70% copper at a 2.5% copper cut-off, 14.68 metres (true width) of 3.71% copper at a 2% copper cut-off and 32.55 metres (true width) of 2.49% copper at a 1% copper cut-off.
- DD1003 intersected 10.23 metres (true width) of 6.18% copper at a 2.5% copper cut-off, 10.23 metres (true width) of 6.18% copper at a 2% copper cut-off and 18.71 metres (true width) of 3.88% copper at a 1% copper cut-off.

Figure 7: Kamoia Project map shows the planned initial mining area at Kansoko Sud and the nearby Kakula exploration and discovery area.

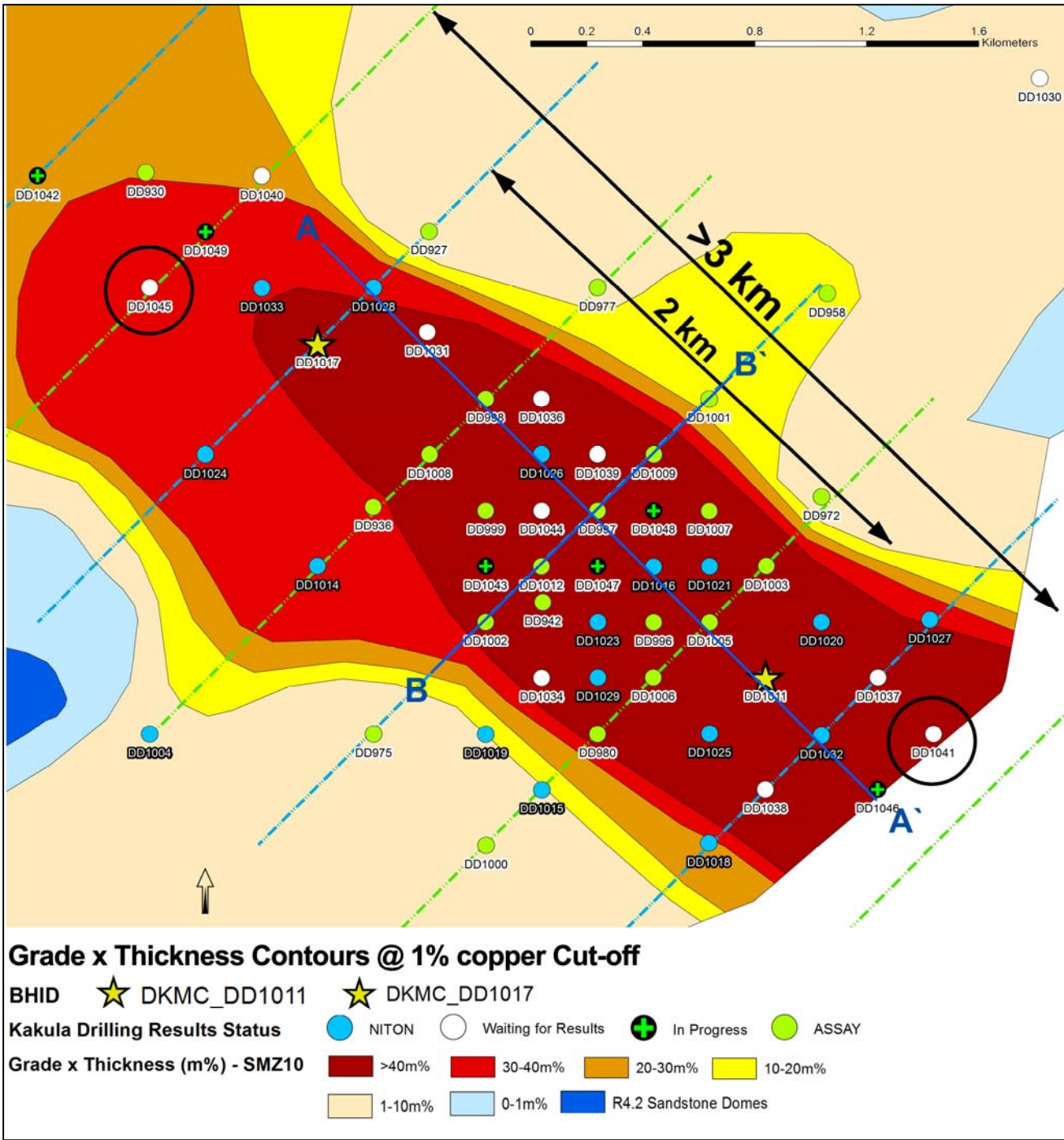


Additional assays received

Since the June 20 news release announcing Kakula drill results, Kamoia has received ICP assays for an additional eight holes that were pending assays at the time of the release. Significant highlights of these results include:

- DD1005 intersected 7.36 metres (true width) of 8.11% copper at a 2.5% copper cut-off, 10.13 metres (true width) of 6.52% copper at a 2% copper cut-off and 20.71 metres (true width) of 3.85% copper at a 1% copper cut-off.
- DD1011 intersected 6.78 metres (true width) of 7.52% copper at a 2.5% copper cut-off, 11.01 metres (true width) of 5.47% copper at a 2% copper cut-off and 15.20 metres (true width) of 4.40% copper at a 1% copper cut-off.
- DD1012 intersected 7.63 metres (true width) of 7.90% copper at a 2.5% copper cut-off, 13.76 metres (true width) of 5.36% copper at a 2% copper cut-off and 25.17 metres (true width) of 3.59% copper at a 1% copper cut-off.
- DD1017 intersected 10.31 metres (true width) of 6.92% copper at a 2.5% copper cut-off, 10.31 metres (true width) of 6.92% copper at a 2% copper cut-off and 12.35 metres (true width) of 6.04% copper at a 1% copper cut-off.

Figure 8: Kakula Discovery Area. Drill-hole location plan for the Kakula Area shows holes completed and in progress, superimposed on 1% composite grade thickness contours.



Holes DD1011 and DD1017 are of particular importance, representing substantial step outs to the southeast and northwest, respectively. Both holes intersected significant, bottom-loaded, Kakula-style mineralization and have expanded the high-grade core area of the Kakula target to at least two kilometres in length. The full list of additional results is shown in Table 1.

Table 1: Assay results received in August 2016 from the Kakula Exploration Program.

BHID	1% Copper Cut-Off					2% Copper Cut-Off				
	From	To	Length (m)	True Width (m)	Copper Grade (%)	From	To	Length (m)	True Width (m)	Copper Grade (%)
DKMC_DD1004	Failed to reach target depth					Failed to reach target depth				
DKMC_DD1005	369.00	391.50	22.50	20.71	3.85	379.00	390.00	11.00	10.13	6.52
DKMC_DD1006	366.00	402.79	36.79	34.35	1.88	390.00	402.79	12.79	11.94	2.98
DKMC_DD1007	354.00	364.20	10.20	9.52	5.37	356.70	364.20	7.50	7.00	6.91
DKMC_DD1008	325.00	338.26	13.26	13.16	5.82	325.99	338.26	12.27	12.18	6.18
DKMC_DD1009	320.66	335.00	14.34	12.66	4.97	320.66	335.00	14.34	12.66	4.97
DKMC_DD1010	Failed to reach target depth					Failed to reach target depth				
DKMC_DD1011	412.00	427.81	15.81	15.20	4.40	416.00	427.45	11.45	11.01	5.47
DKMC_DD1012	321.00	347.47	26.47	25.17	3.59	333.00	347.47	14.47	13.76	5.36
DKMC_DD1013	Failed to reach target depth					Failed to reach target depth				
DKMC_DD1017	349.00	361.50	12.50	12.35	6.04	349.50	359.94	10.44	10.31	6.92

BHID	2.5% Copper Cut-Off					3% Copper Cut-Off				
	From	To	Length (m)	True Width (m)	Copper Grade (%)	From	To	Length (m)	True Width (m)	Copper Grade (%)
DKMC_DD1004	Failed to reach target depth					Failed to reach target depth				
DKMC_DD1005	382.00	390.00	8.00	7.36	8.11	382.00	390.00	8.00	7.36	8.11
DKMC_DD1006	396.00	400.30	4.30	4.01	4.27	397.00	400.30	3.30	3.08	4.79
DKMC_DD1007	356.70	363.70	7.00	6.54	7.24	358.44	363.70	5.26	4.91	8.78
DKMC_DD1008	326.50	338.26	11.76	11.67	6.34	326.50	337.50	11.00	10.92	6.60
DKMC_DD1009	320.66	334.50	13.84	12.22	5.08	320.66	334.50	13.84	12.22	5.08
DKMC_DD1010	Failed to reach target depth					Failed to reach target depth				
DKMC_DD1011	420.00	427.05	7.05	6.78	7.52	422.60	426.63	4.03	3.87	11.52
DKMC_DD1012	339.45	347.47	8.02	7.63	7.90	339.45	347.47	8.02	7.63	7.90
DKMC_DD1013	Failed to reach target depth					Failed to reach target depth				
DKMC_DD1017	349.50	359.94	10.44	10.31	6.92	349.50	359.94	10.44	10.31	6.92

In addition to the eight new holes for which assays were received, as shown in Table 1, Kamoia has completed an additional 28 holes in the Kakula Discovery area that currently are being processed and for which final assays are pending. Holes pending assays and holes currently in progress also are shown in Figure 8. The consistent nature of Kakula mineralization supports the creation of selective, mineralized zones at cut-offs up to 2.5% and 3.0% copper.

Ivanhoe expects to receive an initial, independent Mineral Resource estimate for the Kakula Discovery around the end of Q3 2016. Upon receipt of the resource estimate, the Kamoia technical team plans to begin work on a preliminary economic assessment for Kakula.

Figure 9: Cross-section A-A' of Kakula Discovery area, showing true thicknesses of drill intercepts at a 2.5% copper cut-off.

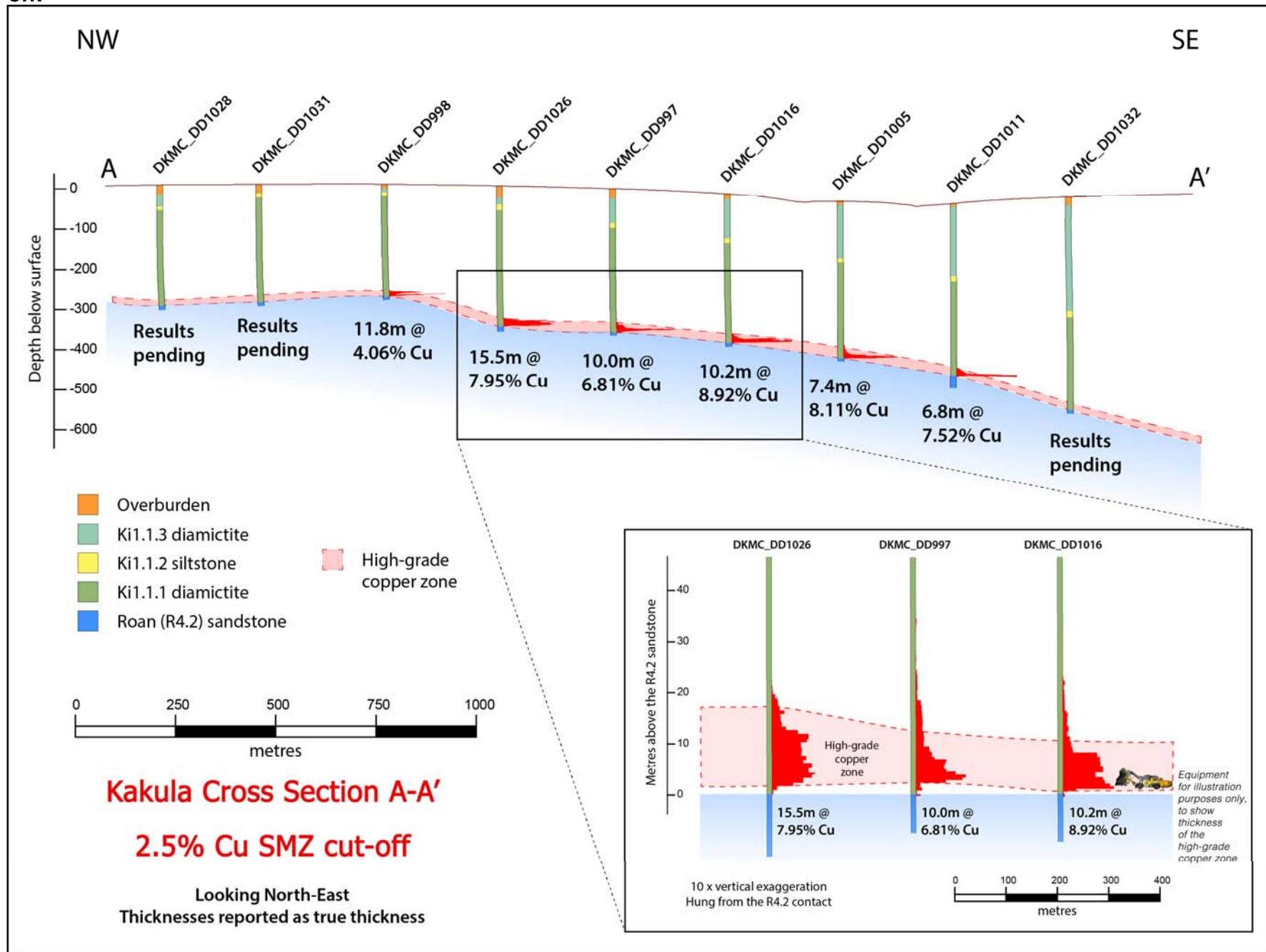
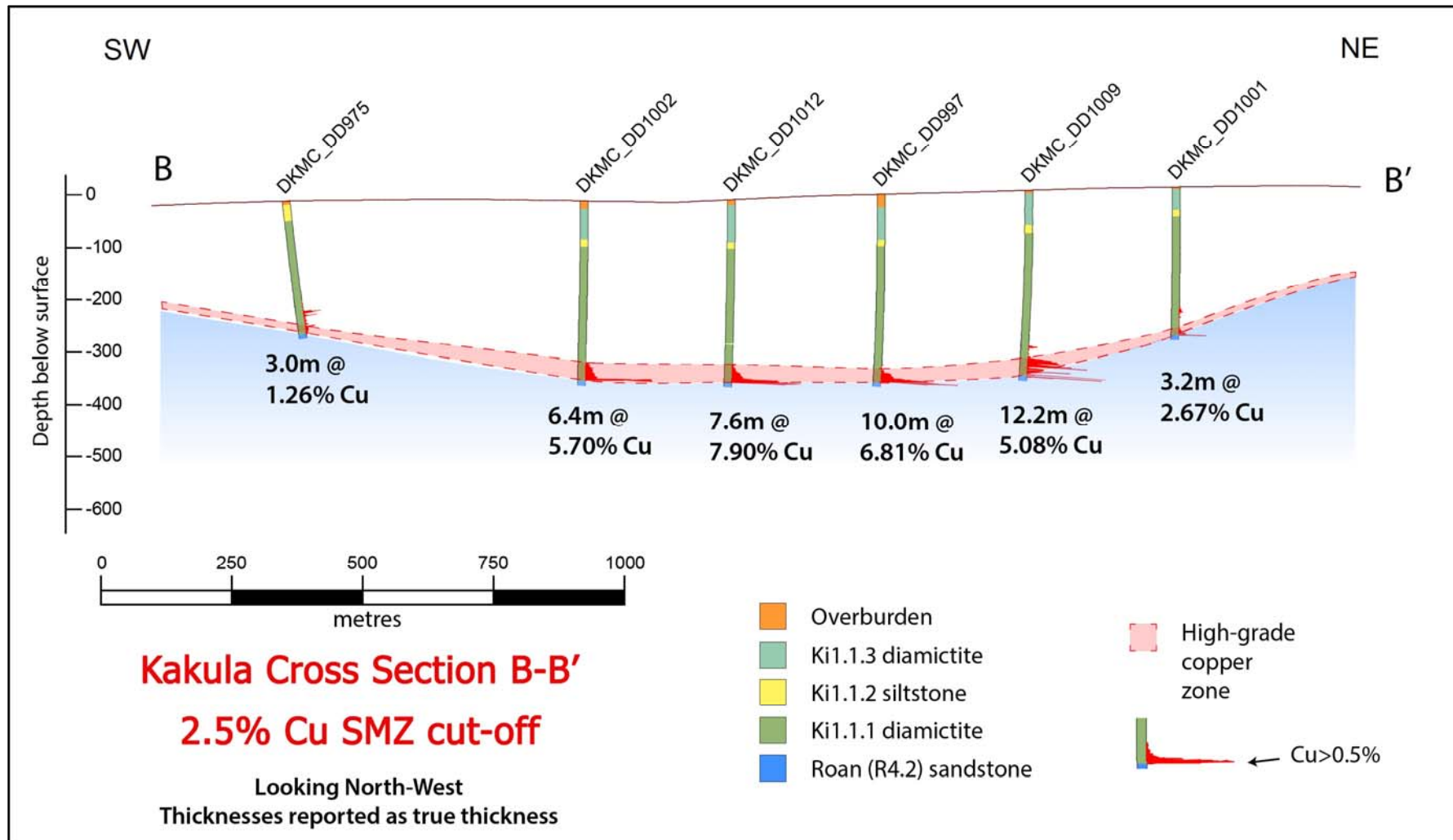


Figure 10: Cross-section B-B' of Kakula Discovery area, showing true thicknesses of drill intercepts at a 2.5% copper cut-off.



Mine development

Byrnescut Underground Congo SARL (BUCS) completed the first blast at the twin declines on May 12, 2016, marking the beginning of underground mine development. The twin declines, incorporating both a service and a conveyor tunnel, each have advanced more than 130 metres since. Development of the underground mine is designed to reach the high-grade copper mineralization at the Kansoko Sud deposit during the first quarter of 2017. The development is ahead of schedule and within budgeted costs.

Kamoa and contractor teams are working closely and effectively to focus efforts and equipment on the necessary critical activities. The steel sets required for roof support were installed in each decline in June 2016 and ventilation fans were installed recently.

Figure 11: Conveyor decline sets.



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

To help advance the ongoing exploration and delineation of the Kakula deposit, the Kamoa team is proceeding with the engineering and preparation of tender documents for the construction of a box cut at Kakula to accommodate decline ramps that will provide underground access to the deposit.

Figure 12: Kamoa declines with recently installed ventilation.



Figure 13: Aerial view of Kamoa mine site.



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

Construction power

A two-megawatt (MW) Sumec generator and a 1.5-MW Caterpillar generator are being rented and provide power for decline development activities until Kamoia receives grid power from the DRC's state-owned power company, La Société Nationale d'Electricité (SNEL), scheduled in early October 2016 – after which the generators are expected to be used only for back-up power.

Figure 14: Sumec 2-MW generator being commissioned.



A contract has been awarded to a local company for the supply and construction of eight kilometres of 11 kilovolt (kV) overhead lines, cabling reticulation and five mini-substations for distributing 11 kV power to the mine, camps, offices and de-watering boreholes.

The construction of the 120 kV power line, that branches off from the Kisenge Mine to Kamoia and will supply construction power, is 80% completed and expected to be finished in Q3 2016. Construction power is expected to be available to Kamoia from the electrical grid from October 2016 on the commissioning of the 120/11 kV – 15 MVA mobile substation.

Figure 15: 120 kV power line under construction.



Hydroelectric power plant upgrading project

The construction power repair work has progressed well during Q2 2016 and the Mwadingusha Unit 1 was recently completed. Unit 1 is going through the required mechanical and electrical commissioning tests prior to being synchronized to the SNEL national electrical grid, which is expected to occur on August 15, 2016.

Continued focus on community and sustainability

The number of unskilled job opportunities has risen during Q2 2016 due to the increase in activity around the camp and mine area. Preference is always given to local employment and numerous jobs have been offered and accepted.

370 community farmers have been involved in maize production. Kamoas has supervised the weeding and application of fertilisers to 301 hectares of community maize farms and maize harvesting is currently in progress.

Figure 16: Muvunda community gardeners harvesting cabbage.



30 gardeners from 11 communities are actively involved in vegetable production and marketing. During 2016, a total of 11,900 kg of assorted organic vegetables were sold to the Kamoja kitchen.

The construction of two chicken houses, to be managed by women, in the communities of Katayi and Mundjendje were completed. Each chicken house will stock at least 600 chicks per six weeks and the chickens will be supplied to the Kamoja kitchen.

Forty-five beekeepers are participating in honey production and a bee management program. Fifty beehives were constructed and distributed to the local communities.

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			
	June 30,	March 31,	December 31,	September 30,
	2016	2016	2015	2015
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure *	8,233	6,917	10,271	8,553
General administrative expenditure *	3,657	3,693	5,833	4,430
Share-based payments	1,312	1,473	2,345	1,655
Gain on partial sale of subsidiary	-	-	(357,671)	-
Re-measurement to fair value of the interest retained in joint venture	-	-	(376,148)	-
Finance costs	445	428	1,556	36
Mark-to-market gain on revaluation of warrants	-	-	(429)	(970)
Loss (gain) from subsidiary held for partial sale	-	-	755	(7,958)
Total comprehensive loss (gain) attributable to:				
Owners of the Company	6,568	4,203	(717,213)	9,420
Non-controlling interest	3,483	2,897	2,468	3,439
Loss (profit) per share (basic and diluted)	0.01	0.01	(0.92)	0.01

	3 Months ended			
	June 30,	March 31,	December 31,	September 30,
	2015	2015	2014	2014
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure *	9,009	12,918	21,178	23,388
General administrative expenditure *	1,323	5,859	8,987	8,060
Share-based payments	1,736	1,986	2,245	7,060
Finance costs	48	34	382	377
Mark-to-market gain on revaluation of warrants	(1,334)	(4,212)	(2,316)	(12,360)
Loss from subsidiary held for partial sale	2,675	209	4,813	10,129
Total comprehensive loss attributable to:				
Owners of the Company	11,008	15,511	31,649	23,474
Non-controlling interest	3,564	3,498	5,434	15,092
Loss per share (basic and diluted)	0.01	0.02	0.05	0.03

** 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 June 30, 2016 vs. June 30, 2015

The Company's total comprehensive loss for Q2 2016 of \$10.1 million was \$4.5 million lower than for the same period in 2015 (\$14.6 million). The decrease mainly was due to a \$6.9 million increase in finance income which included mainly interest earned on loans to the Kamoa joint venture that amounted to \$3.8 million and deemed income on the purchase price receivable from the partial sale of the Kamoa Project that amounted to \$2.9 million.

Exploration and project expenditures for the three months ending June 30, 2016, amounted to \$8.2 million and were \$0.8 million less than for the same period in 2015 (\$9.0 million).

With the focus at the Platreef Project on development and the Kamoa Project being accounted for as a joint venture, \$8.0 million of the total \$8.2 million exploration and project expenditure related to the Kipushi Project. Expenditure at the Kipushi Project decreased by \$0.8 million compared to the same period in 2015. The main classes of expenditure at the Kipushi Project in Q2 2016 and Q2 2015 are set out in the following table:

	Three months ended June 30, 2016 \$'000	Three months ended June 30, 2015 \$'000
Kipushi Project		
Salaries and benefits	2,616	2,962
Electricity	1,486	1,752
Repair and maintenance	968	419
Depreciation	778	740
Contracting work	265	228
Site security and safety	159	214
Drilling	-	900
Other expenditure	1,744	1,603
Total project expenditure	<u>8,016</u>	<u>8,818</u>

Review of the six months ended June 30, 2016 vs. June 30, 2015

The Company's total comprehensive loss of \$17.2 million for the six months ended June 30, 2016, was \$16.4 million lower than for the same period in 2015 (\$33.6 million). The decrease mainly was due to a \$15.1 million increase in finance income, together with a \$6.8 million decrease in exploration and project expenditure.

Finance income for the six months ending June 30, 2016, amounted to \$15.8 million, which was \$15.1 million more than for the same period in 2015 (\$0.7 million). The increase mainly was due to interest earned on loans to the Kamoa joint venture which amounted to \$7.3 million for the six months ending June 30, 2016, together with deemed finance income on the purchase price receivable from the partial sale of the Kamoa Project, which amounted to \$7.2 million.

Exploration and project expenditures for the six months ending June 30, 2016, amounted to \$15.2 million and were \$6.7 million less than for the same period in 2015 (\$21.9 million). The \$4.1 million retrenchment costs incurred in 2015 relating to the closure of Ivanhoe's regional exploration company in the DRC were the main reason for the decrease.

With the focus at the Platreef Project on development and the Kamoas Project being accounted for as a joint venture, \$14.7 million of the total \$15.2 million exploration and project expenditure related to the Kipushi Project. Expenditure at the Kipushi Project decreased by \$2.4 million compared to the same period in 2015. The main classes of expenditure at the Kipushi Project for the six months ending June 30, 2016 and 2015 are set out in the following table:

	Six months ended June 30, 2016 \$'000	Six months ended June 30, 2015 \$'000
Kipushi Project		
Salaries and benefits	5,284	5,853
Electricity	2,592	3,254
Depreciation	1,538	1,454
Repair and maintenance	1,451	914
Contracting work	430	462
Site security and safety	297	643
Drilling	-	1,757
Other expenditure	3,108	2,730
Total project expenditure	14,700	17,067

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

The Company's total assets decreased by \$20.2 million, from \$1,022.6 million as at December 31, 2015, to \$1,002.4 million as at June 30, 2016. This mainly was due to the Company utilizing its cash resources in its operations.

The remaining purchase price receivable due to the Company as a result of the sale of 49.5% of Kamoas Holding decreased as the Company received \$51.9 million from Zijin during the six months ending June 30, 2016. The present value of the remaining consideration receivable, net of transaction costs, was \$149.8 million as at June 30, 2016. Ivanhoe received \$41.2 million of the remaining consideration receivable subsequent to June 30, 2016 on July 8, 2016 and the next of the three remaining installments is due on October 24, 2016.

The Company's investment in the Kamoas Holding joint venture increased by \$6.5 million from \$412.0 as at December 31, 2015, to \$418.5 million as at June 30, 2016, with the current shareholders funding the operations equivalent to their proportionate shareholding interest. At Kamoas, the focus remained on development, together with an exploration program at the Kakula Discovery.

Property, plant and equipment increased by \$19.1 million, with a total of \$21.5 million being spent on project development and to acquire other property, plant and equipment, \$19.4 million of which was development costs of the Platreef Project.

The Company utilized \$16.5 million of its cash resources in its operations and earned interest income of \$1.3 million on cash balances in the six months ended June 30, 2016; the Company's portion of the Kamoas joint venture cash calls amounted to \$7.7 million.

The Company's total liabilities decreased to \$38.2 million as at June 30, 2016, from \$43.8 million as at December 31, 2015. This mainly was due to the decrease in trade and other payables of \$6.1 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$294.4 million in cash and cash equivalents as at June 30, 2016. Certain of the Company's cash and cash equivalents, having an aggregate value of \$36.9 million, are subject to contractual restrictions as to their use and are reserved for the Platreef Project.

As at June 30, 2016, the Company had consolidated working capital of approximately \$457.8 million, compared to \$424.6 million at December 31, 2015. The Platreef Project working capital is restricted and amounted to \$36.2 million at June 30, 2016, and \$53.2 million at December 31, 2015. Excluding the Platreef Project working capital, the resultant working capital was \$421.6 million at June 30, 2016, and \$371.4 million at December 31, 2015. The Company believes it has sufficient resources to cover its short-term cash requirements. However, the Company's access to financing always is uncertain and there can be no assurance that additional funding will be available to the Company in the near future.

On December 8, 2015, Zijin completed its investment in Ivanhoe's 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 \$206 million from Zijin on December 8, 2015 and a further \$41.2 million on each of March 23, 2016 and July 8, 2016; the remaining \$123.6 million are scheduled to be received in three equal installments, payable every 3.5 months from the previous installment. 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 remain the continuation of the phase one feasibility study and Shaft 1 construction. At Kipushi, the principal objective is the continued upgrading of mining infrastructure, now that the preliminary economic assessment has been successfully completed. At the Kamoa Project, priorities are the continuation of drilling and the construction of the twin declines at Kamoa. The Company expects to spend \$27 million on further development at the Platreef Project; \$16 million at the Kipushi Project; and \$11 million on corporate overheads for the remainder of 2016 – as well as its proportionate funding of the Kamoa Project, expected to be \$40 million for the remainder of 2016.

The Company has a three-year mortgage bond and a five-year mortgage bond outstanding on its offices in London, United Kingdom, of £2.4 million (\$3.1 million) and £0.9 million (\$1.2 million) respectively. The first is fully repayable on June 30, 2020, secured by the property and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears, with the latter also secured by the property, incurring interest at a rate of LIBOR plus 2.5% payable monthly in arrears. During the first three years, from June 2014 until May 2017, only interest will be payable.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of \$22.0 million as at June 30, 2016, and a contractual amount due of \$30.0 million. The loan is repayable once the Platreef Project has residual cashflow, which is defined in the loan agreement as gross revenue generated by the Platreef Project, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not capitalized. The difference of \$8.0 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 June 30, 2016	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000
Debt	34,291	-	754	3,547	29,990
Operating leases	25	25	-	-	-
Shaft 1 construction – Platreef Project	19,725	15,731	3,994	-	-
Total contractual obligations	54,041	15,756	4,748	3,547	29,990

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

The Company is required to fund its 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:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Global Mining Management Corporation (a)	878	612	1,567	1,357
Ivanhoe Capital Aviation LLC (b)	500	300	800	600
HCF International Advisers (c)	114	46	169	91
Ivanhoe Capital Services Ltd. (d)	86	140	304	269
Ivanhoe Capital Pte Ltd (e)	60	89	126	111
Global Mining Services Ltd. (f)	15	73	15	112
Ivanhoe Capital Corporation (UK) Limited (g)	1	-	1	5
	1,654	1,260	2,982	2,545
Salaries and benefits	770	787	1,479	1,651
Travel	561	371	938	690
Office and administration	196	30	374	70
Consulting	127	72	191	134
	1,654	1,260	2,982	2,545

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 June 30, 2016, trade and other payables included \$0.1 million (December 31, 2015: \$0.4 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

(i) *Recoverability of assets*

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

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

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

(ii) *Determination of functional currency*

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

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

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

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

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

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

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

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

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

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

The Company had an accumulated deficit of \$138 million at June 30, 2016. Continuation of the Company as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties. Although the Company has been successful in raising funds in the past, there can be no assurance that it will be able to raise sufficient funds in the future. The Company's total current assets exceeds the Company's total liabilities and spending plan for 2016. As at July 30, 2016, the Company's total assets exceeded its total liabilities by \$964 million and current assets exceeded current liabilities by \$456 million. The Company therefore believes it has sufficient resources to continue as a going concern for the foreseeable future.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Newly adopted accounting standards

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

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

Accounting standards issued but not yet effective

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

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

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

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

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

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

Financial instrument	Level	June 30, 2016 \$'000	December 31, 2015 \$'000
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	2,348	1,027
<i>Loans and receivables</i>			
Purchase price receivable	Level 2	149,815	191,856
Promissary note receivable	Level 2	9,668	9,076
Financial liabilities			
<i>Other liabilities</i>			
Borrowings	Level 2	26,343	26,021
Option liability	Level 2	1,520	1,204

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

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

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

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

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

Financial risk management objectives and policies

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

Foreign exchange risk

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

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

	June 30, 2016 \$'000	December 31, 2015 \$'000
Assets		
Canadian dollar	1,303	1,786
Australian dollar	-	-
South African rand	22,498	22,266
British pounds	995	1,316
Liabilities		
Canadian dollar	(60)	(246)
Australian dollar	-	(21)
South African rand	(3,841)	(4,262)
British pounds	-	(92)

Foreign currency sensitivity analysis

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

	Six months ended June 30,	
	2016 \$'000	2015 \$'000
Canadian dollar	62	453
Australian dollar	-	(2)
South African rand	(21)	(260)
British pounds	-	(2)

Credit risk

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

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

Liquidity risk

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

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

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total undiscounted cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000
As at June 30, 2016					
Trade and other payables	588	6,888	-	750	8,226
Current income tax liabilities	49	-	-	-	49
Non-current borrowings	-	-	-	34,291	34,291
As at December 31, 2015					
Trade and other payables	10,335	3,185	10	797	14,327
Current income tax liabilities	120	-	-	-	120
Non-current borrowings	-	-	-	34,460	34,460

DESCRIPTION OF CAPITAL STOCK

As at August 10, 2016, the Company's capital structure consists of an unlimited number of Class A common shares without par value (the "Class A Shares"), an unlimited number of Class B common shares without par value (the "Class B Shares") and an unlimited number of preferred shares without par value. At this date 778,959,807 Class A Shares, nil Class B Shares, nil warrants and nil preferred shares were issued and outstanding.

The Company granted no options in 2016 and granted 6,350,000 options under the equity incentive plan (the "Equity Incentive Plan") to certain employees during 2015. Prior to adoption of the Equity Incentive Plan, options were granted to certain directors, officers, employees and consultants pursuant to individual option agreements. As at August 10, 2016, there were 3,600,000 options, from individual stock-option agreements exercisable into 3,600,000 Class A Shares and 28,675,000 options issued in terms of the Equity Incentive Plan exercisable into 28,675,000 Class A Shares.

The Company granted no restricted share units (RSUs) in 2016 and 7,277,081 RSUs in 2015 per the Company's restricted share unit plan. As at August 10, 2016, there were 7,202,801 RSUs exercisable into 7,202,801 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

RISK FACTORS

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

DISCLOSURE OF TECHNICAL INFORMATION

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

Ivanhoe has prepared a current independent NI 43-101-compliant technical report for each of the Platreef Project, the Kipushi Project and the Kamoa 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.