Consolidated financial statements of

Ivanhoe Mines Ltd.

December 31, 2016
(Stated in U.S. dollars)

Ivanhoe Mines Ltd.

Management's responsibility for financial reporting

The accompanying annual consolidated financial statements of Ivanhoe Mines Ltd. (the "Company") have been prepared by management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management acknowledges its responsibility for the preparation and presentation of the annual consolidated financial statements, which includes designing and implementing internal controls to provide reasonable assurance of the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. 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.

The Board of Directors approves the consolidated financial statements and ensures that management discharges its financial reporting responsibilities. The Board's review is accomplished principally through the Audit Committee, which is composed of non-executive directors. The Audit Committee meets periodically with management and the auditors to review financial reporting and control matters.

(Signed) Lars-Eric Johansson

Lars-Eric Johansson,
President and Chief Executive Officer

(Signed) Marna Cloete

Marna Cloete,
Chief Financial Officer

March 24, 2017

Ivanhoe Mines Ltd.

December 31, 2016

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Independent Auditor's Report

To the Shareholders of Ivanhoe Mines Ltd.

We have audited the accompanying consolidated financial statements of Ivanhoe Mines Ltd. and its subsidiaries, which comprise the consolidated statements of financial position, as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ivanhoe Mines Ltd. and its subsidiaries as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(Signed) ***PricewaterhouseCoopers Inc.***

Chartered Accountants
PricewaterhouseCoopers Inc.
Johannesburg – South Africa

Ivanhoe Mines Ltd.

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

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

	Notes	2016	2015
		$	$
Expenses			
Exploration and project expenditure	5	**32,426**	40,751
Salaries and benefits		**10,993**	8,995
Share-based payments	19	**5,977**	7,722
Travel		**3,158**	2,168
Office and administration		**2,093**	2,333
Professional fees		**1,628**	1,624
Legal		**383**	218
Foreign exchange (gain) loss		**(773)**	833
Other expenditure		**1,353**	1,274
Loss from operating activities		**57,238**	65,918
Finance income	21	**(29,902)**	(2,204)
Finance costs	22	**1,798**	1,674
Share of losses from joint venture	6	**21,732**	1,030
Other income	20	**(5,864)**	(9,317)
Gain on partial sale of subsidiary, which is now jointly controlled	7	**-**	(357,671)
Re-measurement to fair value of the interest retained in joint venture	7	**-**	(376,148)
Mark-to-market gain on revaluation of warrants		**-**	(6,945)
Loss (profit) before income taxes		**45,002**	(683,663)
Income tax expense			
Current	14	**189**	578
Deferred tax expense (recovery)	14	**790**	(1,624)
		979	(1,046)
LOSS (PROFIT) FOR THE YEAR		**45,981**	(684,709)
Subsidiary held for partial sale			
Gain from subsidiary held for partial sale		**-**	(4,319)
LOSS (PROFIT) FOR THE YEAR		**45,981**	(689,028)
Loss (profit) attributable to:			
Owners of the Company		**32,160**	(700,383)
Non-controlling interests		**13,821**	11,355
		45,981	(689,028)
Other comprehensive loss			
Items that may subsequently be reclassified to loss:			
Exchange (gains) losses on translation of foreign operations		**(10,231)**	20,723
Other comprehensive (profit) loss for the year, net of tax		**(10,231)**	20,723
TOTAL COMPREHENSIVE LOSS (PROFIT) FOR THE YEAR		**35,750**	(668,305)
Total comprehensive loss (profit) attributable to:			
Owners of the Company		**23,011**	(681,274)
Non-controlling interests	18	**12,739**	12,969
		35,750	(668,305)
Basic and diluted loss (profit) per share	23	**0.04**	(0.93)
Weighted average number of basic and diluted shares outstanding	23	**779,119,108**	755,701,320

Ivanhoe Mines Ltd.

Consolidated statements of financial position
as at December 31,
(stated in thousands of U.S. dollars)

	Notes	**December 31, 2016**	December 31, 2015
		$	$
ASSETS			
Non-current assets			
Property, plant and equipment	4	**125,787**	77,386
Mineral properties	5	**6,940**	6,940
Investment in joint venture	6	**473,648**	411,984
Purchase price receivable	7	**-**	70,072
Promissory notes receivable	9	**10,804**	9,076
Deferred tax asset	14	**1,033**	1,621
Other assets		**4,111**	6,462
Total non-current assets		**622,323**	583,541
Current assets			
Purchase price receivable	7	**76,177**	121,784
Prepaid expenses	8	**9,328**	6,651
Other receivables	10	**6,653**	15,627
Financial assets at fair value through profit or loss	11	**2,720**	1,027
Cash and cash equivalents	12	**285,029**	293,948
Total current assets		**379,907**	439,037
Total assets		**1,002,230**	1,022,578
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	**1,125,434**	1,124,032
Share option reserve	16	**135,217**	131,129
Foreign currency translation reserve	17	**(21,509)**	(30,658)
Accumulated deficit		**(151,967)**	(127,505)
Equity attributable to owners of the Company		**1,087,175**	1,096,998
Non-controlling interests	18	**(130,913)**	(118,174)
Total equity		**956,262**	978,824
Non-current liabilities			
Borrowings	13	**26,875**	26,021
Deferred tax liabilities	14	**2,082**	2,082
Total non-current liabilities		**28,957**	28,103
Current liabilities			
Financial liability		**1,870**	1,204
Trade and other payables	15	**15,140**	14,327
Current tax liabilities		**1**	120
Total current liabilities		**17,011**	15,651
Total liabilities		**45,968**	43,754
Total equity and liabilities		**1,002,230**	1,022,578

Continuing operations (Note 1)
Commitments and contingencies (Note 30)

(Signed) Oyvind Hushovd
Oyvind Hushovd, Director

(Signed) Livia Mahler
Livia Mahler, Director

Ivanhoe Mines Ltd.

Consolidated statements of changes in equity
(stated in thousands of U.S. dollars, except for share amounts)

	Share capital							
	Number of shares	Amount	Share option reserve	Foreign currency translation reserve	Accumulated deficit	Equity attributable to owners	Non-controlling interests	Total
		$	$	$	$	$	$	$
Balance at January 1, 2015	**702,142,787**	**1,038,868**	**124,179**	**(11,549)**	**(827,888)**	**323,610**	**(121,207)**	**202,403**
Net profit for the year	-	-	-	-	700,383	700,383	(11,355)	689,028
Other comprehensive loss	-	-	-	(19,109)	-	(19,109)	(1,614)	(20,723)
Total comprehensive loss	-	-	-	(19,109)	700,383	681,274	(12,969)	668,305
Transactions with owners								
Changes in non-controlling interest on sale of subsidiary (Note 7)	-	-	-	-	-	-	16,002	16,002
Share-based payments charged to operations (Note 19)	-	-	6,950	-	-	6,950	-	6,950
Shares issued (Note 16(a))	76,817,020	85,164	-	-	-	85,164	-	85,164
Balance at December 31, 2015	**778,959,807**	**1,124,032**	**131,129**	**(30,658)**	**(127,505)**	**1,096,998**	**(118,174)**	**978,824**
Net loss for the year	-	-	-	-	(32,160)	(32,160)	(13,821)	(45,981)
Other comprehensive profit	-	-	-	9,149	-	9,149	1,082	10,231
Total comprehensive loss	-	-	-	9,149	(32,160)	(23,011)	(12,739)	(35,750)
Transactions with owners								
Equity transactions in joint venture not affecting control	-	-	-	-	7,698	7,698	-	7,698
Share-based payments charged to operations (Note 19)	-	-	5,312	-	-	5,312	-	5,312
Restricted share units vested (Note 16(d))	2,400,678	1,134	(1,134)	-	-	-	-	-
Options exercised (Note 16(b))	225,000	268	(90)	-	-	178	-	178
Balance at December 31, 2016	**781,585,485**	**1,125,434**	**135,217**	**(21,509)**	**(151,967)**	**1,087,175**	**(130,913)**	**956,262**

Ivanhoe Mines Ltd.

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

	Notes	**2016**	2015
		$	$
Cash flows from operating activities			
(Loss) profit before income taxes including gain or loss from subsidiaries held for partial sale which is now jointly controlled		**(45,002)**	687,982
Items not involving cash			
Share-based payments	19	**5,977**	7,722
Depreciation and amortization	4	**4,217**	5,465
Finance costs		**1,798**	1,674
Transfer from other assets to working capital items		**825**	-
Finance income		**(29,902)**	(2,204)
Share of losses from joint venture	6	**21,732**	1,030
Increase in fair value of financial asset		**(1,693)**	-
Unrealized foreign exchange (gain) loss		**(899)**	2,249
Promissory note fair value adjustment		**(777)**	-
Loss on disposal of property, plant and equipment		**(3)**	(12)
Gain on partial sale of subsidiary, which is now jointly controlled	7	**-**	(357,671)
Re-measurement to fair value of the interest retained in joint venture	7	**-**	(376,148)
Loss on disposal of assets held for sale		**-**	309
Mark-to-market gain on revaluation of warrants		**-**	(6,945)
		(43,727)	(36,549)
Change in non-cash working capital items	26	**10,472**	(9,089)
Working capital items classified as held for sale			-
Interest received		**2,694**	1,298
Interest paid		**(119)**	(222)
Income taxes paid		**(326)**	(449)
Net cash used in operating activities		**(31,006)**	(45,011)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**142**	82
Investment in joint venture		**(58,398)**	(5,000)
Property, plant and equipment acquired	4	**(43,489)**	(87,515)
Other assets acquired		**(2,635)**	(2,227)
Proceeds from the sale of other assets		**-**	2,737
Decrease in investment in short-term deposits		**-**	55,223
Net cash used in investing activities		**(104,380)**	(36,700)
Cash flows from financing activities			
Proceeds from the partial sale of subsidiary, which is now jointly controlled	7	**134,347**	206,000
Transaction costs paid on partial sale of subsidiary, which is now jointly controlled		**(7,656)**	(11,069)
Cash paid on behalf of the joint venturer		**(950)**	-
Options exercised		**178**	-
Cash transferred on sale of subsidiary		**-**	(9,143)
Issue of shares, net of issue costs		**-**	85,164
Net cash generated by financing activities		**125,919**	270,952
Effect of foreign exchange rate changes on cash		**548**	(6,276)
Net cash (outflow) inflow		**(8,919)**	182,965
Cash and cash equivalents, beginning of year		**293,948**	110,983
Cash and cash equivalents, end of year		**285,029**	293,948
Cash and cash equivalents consists of			
Cash		**285,029**	260,846
Short-term fixed deposits		**-**	33,102
		285,029	293,948

Supplemental cash flow information (Note 26)

1. Basis of presentation and continuing operations

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

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

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

2. Significant accounting policies

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

(a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with IFRS and International Accounting Standards ("IAS") and Interpretations of the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2016. The Company has not adopted any new or amended standards which are not yet effective.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Ivanhoe Mines Ltd. and entities it controls (its subsidiaries).

Control is achieved when the Company:

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

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

2. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

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

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

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

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

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

Changes in the Company’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The Company accounts for a change in the Company’s share of comprehensive loss of the joint venture in the consolidated statement of comprehensive income. The carrying amount of the Company’s interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributed to the owners of the Company. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

2. Significant accounting policies (continued)

(c) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Company has two joint operations, as described in note 24.

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

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

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

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

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

(d) Interests in joint ventures

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

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

2. Significant accounting policies (continued)

(d) Interests in joint ventures (continued)

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

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

(e) Foreign currencies

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

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

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

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

2. Significant accounting policies (continued)

(e) Foreign currencies (continued)

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

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

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

(f) Cash and cash equivalents

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

(g) Mineral properties

Direct costs related to the acquisition of mineral properties are capitalized on a property by property basis. Exploration costs are charged to operations in the period incurred, until such time as the Company determines that a property is technically feasible and commercially viable, whereafter development costs are capitalized as property, plant and equipment. In making this determination the Company considers whether a proposed project is capable of being developed at a sufficient return to justify the capital and managerial resources that must be committed to the project. The determination is made on a property by property basis and generally coincides with the finalization of a preliminary economic assessment or pre-feasibility study of the property.

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

The Company reviews the carrying values of its mineral properties whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and discounted net cash flows. An impairment loss is recognized when the carrying value of those assets are not recoverable and exceeds their fair value. Amortization of mineral properties will commence when commercial production starts. Mineral properties will be amortized over the expected life of mine.

2. Significant accounting policies (continued)

(g) Mineral properties (continued)

On the commencement of commercial production, net capitalized costs are charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base. Where the Company's exploration and development activities are conducted jointly with others, these consolidated financial statements reflect only the Company's interests in such activities.

(h) Financial instruments

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

All of the Company's financial assets, other than the financial assets at fair value through profit or loss, have been designated as loans and receivables and are carried on the statements of financial position at amortized cost.

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

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

(i) Property, plant and equipment

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

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

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

• Office equipment and furniture and fixtures	3 – 6 years
• Motor vehicles	5 years
• Plant and equipment	5 years
• Buildings	10 years

2. Significant accounting policies (continued)

(i) Property, plant and equipment (continued)

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

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

Freehold land is not depreciated.

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

(j) *Prepaid expenses and deposits*

Prepaid expenses are cash paid amounts that represent costs incurred from which a service or benefit is expected to be derived in the future. The future write-off period of the incurred cost will normally be determined by the period of benefit covered by the prepayment. Prepaid expense specific to a particular period will be expensed when the period arrives and the costs will be treated as a period cost for that period. Prepaid costs for an extended period of time are normally written off equally during the period in which the benefit will be derived.

Prepaid expenses are generally classified as current assets unless a portion of the prepayment covers a period longer than twelve months or the prepayment relates to a non-current asset to be received in the future. When payments may be accounted for as prepaid expenses but the payment will be amortized within the current period and is not considered material to the presentation of financial position, such payments may be expensed in the month the payment is made.

(k) Borrowing costs

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

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

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

2. Significant accounting policies (continued)

(l) Decommissioning liabilities

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for a decommissioning liability is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2016 and December 31, 2015, there was no material rehabilitation provision.

(m) Non-current assets held for sale

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

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

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

(n) Taxation

Current tax

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

Deferred tax

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

2. Significant accounting policies (continued)

(n) Taxation (continued)

Deferred tax (continued)

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

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

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

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

Current and deferred tax for the period

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

(o) Share-based payments

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

The fair value of share options is estimated as of the date of the grant using a Black-Scholes option valuation model and are recorded in profit and loss over their vesting periods. Share options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively. Note 16(b) summarizes the assumptions used in the Black-Scholes option valuation model.

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

2. Significant accounting policies (continued)

(o) Share-based payments (continued)

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

(p) Significant accounting estimates and judgements

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

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

Recoverability of assets

Property, plant and equipment and finite lived intangible assets

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

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

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

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

2. Significant accounting policies (continued)

(p) Significant accounting estimates and judgements (continued)

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. Although the Company does not currently sell goods and services it is anticipated that selling prices of goods in the future will be primarily affected by the U.S. dollar.
- the currency of the country whose competitive forces and regulations mainly determine the selling prices of their goods and services. Although the Company does not currently sell goods and services it is anticipated that selling prices of goods in the future will be primarily affected by the U.S. dollar and not by the currency of the countries in which the goods are produced.
- the currency that mainly influences the cost of labour, materials and other costs of producing goods or providing services. A greater percentage of expenditures for technical and administrative services are denominated in U.S. Dollars.
- the currency in which the funds are generated from financing activities, i.e. that corresponds to debt instruments and equity securities issued. Financing for the Company are generated mostly in Canadian dollars and U.S. dollars.
- the currency used to maintain the amounts utilized by operating activities were considered.

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

Technical feasibility and commercial viability of projects

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

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

Classification of Kamoa Holding Limited as a joint venture

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

2. Significant accounting policies (continued)

(p) Significant accounting estimates and judgements (continued)

Preparation of the financial statements on a going concern basis

The Company has an accumulated deficit of $152.0 million at December 31, 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 2017. As at December 31, 2016, the Company's total assets exceeds its total liabilities by $956.3 million and current assets exceeds current liabilities by $362.9 million. The Company therefore believes it has sufficient resources to continue as a going concern for the foreseeable future.

(q) *Segment reporting*

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

(r) Earnings per share

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

(s) *Assets held for sale and discontinued operations*

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

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

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale. Assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2. Significant accounting policies (continued)

(s) *Assets held for sale and discontinued operations (continued)*

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

(t) Future accounting changes

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2016:

<u>International Financial Reporting Standards and amendments issued but not effective for 31 December 2016 year-end</u>

- 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 is in the process of determining the impact of the adoption of this standard on the consolidated financial statements, if any.

- 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 expects the impact not to be material as the Company's properties will not be in commercial production prior to the effective date. All future operating mines will adopt IFRS 15 upon achieving commercial production.

- Amendments to IFRS 2 – 'Share-based payments'. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. (ii)

  The Company is in the process of determining the impact of the adoption of this standard on the consolidated financial statements, if any.

- 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 is in the process of determining the impact of the adoption of this standard on the consolidated financial statements, if any.

2. Significant accounting policies (continued)

(t) Future accounting changes (continued)

- 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)

  As at December 31, 2016, the Company has operating lease commitments totalling $2.2 million (see Note 30). However, the Company is in the process of determining the impact these commitments will have on the consolidated financial statements, if any.

- IFRIC 22, 'Foreign currency transactions and advance consideration. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. (ii)

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

- Annual improvements 2014-2016. IFRS 1,' First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10. (ii)

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

- Annual improvements 2014-2016. IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. (ii)

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

- Annual improvements 2014-2016. IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). (i)

  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.

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 applying the consolidation exemption. 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. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

- 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.

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

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Mining infrastructure	Assets under construction	Total
	$	$	$	$	$	$	$	$
2016								
Cost								
Beginning of the year	1,914	15,577	4,318	2,009	14,607	-	50,865	89,290
Additions	164	225	761	8	2,025	-	40,306	43,489
Disposals	(48)	-	(80)	(64)	(66)	-	-	(258)
Transfers	-	(2,739)	-	-	-	3,720	(981)	-
Foreign exchange translation	248	(1,684)	211	117	71	300	10,251	9,514
End of the year	2,278	11,379	5,210	2,070	16,637	4,020	100,441	142,035
Accumulated depreciation and impairment								
Beginning of the year	-	1,007	2,826	966	7,105	-	-	11,904
Depreciation	-	298	625	240	3,025	29	-	4,217
Disposals	-	-	(51)	(29)	(39)	-	-	(119)
Transfers	-	(72)	-	-	-	72	-	-
Foreign exchange translation	-	1	198	43	24	(20)	-	246
End of the year	-	1,234	3,598	1,220	10,115	81	-	16,248
Carrying value								
Beginning of the year	1,914	14,570	1,492	1,043	7,502	-	50,865	77,386
End of the year	2,278	10,145	1,612	850	6,522	3,939	100,441	125,787

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 $9.1 million (December 31, 2015 - $10.8 million) have been pledged to secure borrowings of the Company (see Note 13). 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.

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

4. Property, plant and equipment (continued)

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

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

5. Mineral properties and exploration and project expenditures

Mineral properties

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

	December 31, 2016	December 31, 2015
	$	$
Platreef property, South Africa (a)	**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, whereafter development costs are capitalized as property, plant and equipment in the assets under construction category (see Note 4).

Exploration and project expenditure

The following table summarizes the exploration and project expenditures for the year ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
	$	$
Exploration and project expenditure		
Salaries and benefits	**11,881**	16,639
Utilities	**5,287**	6,010
Repairs and maintenance	**3,505**	2,216
Depreciation	**3,218**	2,978
Community liaison	**2,051**	611
Office, administration and other expenditure	**6,484**	12,297
	32,426	40,751

5. Mineral properties and exploration expenditures (continued)

(a) 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 notorially 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 (see Note 19).

(b) Kipushi properties

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

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

(c) Kamoa-Kakula properties

The Company is a joint venturer in the Kamoa-Kakula Project which is located within the Central African Copperbelt in Lualaba Province, DRC, after the partial sale of 50.5% as describe in Note 7. The Kamoa-Kakula Project lies approximately 25 km west of the town of Kolwezi, and about 270 km west of the provincial capital of Lubumbashi.

During 2015, the Company determined that the Kamoa properties are technically feasible and commercially viable, whereafter development costs on the properties were capitalized. Development costs were capitalized as property, plant and equipment to the extent that they are necessary to bring the property to commercial production. Included in the exploration and project expenditure of the Kamoa properties is all exploration and project expenditure of the Kamoa-Kakula project up to the date of the partial disposal of the subsidiary which is now jointly controlled, December 8, 2015.

(d) Other properties

The Company continues to evaluate other opportunities as part of its objective to become a broadly based, international mining company.

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

6. Investment in joint venture

Kamoa Holding Limited ("Kamoa Holding"), a joint venture between the Company and Zijin Mining Group Co., Ltd. ("Zijin"), holds a direct interest in the Kamoa-Kakula Copper Project, the largest copper discovery ever made on the African continent, with adjacent prospective exploration areas within the Central African Copperbelt in the Democratic Republic of Congo, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of Lubumbashi.

Company's share of comprehensive loss from joint venture

The following table summarizes the Company's share of comprehensive loss of Kamoa Holding for the year ending December 31, 2016 and for 2015, from December 8, when Kamoa Holding became a joint venture.

	December 31, 2016	**December 31, 2015**
	$	$
Interest expense	32,438	1,806
Interest income	(111)	-
Exploration costs	14,743	482
Foreign exchange loss (gain)	187	(117)
Loss for the period	47,257	2,171
Non-controlling interest	(3,354)	(89)
Loss for the period	43,903	2,082
Share of losses from joint venture (49.5%)	**21,732**	**1,030**

Company's share of net assets in joint venture

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

	December 31, 2016		December 31, 2015	
	100%	**49.5%**	100%	49.5%
	$	**$**	$	$
Assets				
Property, plant and equipment	226,766	112,249	44,281	21,919
Other assets	16,401	8,118	3,133	1,551
Mineral property	802,021	397,000	802,022	397,001
Prepaid expenses	2,940	1,455	3,537	1,751
Cash and bank	36,795	18,214	9,836	4,869
Liabilities				
Shareholder's loans	(531,927)	(263,304)	(377,905)	(187,063)
Accruals and payables	(19,216)	(9,512)	(5,376)	(2,661)
Non-controlling interest	(109,479)	(54,192)	(25,143)	(12,446)
Company's share of net assets in joint venture	424,301	210,029	454,385	224,921

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

6. Investment in joint venture (continued)

On November 11, 2016, the Company signed an agreement with the government of the Democratic Republic of Congo, transferring 15% interest in the Kamoa-Kakula Copper Project to the DRC government, increasing its total stake in the project to 20%. Following the signing of the agreement with the DRC government, the Company holds an indirect 39.6% interest in the Kamoa-Kakula Copper Project through its 49.5% shareholding in Kamoa Holding. Kamoa Holding owns a direct interest of 80% of the Kamoa-Kakula Copper Project.

The transfer represents a change in ownership that did not result in a change of control. The Company has accounted for this change in the consolidated statement of changes in equity.

Investment in joint venture

	December 31, 2016	**December 31, 2015**
	$	$
Company's share of net assets in joint venture	210,029	224,921
Loan advanced to joint venture	263,619	187,063
	473,648	411,984

The Company earns interest at the USD 12 month LIBOR plus 7% on the loan advanced to the joint venture.

Commitments in respect of joint venture

The Company is required to fund its Kamoa Holding 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 than1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	$	$	$	$	$
Advancement of interest free loan	118,023	-	-	-	118,023
	118,023	-	-	-	118,023

On March 21, 2014, a financing agreement was entered into between a subsidiary of Kamoa Holding and La Société Nationale d'Electricieé 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-Kakula project.

Under the agreement, Kamoa Holding agreed to provide a loan relating to the power upgrade, which is estimated to be $141 million (including a $4.5 million pre-finance loan), but is capped at a maximum commitment of $250 million.

The loan advanced as at December 31, 2016 by the subsidiary of Kamoa Holding amounted to $16.3 million (December 31, 2015: $3.1 million) and is included in the investment in joint venture.

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

6. Investment in joint venture (continued)

Commitments in respect of joint venture (continued)

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-Kakula 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-Kakula project, and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the production and mine expansion scenarios.

7. Purchase price receivable

	December 31, 2016	**December 31, 2015**
	$	$
Balance at beginning of the year	**191,856**	-
Present value of consideration receivable on closing (a)	**-**	390,382
Purchase consideration received (b)	**(134,347)**	(206,000)
Transaction costs paid	**7,656**	14,723
Promissory note receivable (see Note 9)	**-**	(7,249)
Unwinding discount	**11,012**	-
	76,177	191,856
Non-current purchase price receivable	**-**	70,072
Current purchase price receivable	**76,177**	121,784
	76,177	191,856

(a) Partial sale of Kamoa Holding Limited, which is now jointly controlled

On December 8, 2015 the Company sold a 50.5% stake in Kamoa Holding Limited, the company that at the time owned 95% of the Kamoa-Kakula project.

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 9). 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.

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

7. Purchase price receivable (continued)

Assets and liabilities over which the Company has 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)**
	48,774

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

Gain on partial sale of subsidiary, which is now jointly controlled:

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

Non-controlling interest of $16 million relating to Kamoa Holding up until the date control was lost has been re-allocated to the statement of comprehensive income as part of the gain on the partial sale of subsidiary, which is now jointly controlled.

(b) Zijin paid $206.0 million of the purchase consideration on closing of the transaction and the remaining $206.0 million was agreed to be paid in five equal instalments, every 3.5 months from the date of closing. The first three instalments of $41.2 million were received in March 2016, July 2016 and October 2016 respectively. The present value of the remaining consideration receivable, net of transaction costs, is $76.2 million as at December 31, 2016 (December 31, 2015: $ 191.9 million).

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

8. Prepaid expenses

	December 31, 2016	December 31, 2015
	$	$
Advance payment on shaft construction	**3,339**	-
Consumable stores	**1,508**	2,157
Electrical infrastructure	**1,498**	-
Deposits	**1,283**	2,003
Other prepayments	**1,700**	2,491
	9,328	6,651

Prepaid expenses are amounts paid in advance which give the Company rights to receive future goods or services.

9. Promissory notes receivable

The Company has the following promissory notes receivable:

	December 31, 2016	December 31, 2015
	$	$
A$3 million promissory note receivable (a)	**1,964**	1,827
Promissory note receivable from Crystal River (b)	**8,840**	7,249
	10,804	9,076

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

(b) The promissory note receivable with a carrying value of $8.8 million is a $9.5 million non-interest bearing, 10 year promissory note, of which $8.32 million was received by the Company as the purchase consideration for selling 1% of its share in Kamoa Holding (see Note 7). The promissory note is payable on the earlier of 8 December 2025 or the next business day following the completion of the sale, transfer or disposition of the shares held by Crystal River in Kamoa Holding Limited.

10. Other receivables

	December 31, 2016	December 31, 2015
	$	$
Administration consulting receivable from joint venture	**1,896**	1,462
Refundable taxes (a)	**1,731**	9,587
Advances	**1,058**	1,046
Other	**1,968**	3,532
	6,653	15,627

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

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

11. 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 December 31, 2016 is $2.7 million (December 31, 2015: $1.0 million).

12. Cash and cash equivalents

As at December 31, 2016, the cash and cash equivalents of $285.0 million (December 31, 2015 - $293.9 million) included $19.8 million (December 31, 2015: $57.1 million) which are reserved for the Platreef Project and were not available for the Company's general corporate purposes.

13. Borrowings

	December 31, 2016	December 31, 2015
	$	$
Unsecured - at amortised cost		
(a) Loans from other entities	**22,913**	21,235
Secured - at amortised cost		
(b) Citi bank loan	**2,894**	3,495
(c) Citi bank loan	**1,068**	1,291
	26,875	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 as at December 31, 2016, is estimated at $22.9 million (2015: $21.2 million). The difference of $7.6 million (2015: $8.5 million) on initial recognition between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan. An interest expense of $1.7 million (2015: $1.4 million) was recognised during the year ended December 31, 2016.

(b) The Citi bank loan of $2.9 million (£2.36 million) is secured by the Rhenfield property acquired during May, 2007 (see Note 4), is an interest only term loan repayable at June 30, 2020, and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears.

(c) The Citi bank loan of $1.1 million (£0.87 million) is a five year mortgage bond, in which the first three years only interest will be payable. The loan is secured by the Rhenfield property purchased in June, 2013 (see Note 4) and incurs interest at a rate of LIBOR plus 2.5% payable monthly in arrears.

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

14. Income taxes

(a) Rate reconciliation

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

	2016	2015
	$	$
Loss (profit) before income taxes	**45,002**	(683,663)
Statutory tax rate	**26.00%**	26.00%
Expected recovery of income taxes based on combined Canadian Federal and provincial statutory rates	**(11,701)**	177,752
Add (deduct):		
Tax effect of tax losses and temporary differences not recognized	**20,142**	(104,698)
Effect of foreign exchange on temporary differences not recognized	**(2,617)**	7,439
Non-deductible expenses and non-taxable income	**(1,378)**	(6,335)
Different effective tax rates in foreign jurisdictions	**(4,453)**	17,797
Amendments to prior year tax submissions	**986**	2,408
Non-taxible profit on sale of interest in subsidiary	**-**	(212,159)
Non-capital loss carryforwards in subsidiary sold	**-**	102,853
Realisation of foreign exchange gains	**-**	12,682
Tax effect of recognised temporary differences on unrealised foreign exchange	**-**	(1,624)
Tax effect of difference on loss on disposal of subsidiary	**-**	2,839
Income tax expense (recovery)	**979**	(1,046)

(b) Deferred tax balances

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

	2016	2015
	$	$
Deferred tax liability to be recovered after more than 12 months		
Property, plant and equipment	**(2,082)**	(2,082)
Deferred income tax liabilities	**(2,082)**	(2,082)
Deferred tax assets to be recovered after more than 12 months		
Unrealised foreign exchange losses	**1,015**	1,597
Deferred tax asset to be recovered within 12 months		
Provisions and prepayments	**18**	24
Deferred income tax assets	**1,033**	1,621

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

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

14. Income taxes (continued)

(c) Unrecognized and taxable temporary differences

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

	2016	2015
	$	$
Non-capital loss carryforwards	**475,696**	400,383
Investment in RK1 (Note 24)	**11,289**	11,289
Foreign exploration expenses and share issuance costs	**3,660**	9,952
Capital assets	**127**	144
Capital loss carryforwards	**-**	1,798
Unrecognized deductible temporary differences	**490,772**	423,566

The Company has an estimated aggregate amount of $210.0 million in temporary differences associated with its investment in joint venture for which no deferred tax liability have been recognized.

The Company has foreign subsidiaries that have undistributed earnings of $253.4 million (2015: 214.2 million). The Company can control the timing of the repatriation and it is probable that these amounts will not be repatriated for the foreseeable future. Therefore, deferred tax has not been provided in respect of these earnings.

(d) Loss carryforwards

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

		Local currency	U.S. dollar equivalent	
			$	
South African rand	R	1,700,435	124,796	(a)
Congolese franc	CDF	256,194,774	238,099	(b)
Canadian dollar	$	123,850	91,878	2026 to 2036
Gabonese franc	XAF	7,554,813	12,126	(a)
English Pound	£	4,194	5,150	(a)
Barbados	BBD	6,029	3,015	(a)
Euro	€	301	316	(a)
Namibian dollar	NAD	4,304	316	(a)
			475,696	

(a) These losses can be carried forward indefinitely, subject to continuity of trading.
(b) These losses are accumulated and set-off against future taxable income when mining operations commence.

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

15. Trade and other payables

	December 31, 2016	December 31, 2015
	$	$
Trade payables	**7,571**	8,384
Trade accruals	**5,423**	3,720
Indirect taxes payable	**48**	280
Other payables	**2,098**	1,943
	15,140	14,327

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

16. Share capital

(a) Shares issued

The Company is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares (together with the Class A Shares, the "common shares") and an unlimited number of Preferred Shares. As at December 31, 2016, 781,585,485 (December 31, 2015: 778,959,807) Class A Shares, nil Class B Shares and nil Preferred Shares were issued and outstanding. As at December 31, 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 December 31, 2016, 38,937,500 share options have been granted and exercised, and 32,050,000 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.

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

16. Share capital

(b) Options (continued)

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	**(225,000)**	**0.86**	-	-
Expired	**(7,330,000)**	**2.40**	(4,690,000)	1.80
Forfeited	**(1,220,000)**	**1.07**	(1,025,000)	2.95
Balance, end of year	**32,050,000**	**1.54**	40,825,000	1.68

No options were granted during the year ended December 31, 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:

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

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

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

16. Share capital (continued)

(b) *Options (continued)*

The following table summarizes information about share options outstanding and exercisable as at December 31, 2016:

	Options outstanding		Options exercisable	
Expiry date	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		$		$
March 22, 2017	100,000	3.00	100,000	3.00
April 1, 2017	1,000,000	3.00	1,000,000	3.00
April 20, 2017	2,500,000	3.00	2,500,000	3.00
May 31, 2017	300,000	2.29	300,000	2.29
January 11, 2018	1,550,000	4.90	1,162,500	4.90
February 1, 2018	100,000	4.81	75,000	4.81
April 1, 2018	530,000	4.45	397,500	4.45
May 17, 2018	30,000	2.44	22,500	2.44
August 14, 2018	100,000	1.44	75,000	1.44
August 16, 2018	750,000	1.45	562,500	1.45
December 13, 2018	5,860,000	1.86	4,395,000	1.86
March 31, 2019	200,000	1.57	100,000	1.57
June 16, 2019	500,000	1.20	250,000	1.20
August 15, 2019	1,000,000	1.33	500,000	1.33
December 8, 2019	11,350,000	0.86	5,675,000	0.86
December 15, 2020	6,180,000	0.47	1,545,000	0.47
	32,050,000	1.53	18,660,000	1.89

(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 initial vesting date established at grant and on each of the two anniversaries thereafter, subject to the satisfaction of any performance conditions.

During December 2016, a total of 2,013,539 (December 2015: 7,277,081) restricted share units were issued to senior executives and some employees as a performance reward. An expense of $3.6 million for the RSUs granted during the year ended December 31, 2016 (December 31, 2015: $3.4 million), using the fair value of a common share at time of grant, will be amortized over the vesting period (see Note 19).

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

16. Share capital (continued)

(d) Restricted share units (continued)

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

	2016	2015
Balance at the beginning of the year	**7,277,081**	-
RSUs issued	**2,013,539**	7,277,081
RSUs cancelled	**(75,000)**	-
RSUs vested	**(2,400,678)**	-
Balance at the end of the year	**6,814,942**	7,277,081

17. Foreign currency translation reserve

	2016	2015
	$	$
Balance at the beginning of the year	**(30,658)**	(11,549)
Exchange differences arising on translating the foreign operations	**9,149**	(19,109)
Balance at the end of the year	**(21,509)**	(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.

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

18. Non-controlling interests

	2016	2015
	$	$
Balance at beginning of the year	(118,174)	(121,207)
Share of comprehensive losses for the year	(12,739)	(12,969)
Changes in non-controlling interest on partial sale of subsidiary (Note 7)	-	16,002
Balance at the end of the year	(130,913)	(118,174)

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

The total non-controlling interest at December 31, 2016 is $130.9 million (2015: $118.2 million), of which $60.8 million (2015: $60.8 million) is for Ivanplats (Pty) Ltd and $71.8 million (2015: $58.9 million) is attributed to Kipushi Corporation SA. The non-controlling interest in respect of Ivanplats Holding SARL is not material.

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

Summarised balance sheet

	Ivanplats (Pty) Ltd		Kipushi Corporation SA	
	2016	2015	2016	2015
	$	$	$	$
Non-current assets	110,677	61,653	8,595	9,965
Non-current liabilities	(360,264)	(315,694)	(217,030)	(185,020)
Total non-current net liabilities	(249,587)	(254,041)	(208,435)	(175,055)
Current assets	11,184	8,685	4,092	12,178
Current liabilities	(11,447)	(5,905)	(5,261)	(6,172)
Current net (liabilities) assets	(263)	2,780	(1,169)	6,006
Net liabilities	(249,850)	(251,261)	(209,604)	(169,049)

Summarised income statement

	Ivanplats (Pty) Ltd		Kipushi Corporation SA	
	2016	2015	2016	2015
	$	$	$	$
Loss for the year	10,070	8,135	40,555	32,777
Other comprehensive profit	(10,816)	(16,142)	-	-
Total comprehensive (profit) loss	(746)	(8,007)	40,555	53,233
Total comprehensive (profit) loss allocated to non-controlling interests	(75)	2,428	12,977	10,489

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

19. Share-based payments

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

	December 31, 2016	December 31, 2015
	$	$
Equity settled share-based payments		
Options granted (Note 16(b))	**4,086**	6,900
Restricted share unit expense (Note 16(d))	**1,226**	50
	5,312	6,950
Cash settled share-based payments		
B-BBEE transaction expense	**665**	772
	5,977	7,722

Of the share-based payment expense recognised for the year ended December 31, 2016, $5.3 million (2015: $6.9 million) relates to the expense for options and restricted share units granted to employees recognised over the vesting period.

20. Other Income

Other income is summarized as follows:

	December 31, 2016	December 31, 2015
	$	$
Administration consulting income	**(2,918)**	-
Fair valuation of financial asset (a)	**(1,693)**	-
Promissory notes unwinding discount (b)	**(777)**	-
Refundable taxes recovered	**-**	(8,203)
Other income	**(476)**	(1,114)
	(5,864)	(9,317)

(a) The Company owns shares in a listed company. The shares are carried at fair value through profit and loss (see Note 11).

(b) The unwinding discount relates to the unwinding of the promissory notes (see Note 9).

21. Finance income

Finance income is summarized as follows:

	December 31, 2016	December 31, 2015
	$	$
Interest on loans to joint venture	**16,197**	906
Unwinding discount	**11,012**	-
Other interest income	**2,693**	1,298
	29,902	2,204

The unwinding discount is the unwinding of the purchase price receivable from Zijin (see Note 7).

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

22. Finance costs

The finance costs of the Company are summarized as follows:

	December 31, 2016	December 31, 2015
	$	$
Interest on non-current borrowings (Note 13)	**1,677**	1,520
Other financing costs	**121**	154
	1,798	1,674

23. Loss per share

The basic loss (earnings) per share is computed by dividing the gain attributable to the owners of the Company from continuing operations and discontinued operations by the weighted average number of common shares outstanding during the year. The diluted earnings per share reflects the potential dilution of common share equivalents, such as preference shares, outstanding share options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. All outstanding stock options and share purchase warrants were anti-dilutive for the year ended December 31, 2016 and 2015.

	December 31, 2016	December 31, 2015
	$	$
Loss (profit) attributable to owners of the Company	**32,160**	(700,383)
Weighted average number of basic and diluted shares outstanding	**779,119,108**	755,701,320
Basic and diluted loss (profit) per share	**0.04**	(0.93)

24. Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The company's share of the buildings have a carrying value of $9.1 million (2015: $10.8 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 Sibanye Gold and 25% by Sylvania Resources Limited, operating at the Sibanye Gold 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 Sibanye Gold.

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

25. Related party transactions

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

		% equity interest as at	
Name	Country of Incorporation	**December 31, 2016**	December 31, 2015
Subsidiaries			
Ivanhoe Mines (Barbados) Ltd.	Barbados	**100%**	100%
Ivanplats Holding SARL	Luxembourg	**97%**	97%
Ivanplats Finance Limited	Ireland	**97%**	97%
Gabon Holding Company Ltd.	Barbados	**100%**	100%
Ivanhoe (Zambia) Ltd.	Zambia	**100%**	100%
Kipushi Holding Limited	Barbados	**100%**	100%
Kipushi Corporation SA	Democratic Republic of Congo	**68%**	68%
Ivanhoe Mines Exploration DRC SARL	Democratic Republic of Congo	**100%**	100%
Ivanhoe Mines DRC SARL	Democratic Republic of Congo	**100%**	100%
Africa Consolidated Mineral Exploration (Pty) Ltd.	South Africa	**100%**	100%
Ivanplats (Pty) Ltd.	South Africa	**64%**	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%

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

25. Related party transactions (continued)

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

	December 31, 2016	December 31, 2015
	$	$
Global Mining Management Corporation (a)	**2,697**	2,501
Ivanhoe Capital Aviation LLC (b)	**1,800**	1,200
Ivanhoe Capital Services Ltd. (c)	**560**	553
HCF International Advisers (d)	**487**	183
Ivanhoe Capital Pte Ltd (e)	**258**	397
GMM Tech Holdings Inc. (f)	**167**	-
Global Mining Services Ltd. (g)	**114**	111
Ivanhoe Capital Corporation (UK) Limited (h)	**2**	25
	6,085	4,970
Salaries and benefits	**3,021**	2,282
Travel	**2,081**	1,551
Consulting	**594**	266
Office and administration	**389**	871
	6,085	4,970

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

As at December 31, 2016, trade and other payables included $1.2 million (2015: $0.4 million) with regards to amounts due to related parties related by way of director, officers or shareholder 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 and a director of the Company hold an indirect equity interest 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 a director of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.

(c) Ivanhoe Capital Services Ltd. (“Services”) is a private company owned indirectly by a director of the Company. Services provides for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.

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

25. Related party transactions (continued)

(d) HCF International Advisers ("HCF") is a corporate finance adviser specializing in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. HCF has a director in common with the Company and provides financial advisory services to the Company.

(e) Ivanhoe Capital Pte Ltd. ("Capital") is a private company owned indirectly by a director of the Company. Capital provides administration, accounting and other services in Singapore on a cost-recovery basis.

(f) GMM Tech Holdings Inc. ("GMM Tech") is a private company incorporated in British Columbia, Canada and is 100% owned by Global. GMM Tech provides information technology services to the Company on a cost-recovery basis.

(g) 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.

(h) Ivanhoe Capital Corporation (UK) Ltd. ("UK") is a private company owned indirectly by a director of the Company. UK provides administration, accounting and other services in London on a cost-recovery basis.

26. Cash flow information

Net change in non-cash working capital items:

	December 31, 2016	December 31, 2015
	$	$
Net decrease (increase) in		
Other receivables	**12,336**	(11,512)
Other receivables - effects of joint venture	**-**	3,998
Prepaid expenses	**(2,677)**	2,314
Prepaid expenses - effects of joint venture	**-**	(1,709)
Net increase (decrease) in		
Trade and other payables	**813**	(1,887)
Trade and other payables - effects of joint venture	**-**	(293)
	10,472	(9,089)

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

27. Financial instruments

(a) Fair value of financial instruments

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

Financial instrument	Level	**December 31, 2016**	December 31, 2015
Financial assets			
Financial assets at fair value through profit or loss			
Investment in listed entity	Level 1	**2,720**	1,027
Loans and receivables			
Promissory note receivable	Level 3	**10,804**	9,076
Financial liabilities			
Other liabilities			
Borrowings	Level 3	**26,875**	26,021

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

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

The Company has two promissory notes:

i) The fair value of the promissory note received as part of the purchase consideration when the Company sold its Australian subsidiaries (see Note 9(a)) was originally determined assuming repayment occurs on March 31, 2018 and is discounted using a rate of 8%.

ii) The fair value of the promissory note receivable by the Company from Crystal River (see Note 9(b)) was originally determined assuming repayment occurs on December 31, 2017 and is discounted using a rate of 8.3%.

The carrying value of the promissory notes are not significantly different to the fair value.

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited (note 13 (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, which include the purchase price receivable, trade and other payables and the financial liability, were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity.

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

27. Financial instruments (continued)

(b) Financial risk management objectives and policies

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

(i) Foreign exchange risk

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

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

	December 31, 2016	December 31, 2015
	$	$
Assets		
Canadian dollar	**2,479**	1,786
South African rand	**20,486**	22,266
British pounds	**695**	1,316
Liabilities		
Canadian dollar	**(1,000)**	(246)
Australian dollar	**(21)**	(21)
South African rand	**(7,384)**	(4,262)
British pounds	**(162)**	(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.

	December 31, 2016	December 31, 2015
	$	$
Canadian dollar	**74**	77
Australian dollar	**(1)**	(1)
South African rand	**(97)**	(63)
British pounds	**-**	1
	(24)	14

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

27. 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 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 three instalments were received in March 2016, July 2016 and October 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.

(iii) Liquidity risk

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

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

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	**Total undiscounted cash flows**
	$	$	$	$	**$**
As at December 31, 2016					
Trade and other payables	13,903	366	88	783	**15,140**
Current income tax liabilities	1	-	-	-	**1**
Non-current borrowings	-	-	-	34,270	**34,270**
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**

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

27. Financial instruments (continued)

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

(iv) Interest rate risk

The Company's interest rate risk arises mainly from long term borrowings and the loan advanced to the joint venture. The Company's main exposure to interest rate risk arises from the fact that the Company earns and incurs interest on interest rates linked to LIBOR.

If interest rates (including applicable LIBOR rates) had been 50 basis points higher or lower and all other variables were held constant the Company's loss for the year ended 31 December 2016 would have increased or decreased by $2.6 million.

28. Capital risk management

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

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

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

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

29. Key management personnel compensation

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

	December 31, 2016	December 31, 2015
	$	$
Short-term benefits	**9,017**	10,166
Share-based payments	**3,515**	4,810
	12,532	14,976

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

30. Commitments and contingencies

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

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

As at December 31, 2016, the Company's commitments that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Less than1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	$	$	$	$	$
Shaft 1 construction					
- Platreef Project	11,743	1,473	-	-	13,216
Operating leases	413	928	837	-	2,178
	12,156	2,401	837	-	15,394

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.

31. Segmented information

At December 31, 2016, the Company has four reportable segments, being the Platreef property, the Kamoa property and joint venture, the Kipushi property and the Company's treasury offices.

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

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

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

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

	South Africa	DRC	Other	Total
	$	$	$	$
Non-current assets				
As at December 31, 2016	112,542	482,483	27,298	622,323
As at December 31, 2015	62,150	499,649	21,742	583,541

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

31. Segmented information (continued)

	December 31, 2016	December 31, 2015
	$	$
Segment assets		
Kamoa Holding Limited joint venture	**473,648**	414,521
Platreef properties	**136,999**	120,822
Kipushi properties	**12,717**	22,173
Treasury (ii)	**358,948**	438,976
All other segments (i)	**19,918**	26,086
Total	**1,002,230**	1,022,578
Segment liabilities		
Kamoa Holding Limited joint venture	**892**	101
Platreef properties	**28,937**	25,799
Kipushi properties	**3,915**	3,720
Treasury (ii)	**4,982**	6,475
All other segments (i)	**7,242**	7,659
Total	**45,968**	43,754
Segment losses (profits)		
Kamoa Holding Limited joint venture	**21,732**	(530,969)
Platreef properties	**3,962**	1,217
Kipushi properties	**62,535**	68,275
Treasury (ii)	**(12,066)**	(172,363)
All other segments (i)	**(30,182)**	(55,188)
Total	**45,981**	(689,028)
Capital expenditures		
Kamoa Holding Limited joint venture	**-**	33,873
Platreef properties	**40,647**	51,192
Kipushi properties	**1,863**	479
All other segments (i)	**979**	1,971
Total	**43,489**	87,515
Exploration expenditure		
Kamoa properties	**-**	4,728
Platreef properties	**191**	265
Kipushi properties	**31,674**	29,785
All other segments (i)	**561**	10,492
Total	**32,426**	45,270
Kamoa properties eliminated (joint venture)	**-**	(4,519)
Consolidated exploration expenditure	**32,426**	40,751

(i) 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 all other segments (i) column.

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

32. Subsequent event

On February 8, 2017 the Company received the fourth of 5 equal instalments of $41.2 million from Zijin in accordance with the terms in the share acquisition agreement.

33. Approval of the financial statements

The Consolidated Financial Statements of Ivanhoe Mines Ltd., for the year ended December 31, 2016, were approved and authorized for issue by the Board of Directors on March 24, 2017.

IVANHOE MINES
NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

DATED: MARCH 24, 2017

INTRODUCTION

This management's discussion and analysis (MD&A) should be read in conjunction with the audited financial statements of Ivanhoe Mines Ltd. ("Ivanhoe", "Ivanhoe Mines" or the "Company"), for the years ended December 31, 2016, 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 ***March 24, 2017***. 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. Such statements and information involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, its projects, 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.

Such statements include without limitation, the timing and results of: (i) statements regarding Shaft 1 providing initial access for early underground development at the Flatreef Deposit; (ii) statements regarding the station development of Shaft 1 at the 450, 750, 850 and 950 metre levels; (iii) statements regarding the sinking of Shaft 1, including that a sinking rate of 45 metres per month is expected; (iv) statements regarding Shaft 1 reaching the planned, final depth at 980 metres below surface in 2018; (v) statements regarding the timing of the commencement of Shaft 2 development, including that construction is to commence in 2017; (vi) statements regarding the operational and technical capacity of Shaft 1; (vii) statements regarding the internal diameter and hoisting capacity of Shaft 2; (viii) 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; (ix) statements regarding the planned underground mining methods of the Platreef Project including long-hole stoping and drift-and-fill mining; (x) statements regarding the expectation to start the construction of the Platreef Project's box-cut for Shaft 2 in Q2 2017; (xi) statements regarding peak water use of 10 million litres per day at the Platreef Project and development of the Pruissen Pipeline Project; (xii) statements regarding the Platreef Project's estimated electricity requirement of 100 million volt-amperes; (xiii) statements regarding the completion of a feasibility study at the Platreef Project in the first half of 2017; (xiv) statements regarding the declines having been designed to intersect the high-grade copper mineralization in the Kansoko Sud area during the second quarter of 2017; (xv) statements regarding the timing, size and objectives of drilling and other exploration programs for 2017 and future periods including a metallurgical drilling campaign at the Kakula deposit planned for the second quarter of 2017 and increased exploration diamond drilling activity in 2017; (xvi) statements regarding the implementation of the Social and Labour Plan at the Platreef Project and pledged expenditure of R160 million; (xvii) statements that the Kakula box-cut is expected to take approximately six months; and (xviii) statements regarding expected expenditure in 2017 of $60 million on further development at the Platreef Project; $33 million at the Kipushi Project; and $15 million on corporate overheads – as well as its proportionate funding of the Kamoa-Kakula Project, expected to be $55 million in 2017.

As well, all of the results of the pre-feasibility study of the Kamoa-Kakula Project and preliminary economic assessment of development options for the Kakula deposit, the pre-feasibility study of the Platreef Project and the preliminary economic assessment of the Kipushi Project, constitute forward-looking statements or 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-Kakula, Platreef and Kipushi Projects, the Company has based its assumptions and analysis on certain factors that are inherently uncertain. Uncertainties include: (i) the adequacy of infrastructure; (ii) geological characteristics; (iii) metallurgical characteristics of the mineralization; (iv) the ability to develop adequate processing capacity; (v) the price of copper, nickel, zinc, platinum, palladium, rhodium and gold; (vi) the availability of equipment and facilities necessary to complete development; (vii) the cost of consumables and mining and processing equipment; (viii) unforeseen technological and engineering problems; (ix) accidents or acts of sabotage or terrorism; (x) currency fluctuations; (xi) changes in regulations; (xii) the compliance by joint venture partners with terms of agreements, (xiii) the availability and productivity of skilled labour; (xiv) the regulation of the mining industry by various governmental agencies; and (xiv) political factors.

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

Forward-looking statements and information 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 or information, including, but not limited to, the factors discussed below and under "Risk Factors", as well as unexpected changes in laws, rules or regulations, or their enforcement by applicable authorities; the failure of parties to contracts with the Company to perform as agreed; social or labour unrest; changes in commodity prices; and the failure of exploration programs or studies to deliver anticipated results or results that would justify and support continued exploration, studies, development or operations.

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

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

REVIEW OF OPERATIONS

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

- **The Platreef Project.** Construction of the planned Platreef mine is now underway on the Company’s discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of South Africa’s Bushveld Complex. Ivanhoe holds a 64% interest in Platreef, the South African beneficiaries of a broad-based, black economic empowerment structure have a combined 26% stake in the Platreef Project and the remaining 10% is owned by a Japanese consortium of ITOCHU Corporation and its affiliate, ITC Platinum Development Ltd.; Japan Oil, Gas and Metals Corporation; and Japan Gas Corporation. (See “*Platreef Project*”.)

- **The Kipushi Project.** The existing Kipushi Mine is located on the Central African Copperbelt in the Democratic Republic of Congo’s (DRC) southern Haut-Katanga province, one of Africa’s major mining hubs. The mine, which operated between 1924 and 1993, is approximately 30 kilometres southwest of the provincial capital, Lubumbashi, and less than one kilometre from the DRC-Zambia border. Ivanhoe holds a 68% interest in Kipushi; the state-owned mining company, Gécamines, holds the remaining 32% interest. (See “*Kipushi Project*”.)

- **The Kamoa-Kakula Copper Project.** A joint venture between Ivanhoe Mines and Zijin Mining Group Co., Ltd., (“Zijin” or “Zijin Mining”) within the Central African Copperbelt in the Democratic Republic of Congo’s southern Lualaba Province. Following the signing of an agreement with the DRC government in November 2016 to transfer an additional 15% interest in the Kamoa-Kakula Project to the government of the DRC, Ivanhoe Mines and Zijin Mining each hold an indirect 39.6% interest in the Kamoa-Kakula Project, Crystal River Global Limited holds an indirect 0.8% interest and the DRC government holds a direct 20% interest. The Kamoa-Kakula Project is independently demonstrated as the largest copper discovery ever made in the history of mining on the African continent and already ranks among the 10 largest copper deposits in the world (See “*Kamoa-Kakula Project*”.)

PLATREEF PROJECT

The Platreef Project is owned by Ivanplats (Pty) Ltd, which is 64%-owned by Ivanhoe Mines. A 26% interest is held by Ivanplats' historically-disadvantaged broad-based, black economic empowerment (B-BBEE) partners, which include 20 local host communities with a total of approximately 150,000 people, project employees and local entrepreneurs. In January 2017, Ivanplats reconfirmed its Level 3 status in its third 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 and development activities on defining and advancing the down-dip extension of its original discovery at Platreef, now known as the Flatreef Deposit, which is amenable to highly mechanized, underground mining methods. The Flatreef area lies entirely on the Turfspruit and Macalacaskop properties, which form part of the Company's mining right.

Platreef Mineral Resources

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

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

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

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

Health and safety at Platreef

The Platreef Project reached a total of 6,686,087 million hours worked in terms of the Mines Health and Safety Act and the Occupational Health and Safety Act (OHSA) by the end of December 2016.

A Lost Time Injury (LTI) occurred to one of the shaft-sinking contract employees in December 2016. Various remedial actions have been implemented to prevent a re-occurrence. The Platreef Project continues to strive toward its workplace objective of an environment that causes zero harm to any employees, contractors, sub-contractors and consultants.

Shaft 1 construction

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

Following the successful commissioning of the stage and kibble winders and ancillary equipment, the permanent sinking phase started in July 2016. The initial sinking phase was completed to 107 metres below surface and the main sinking phase has been initiated. Shaft 1 had reached a depth of 280 metres below surface on March 24, 2017.

An average sinking rate of 45 metres per month is expected during the main sinking phase. The shaft includes a 300-millimetre concrete lining to prevent loose rock from falling into the shaft. The main sinking phase is expected to reach its projected, final depth of 980 metres below surface in 2018. Shaft stations to provide access to horizontal mine workings for personnel, materials and services will be developed at depths of 450 metres, 750 metres, 850 metres and 950 metres below surface.

Figure 1: Shaft 1 headgear showing removal of excavated rock from shaft-sinking operations.

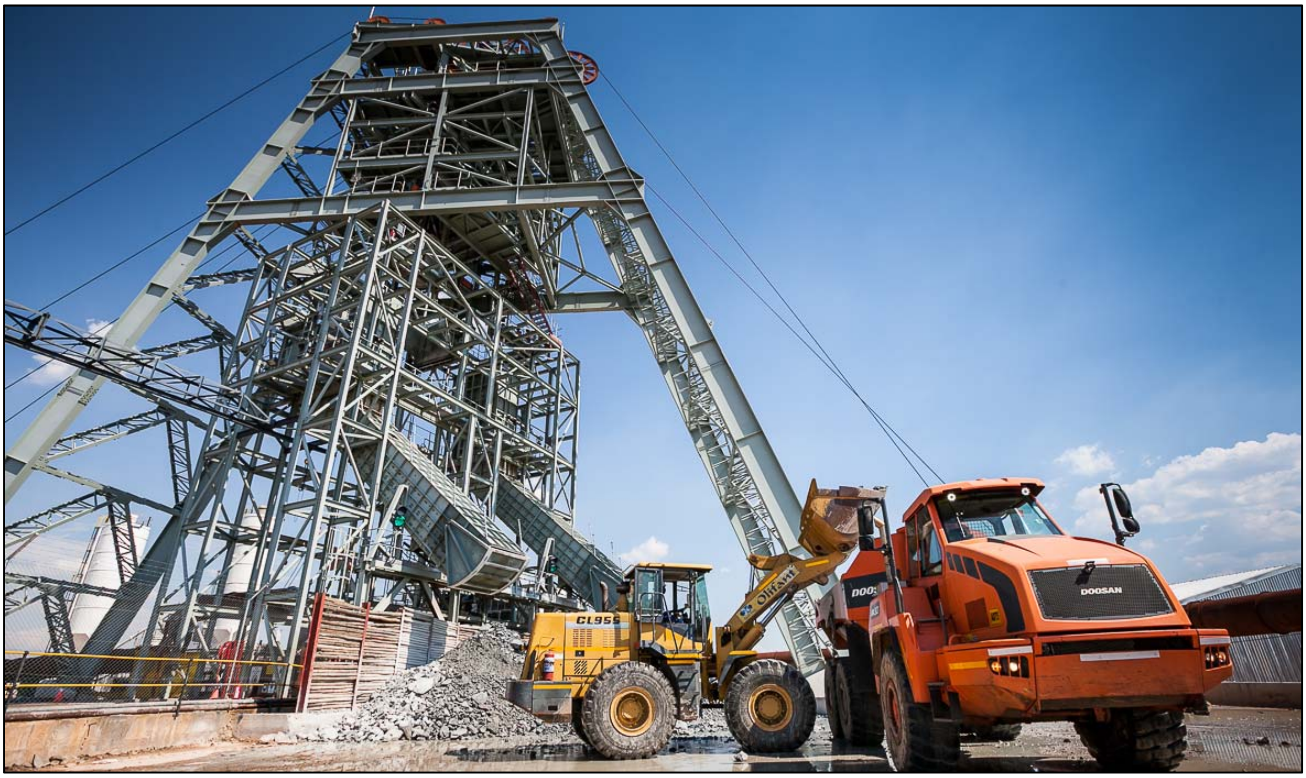


Figure 2: Shaft-sinking crew operating jumbo drill rigs underground in Shaft 1.

The design has been completed for Platreef's Shaft 2, which will have a total hoisting capacity of six million tonnes per annum and an internal diameter of 10 metres. Tender adjudications are underway and construction of the box-cut is expected to begin in Q2 2017.

Eskom's 5MVA line to the Platreef Project supplying grid power to the Platreef Project

Work is complete on the Platreef electrical substation, which has a capacity of five million volt-amperes (MVA). Construction recently was completed on the power transmission lines from Eskom, South Africa's public electricity utility, which now is supplying the electricity for shaft sinking. Back-up generators have been installed to ensure continued sinking operations during any interruptions in Eskom's supply. The new transmission lines also are expected to provide power to an adjacent community near the Platreef Project, which will be a major, added community benefit.

Figure 3: Eskom's 5MVA line to the Platreef Project.

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

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

Ivanhoe has made good progress on advancing the feasibility study of the first phase, which began in August 2015. The study is being managed by DRA Global – with specialized sub-consultants including Stantec Consulting, Murray & Roberts Cementation, SRK, Golder Associates and Digby Wells Environmental – and is expected to be completed in the first half of 2017.

Exploration activities

No exploration drilling occurred on the Platreef Project in 2016. Exploration and resource development activities in Q1 and Q2 2016 were focused on finalizing the new resource estimate for the feasibility study. Work in Q3 and Q4 2016 focused on geotechnical mapping of the shaft.

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 concentrate 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 the PGE 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 surface. The main access to the Flatreef Deposit and ventilation system is expected to be through four vertical shafts: 1, 2, 3 and 4. Shaft 2 will host the main personnel transport cage, material and ore-handling system; shafts 1, 3 and 4 will provide ventilation to the underground workings. Shaft 1, now under development, also will be used for initial access to the deposit and early underground development.

The planned mining will incorporate low-cost, mechanized mining methods, including long-hole stoping and drift-and-fill mining. Mined-out areas will be backfilled with a mixture of tailings from the processing 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 the surface for processing.

Bulk water and electricity supply

The Olifants River Water Resource Development Project (ORWRDP) is designed to deliver water to the Eastern and Northern limbs of South Africa's Bushveld Complex. The project consists of the new De Hoop Dam, the raised wall of the Flag Boshielo Dam and related pipeline infrastructure that ultimately is expected to deliver water to Pruissen, southeast of the Northern Limb. The Pruissen Pipeline Project is expected to be developed to deliver water onward from Pruissen to the municipalities, communities and mining projects on the Northern Limb. Ivanhoe is a member of the ORWRDP's Joint Water Forum.

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

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

First phase of the relocation of informal graves completed

On February 2, 2017, a South African judge issued a ruling in favour of Ivanplats clearing the way for the Company to proceed with the relocation of informal graves in the vicinity of its Platreef Mine development project.

A total of 75 informal graves were successfully relocated from land outside the perimeter of the active mine development site to new burial plots in a formal cemetery. An additional 19 locations were investigated and found not to contain human remains. The Ivanplats support program included assistance in providing new burial plots in a formal cemetery, tombstones and related services.

Ivanplats plans to relocate an estimated 27 additional informal graves as part of the second phase of its relocation program after the permits for the exhumations and reburials have been received. Further phases on peripheral infrastructure areas also are planned. The relocation of remaining informal graves will not impact on the development of the Platreef Project.

Development of human resources and job skills

Work is progressing well on the 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, culminating in 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 upskill the current work force.

KIPUSHI PROJECT

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

Health, safety and community development

The Kipushi Project achieved a total of 4,943,935 work hours free of lost-time injuries, equivalent to 1,604 days, to the end of 2016. Malaria remains the most frequently occurring health concern at Kipushi with approximately 200 cases reported in 2016 – an average of approximately 17 cases per month.

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 accumulations of ponded water, where malarial mosquitos breed.

The Fionet program to improve malaria diagnostics and treatment expanded to 300 Deki readers installed in 252 medical service providers in Haut-Katanga and Lualaba provinces in Southern DRC, which host Ivanhoe's Kipushi and Kamoa-Kakula Projects. Deki readers provide automated readings of rapid diagnostic tests to remove the human-error factor and avoid prescription of unnecessary medication. The data is uploaded to a cloud server for analysis by the Ministry of Health in planning malaria-control measures. There were more than 30,000 patient encounters, where Deki readers provided diagnostic testing, during the past year, with approximately 63% of patients testing negative for malaria.

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

Kipushi Mineral Resources

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

Zinc-rich Measured and Indicated Mineral Resources total 10.18 million tonnes at 34.89% zinc, 0.65% copper, 0.96% lead, 19 g/t silver, 15ppm cobalt and 51 g/t Germanium at a 7% zinc cut-off, containing

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

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

Project development and infrastructure

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

Figure 4: New high-capacity water pumps at Kipushi's 1,200-metre level.

Since completion of the drilling program, water levels have been lowered to the bottom of Shaft 5, which is planned to be the mine's main production shaft. The shaft is eight metres in diameter, 1,240 metres deep and approximately 1.5 kilometres from the planned main mining area. It provides the primary access to the lower levels of the mine, including the Big Zinc Deposit, through the 1,150-metre haulage level and underground ramp decline.

Engineering work has focused on the 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. A new highvolume ventilation fan also has been installed and commissioned on surface at Shaft 4 to provide fresh air to the underground workings.

Pre-feasibility study underway at Kipushi

In September 2016, Ivanhoe began a pre-feasibility study (PFS) on the Kipushi Project that will further refine the optimal development scenario for the existing underground mine at Kipushi. Orewin, of Australia, has been appointed the main engineering firm for the preparation of the PFS. Golder Associates, MDM, SRK, DRA, Murray & Roberts and Grindrod also have been engaged to complete various aspects of the study.

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

Highlights of the 2016 PEA, prepared by OreWin and the MSA Group (Pty) Ltd, of Johannesburg, South Africa, include:

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

KAMOA-KAKULA PROJECT

The Kamoa-Kakula Copper Project, a joint venture between Ivanhoe Mines and Zijin Mining, has been independently ranked as the largest copper discovery ever made on the African continent, with adjacent prospective exploration areas within the Central African Copperbelt in the Democratic Republic of Congo, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of Lubumbashi.

Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited 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. Since the conclusion of the Zijin transaction in December 2015, each shareholder has been required to fund expenditures at the Kamoa-Kakula Project in an amount equivalent to its proportionate shareholding interest in Kamoa Holding.

A 5%, non-dilutable interest in the Kamoa-Kakula Project was transferred to the DRC government on September 11, 2012, for no consideration, pursuant to the DRC Mining Code. Following the signing of an agreement with the DRC government in November 2016, in which an additional 15% interest in the

Kamoa-Kakula Project was transferred to the DRC government, Ivanhoe and Zijin Mining now each hold an indirect 39.6% interest in the Kamoa-Kakula Project, Crystal River Global Limited holds an indirect 0.8% interest and the DRC government holds a direct 20% interest. Kamoa Holding Limited continues to hold an 80% interest in the project.

New discovery hole intersects a thick, shallow, 3.8-kilometre extension – now known as Kakula West – of the Kakula Copper Discovery

On March 21, 2017, Ivanhoe announced that a new step-out hole – drilled 5.4 kilometres west of the present boundary of Kakula's current Inferred Resources – intersected a relatively shallow, 16.3-metre zone of typical Kakula-style, chalcocite-rich copper mineralization similar to holes drilled in the centre of the high-grade Kakula Deposit on the Kamoa-Kakula Copper Project.

The DD1124 discovery hole is 3.8 kilometres west of the current limit of Kakula drilling and 4.1 kilometres west of the last drill hole with returned assays – DD1093 – that was announced on January 23, 2017.

The target area where DD1124 was drilled – now named Kakula West – was selected by the Kamoa-Kakula geological team at the intersection of the axis of the interpreted Kakula trend with a southwesterly-northeasterly-trending antiform (the Kakula West antiform). DD1124 intersected 16.3 metres of visually moderate-strong chalcocite copper mineralization, similar to the mineralization encountered within the core of the chalcocite-rich Kakula Deposit, beginning at a downhole depth of 422.2 metres (410 metres below surface), which included a 4.0-metre zone of strong-to-very-strong mineralization beginning at a downhole depth of 432.4 metres. Assays for DD1124 are expected early next month. Up to five rigs are being mobilized to fast-track the drilling at the Kakula West discovery.

Hole DD1124 has extended the length of the Kakula mineralized trend to approximately 10.1 kilometres, essentially doubling the previously estimated strike length of 5.5 kilometres contained in Ivanhoe's January 23, 2017, news release. The continuing success also means that the discovery has grown to become six kilometres longer than the deposit's 4.1-kilometre strike length that was used in calculating the initial Kakula resource estimate in October 2016.

The Kakula Discovery remains open along a westerly-southeasterly strike. Importantly, the chalcocite-rich zone of mineralization in DD1124 was intersected at a depth of approximately 400 metres below surface, significantly shallower than several of the mineralized intercepts announced in January 2017 that were drilled closer to the western boundary of the Kakula Inferred Resource (See Figure 7).

Figure 5: **Kamoa-Kakula mining licence – showing copper grade of Indicated and Inferred Resources at a 2% copper cut-off, untested areas, current target areas and location of Kakula West Discovery.**

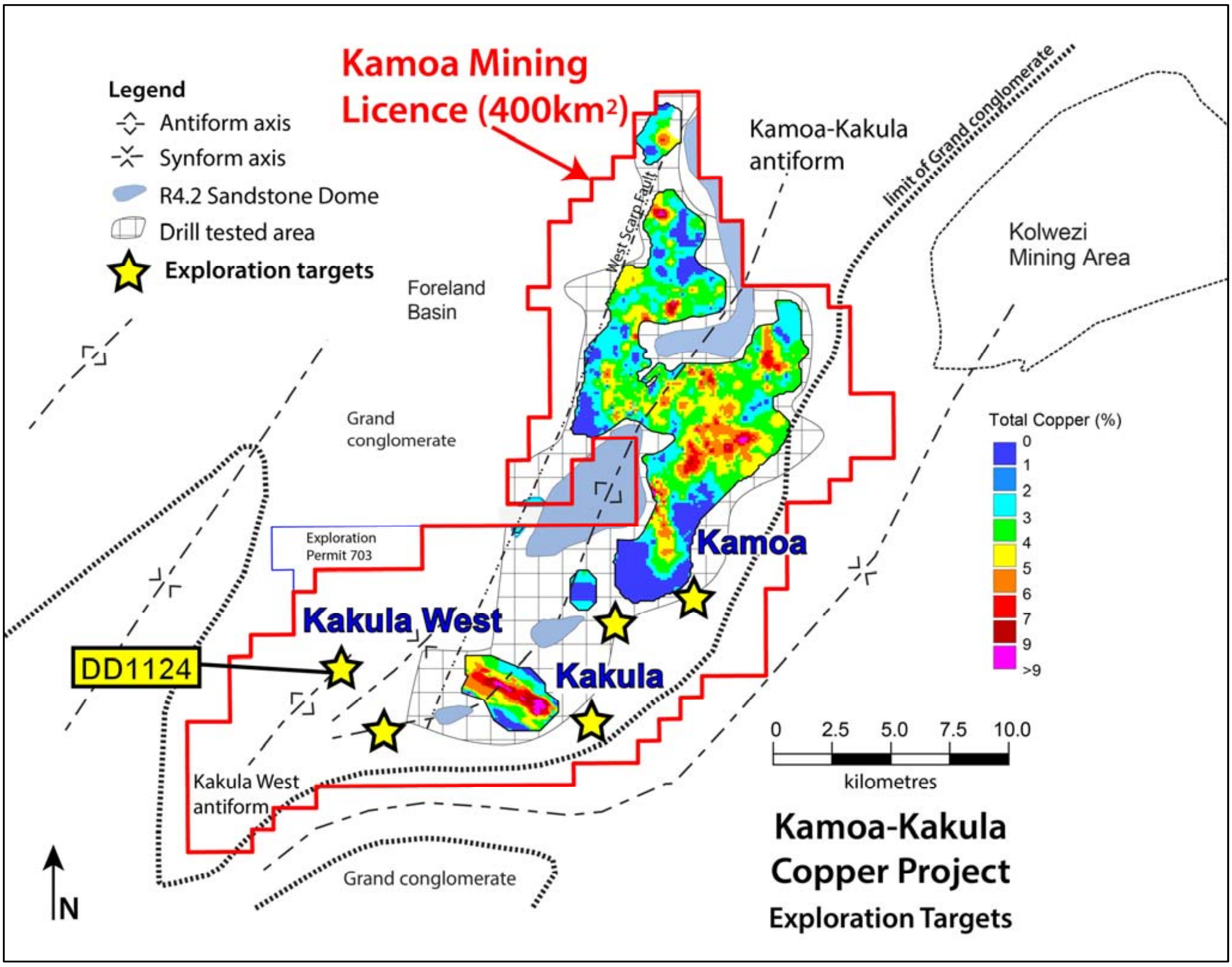


Figure 6: Planned drilling over the Kakula Exploration Area for Q1 2017 and Q2 to Q4 2017, showing current and future drilling areas and location of recent significant intersections.

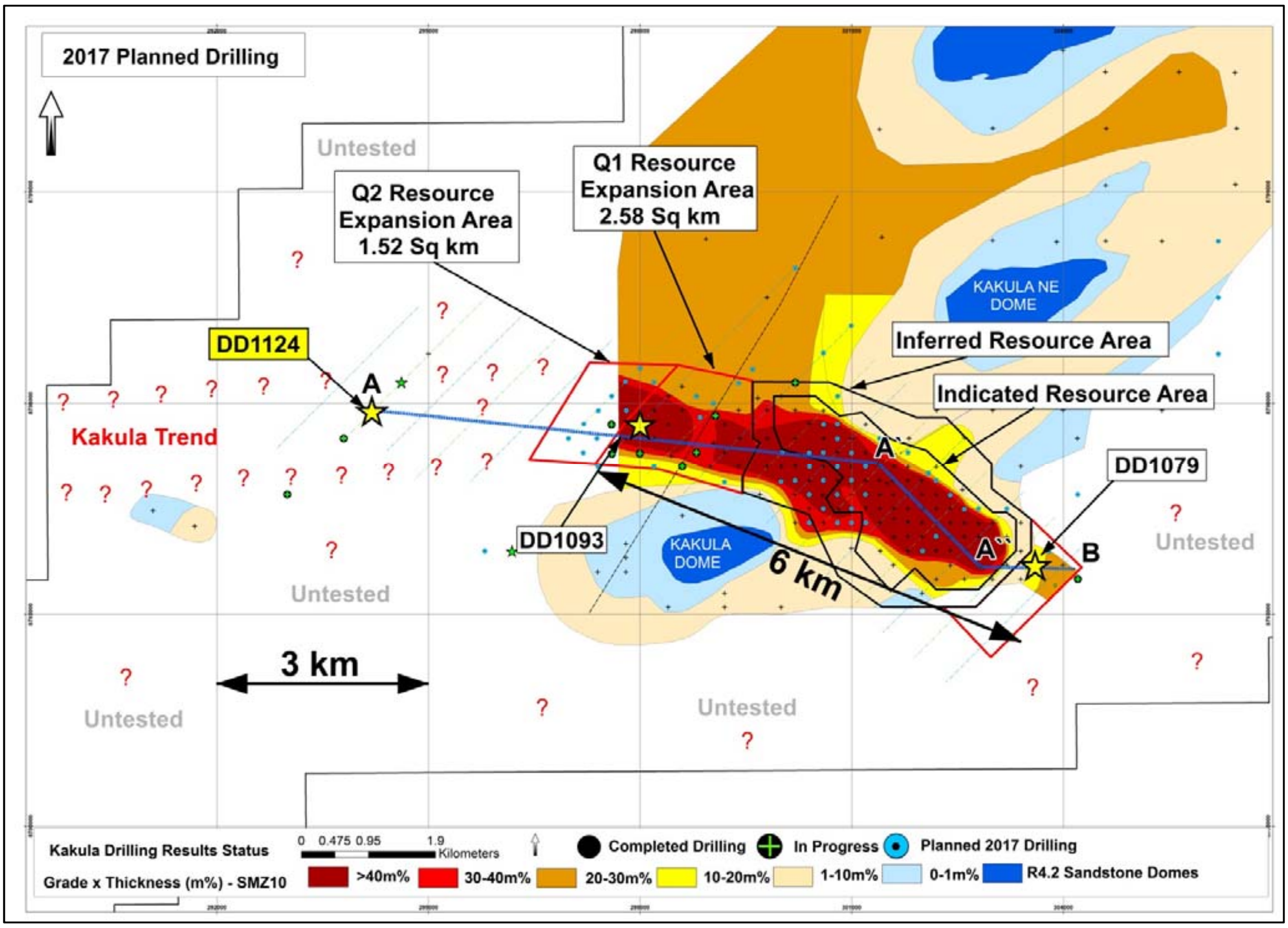
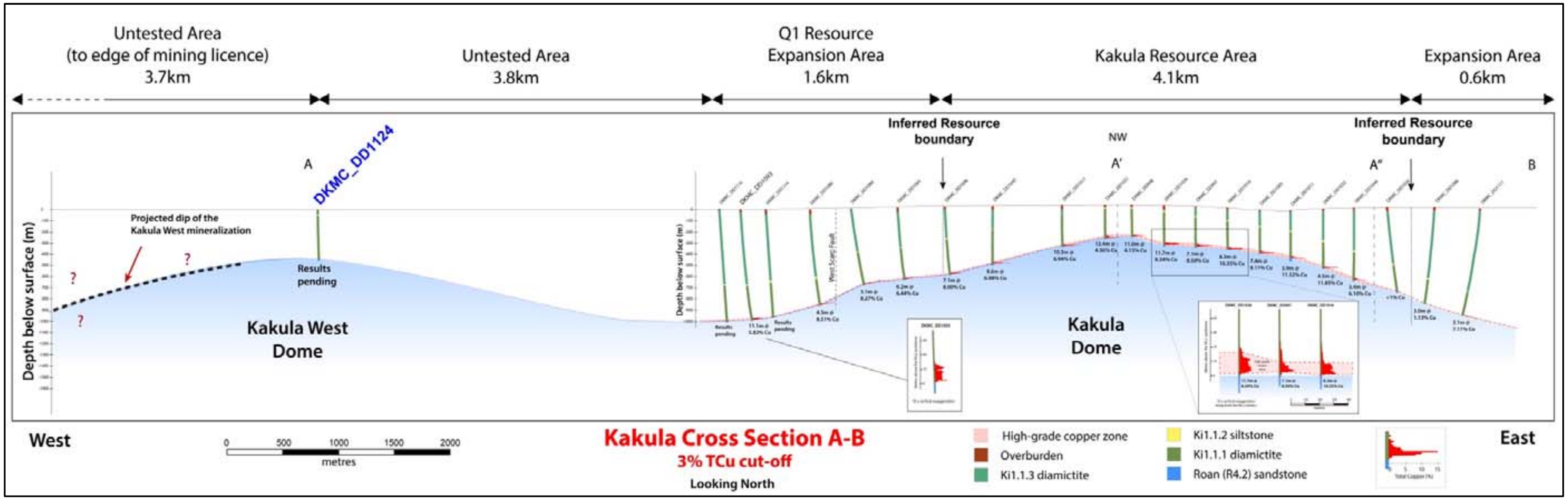


Figure 7: Section along the axis on the Kakula Deposit on the section A - A'- A'' - B showing drilling completed to date and composites at a 2.5% copper cut-off.



Kamoa-Kakula Mineral Resources

Ivanhoe issued an updated Mineral Resource for the Kamoa-Kakula Project on October 12, 2016. The updated Mineral Resource included the initial Kakula Mineral Resource estimate, prepared by Ivanhoe Mines under the direction of Amec Foster Wheeler E&C Services Inc., of Reno, USA, in accordance with the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves. The Qualified Persons for the Kamoa-Kakula Mineral Resource estimate are Dr. Harry Parker, RM, SME and Gordon Seibel, RM, SME both of Amec Foster Wheeler E&C Services Inc.

The combined Kamoa-Kakula Project's Indicated Mineral Resources now total 944 million tonnes grading 2.83% copper, containing 58.9 billion pounds of copper at a 1.0% copper cut-off grade and a minimum thickness of three metres. Kamoa-Kakula now also has Inferred Mineral Resources of 286 million tonnes grading 2.31% copper and containing 14.6 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum thickness of three metres.

The Kakula Indicated Mineral Resources total 192 million tonnes at a grade of 3.45% copper, containing 14.6 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Indicated Resources total 115 million tonnes at a 4.80% copper grade, containing 12.1 billion pounds of copper. At a higher cut-off of 3% copper, Indicated Resources total 66 million tonnes at a grade of 6.59% copper, containing 9.6 billion pounds of copper. Kakula has Inferred Mineral Resources totalling 101 million tonnes at a grade of 2.74% copper, containing 6.1 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Inferred Resources total 51 million tonnes at a 3.92% copper grade, containing 4.4 billion pounds of copper. At a higher cut-off of 3% copper, Inferred Resources total 27 million tonnes at a grade of 5.26% copper, containing 3.2 billion pounds of copper. Kakula's Indicated and Inferred resources are included in the combined Kamoa-Kakula Project resources.

The average true thickness of the Kakula selective mineralized zone (SMZ) at a 1% cut-off is 14.27 metres in the Indicated Resources area and 10.33 metres in the Inferred Resources area. At a higher 3% cut-off, the average true thickness of the SMZ is 5.91 metres in the Indicated Resources area and 5.15 metres in the Inferred Resources area.

Kamoa-Kakula studies

On December 13, 2016, Ivanhoe Mines announced the results of a positive, independent, preliminary economic assessment of initial options for the start-up of world-scale copper mining on the Kakula and Kamoa deposits.

The PEA presented two initial development scenarios for the Kamoa-Kakula Project.

One initial option analyzed in the PEA is the development of a four-million-tonne-per-annum (Mtpa) Kakula Phase 1 Mine at the Kakula Deposit, in the southerly portion of the project's discovery area. For this option, the PEA envisaged an average annual production rate of 216,000 tonnes of copper at a mine-site cash cost of $0.37/lb copper for the first 10 years of operations and peak copper production of 262,000 tonnes by year three.

A pre-production capital cost of $1.0 billion for this option would result in an after-tax net present value at an 8% discount rate (NPV8%) of $3.7 billion with an after-tax internal rate of return (IRR) of 38%.

The PEA also analyzed an alternative initial option that could involve a two-phase, sequential expansion of production to 8 Mtpa from the proposed Kakula Phase 1 Mine at the Kakula Deposit and also the Kansoko Mine at the adjacent Kamoa Deposit. Under this alternative, the PEA envisaged $1.0 billion in capital costs and an average annual production rate of 292,000 tonnes of copper at a mine-site cash cost of $0.42/lb copper during the first 10 years of operations and peak production of 370,000 tonnes by year seven. This would result in an after-tax NPV8% of $4.7 billion, an after-tax IRR of 34.6% and payback period of 3.5 years.

Health and safety at Kamoa-Kakula

Health and safety remain key priorities for all people working at the Kamoa-Kakula Project. A noteworthy milestone of six million hours worked without a lost-time injury was achieved at the project on December 29, 2016.

Exploration activities lead to a substantial expansion of the Kakula Discovery

During Q4 2016, a total of 13,508 metres of exploration drilling was completed at the new Kakula Discovery. A further 11,678 metres were completed by the drilling contractor, Titan Drilling SARL, utilizing up to six drill rigs; an additional 1,831 metres were completed using company-owned drill rigs. Included in the drilling program were holes drilled for geotechnical studies to help find a suitable location for the Kakula box-cut. Exploration drilling for 2016 totalled 45,853 metres.

Expanded exploration activities

A decision was made at the end of Q4 2016 to increase exploration diamond drilling activity into 2017. The intention is to accelerate the resource expansion drilling planned for Q1 and Q2 2017 to establish sufficient resource for an expansion of the 4 Mpta production plan option examined in the December 13, 2016, PEA. The PEA examined two possible development options for the Kakula Deposit, and the Kakula Deposit together with the adjacent Kamoa Deposit. A total of nine rigs now are dedicated to the resource expansion drilling program. The current plan is to update the Mineral Resource in early Q2 2017.

Geological investigations of the untested parts of the Kamoa-Kakula licence are ongoing and a number of significant targets have been identified. Five rigs now are dedicated to drill testing regional targets on the Kamoa-Kakula licence, including Kakula West, bringing the total number of rigs active at Kamoa-Kakula to 14. Locations of the delineated resources, drill-tested areas and targets for future exploration are shown in Figure 5.

Improved copper recoveries and concentrate grades confirmed by preliminary metallurgical tests on drill core from Kakula

In July 2016, initial metallurgical test results from a sample of exploration drill core from the Kakula area achieved copper recoveries of 86% and produced a copper concentrate with a grade of 53% copper.

Due to high-grade intercepts consistently achieved at Kakula, an additional sample of higher grade was selected and shipped to the XPS laboratories for preliminary floatation tests. DD1012 and DD1036 composite grading 8.1% copper, produced a recovery of 87.8% at an extremely high concentrate grade of 56% copper.

These positive preliminary Kakula metallurgical test results indicate that the metallurgy is very similar to that at Kansoko Sud and Centrale, and that mineralization from these three areas could be successfully processed through the same concentrator plant.

A metallurgical drilling campaign for a representative composite sample is planned for Q2 2017 for PFS circuit development and optimization in line with the defined Kakula resource. Earlier metallurgical testwork indicated that the Kamoa and Kakula concentrates contain extremely low arsenic levels, by world standards – approximately 0.02%. Given this critical competitive marketing advantage, Kamoa-Kakula concentrates are expected to attract a significant premium from copper-concentrate traders for use in blending with concentrates from other mines. The concentrates will help to enable the other concentrates to meet the limit of 0.5% arsenic imposed by Chinese smelters to meet China's environmental restrictions.

Mine development at Kansoko Sud

Byrnecut Underground Congo SARL progressed well with the decline development at Kansoko Sud during Q4 2016. The service and conveyor declines each have been advanced more than 670 metres through underground development work.

Development of the underground mine is designed to reach the high-grade copper mineralization at the Kansoko Sud Deposit during Q2 2017.

Figure 8: Ongoing construction of access declines for the Kamoa-Kakula Copper Project's high-grade Kansoko Mine.

Kakula box-cut and decline development

The Kamoa-Kakula technical team has identified a location for a box-cut for the initial portal to planned decline ramps that will provide underground access to the Kakula Deposit. The design of the box-cut has been completed and the excavation, support and civil works have been tendered. Bids have been received and adjudicated and Kamoa-Kakula now is in a position to award the work. Construction of the Kakula box-cut is expected to take approximately six months, after which development of the set of twin declines can commence.

A tender document is under preparation for the Kakula decline development and is expected to be issued to prospective contractors in April 2017.

Kakula road construction

A 10-kilometre road from the Kamoa mine site to Kakula has been constructed to facilitate access for drill rigs and construction equipment.

Kamoa mine site connected to the national hydroelectric grid

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

An eight-kilometre, 11kV overhead power line with mini substations has been constructed from the mine site to the Kamoa camp and is supplying hydropower from the mine to the camp. The supply of electricity from the grid has resulted in significant savings from reduced use of diesel fuel.

Figure 9: Kamoa mobile substation.

Initial repair work enables Mwadingusha power station to supply electricity to grid

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

Preparations for permanent power progressed well during Q4 2016. The contract to purchase four turbines for the Mwadingusha power plant upgrades was awarded and the contract signed between SNEL and the consortium Andritz Hydro & CEGELEC. A site visit by the consortium took place in December in preparation for demolition work to start in August 2017.

Continued focus on community and sustainability

The number of unskilled job opportunities from the Kamoa-Kakula Project and contractors has risen during Q4 2016 due to the increase in activity around the camp and mine area. Preference is given to local job-seekers and numerous positions have been filled.

The sustainable livelihoods project is largely aimed at economically empowering communities in the vicinity of the planned mine. The project, which has been in place for the past five years, successfully implemented the following programs in benefiting communities during 2016:

- a small-holder maize (corn) production program yielded maize from 16 communities;
- a vegetable program supplying produce to the Kamoa-Kakula Project camp kitchen;
- a poultry project now is self-sustaining and supplies the Kamoa-Kakula Project camp kitchen with chickens and eggs;
- a beekeeping program managing 50 honey-producing hives; and
- aquaculture production that is reducing the cost of fish for the Kamoa-Kakula Project and empowering involved communities through nutrition enhancement and economic growth.

Community projects in 2016 also included the construction of a secondary school at the local Kaponda village.

Figure 10: One of the community maize (corn) plantations in the vicinity of the Kamoa-Kakula Project.

SELECTED ANNUAL FINANCIAL INFORMATION

This selected financial information is in accordance with IFRS as presented in the annual consolidated financial statements. Ivanhoe had no operating revenue in any financial reporting period and did not declare or pay any dividend or distribution in any financial reporting period.

	For the year ended December 31,		
	2016	2015	2014
	$'000	$'000	$'000
Exploration and project expenditure*	32,426	40,751	97,933
Share-based payments	5,977	7,722	97,294
General administrative expenditure*	18,835	17,445	30,998
Finance income	(29,902)	(2,204)	(1,041)
Finance costs	1,798	1,674	2,241
Share of losses from joint venture	21,732	1,030	-
Deferred tax expense (recovery)	790	(1,624)	(46)
Gain on partial sale of subsidiary	-	(357,671)	-
Re-measurement to fair value of the interest retained in joint venture	-	(376,148)	-
Mark-to-market gain on revaluation of warrants	-	(6,945)	(9,524)
(Gain) loss from subsidiary held for partial sale	-	(4,319)	38,537
Total comprehensive loss (profit) attributable to:			
Owners of the Company	23,011	(681,274)	227,347
Non-controlling interest	12,739	12,969	32,863
Loss (profit) per share (basic and diluted)	0.04	(0.93)	0.34
Total assets	1,002,230	1,022,578	253,077
Non-current liabilities	28,957	28,103	23,603

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

DISCUSSION OF RESULTS OF OPERATIONS

Review of the year ended December 31, 2016 vs. December 31, 2015

The Company recorded a total comprehensive loss of $35.8 million for the year ending December 31, 2016, compared to a total comprehensive profit of $668.3 million for the year ending December 31, 2015. The profit in 2015 was attributable mainly to the gain on the partial sale of Kamoa Holding of $357.7 million and the re-measurement to fair value of the interest retained in the joint venture of $376.1 million.

In 2015, the Company sold a 50.5% stake in Kamoa Holding, the company that owned 95% of the Kamoa-Kakula Project. The Company sold a 49.5% stake to Gold Mountains (H.K.) International Mining Company Limited, a subsidiary of Zijin Mining Group Co., Ltd. (Zijin), for an aggregate consideration of $412 million. Zijin paid an initial $206 million at closing in December 2015, followed by the payment of the first three of five scheduled $41.2 million installments in March, July and October 2016 and the fourth installment in February 2017. The fifth and final $41.2 million installment payment is due on May 23, 2017. In addition, the Company sold 1% of its share interest to Crystal River Global Limited. Crystal River paid its purchase consideration of $8.32 million through a non-interest-bearing, 10-year promissory note.

The present value of the purchase consideration at the closing date, net of transaction costs, amounted to $390.4 million. As a result of the partial sale, the Company derecognized the assets, liabilities and non-controlling interest of Kamoa Holding, recognized the investment retained at its fair value, deemed to be $408.2 million at the time. This resulted in the gain associated with the sale of $357.7 million and the re-measurement to fair value of the interest retained in the joint venture of $376.1 million. Subsequent to the partial sale, the Company accounted for Kamoa Holding as a joint venture using the equity method of accounting.

When excluding the 2015 gain on the partial sale of Kamoa Holding of $357.7 million and the re-measurement to fair value of the interest retained in the joint venture of $376.1 million, the Company's total comprehensive loss for the year ending December 31, 2015 amounted to $65.5 million. This is $29.7 million higher than the total comprehensive loss for the same period in 2016 of $35.8 million. The decrease mainly was due to exchange gains on translation of foreign operations of $10.2 million recognized in 2016 compared to an exchange loss on translation of foreign operations of $20.7 million in 2015, as well as the Company's share of losses from the Kamoa Holding joint venture that increased from $1.0 million in 2015 to $21.7 million in 2016.

The increase in finance income of $27.7 million, together with an $8.3 million decrease in exploration and project expenditure, also contributed to the decreased comprehensive loss for the period, but was partly offset by the Company's mark-to-market gain on revaluation of warrants of $6.9 million that expired during December 2015.

Finance income for the year ending December 31, 2016, amounted to $29.9 million, and was $27.7 million more than for the same period in 2015 ($2.2 million). The increase mainly was due to interest earned on loans to the Kamoa Holding joint venture that amounted to $16.2 million in 2016, together with deemed finance income on the purchase price receivable from the partial sale of the Kamoa-Kakula Project, of $11.0 million.

The following table summarizes the Company's share of the comprehensive loss of Kamoa Holding for the year ending December 31, 2016 and for 2015, from December 8, when the Company sold 50.5% of its interest in Kamoa Holding:

	Year ended December 31, 2016	Year ended December 31, 2015
	$'000	$'000
Interest expense	32,438	1,806
Interest income	(111)	-
Exploration costs	14,743	482
Foreign exchange loss (gain)	187	(117)
Loss for the period	47,257	2,171
Loss attributible to non-controlling interest	(3,354)	(89)
Loss for the period attributible to joint venture partners	43,903	2,082
Company's share of losses from joint venture (49.5%)	21,732	1,030

The costs associated with mine development are capitalized as development costs in Kamoa Holding, while the exploration expenditure at Kakula is expensed. The interest expense in the Kamoa Holding joint venture relates to shareholder loans where each shareholder is required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest.

Exploration and project expenditures for the year ending December 31, 2016, amounted to $32.4 million and were $8.4 million less than for the same period in 2015 ($40.8 million). The $4.1 million retrenchment costs incurred in 2015 relating to the closure of Ivanhoe's regional exploration company in the DRC was the main reason for the decrease, together with reduced expenditure at the Kipushi Project.

With the focus at the Platreef Project on development and the Kamoa-Kakula Project being accounted for as a joint venture, $31.7 million of the total $32.4 million exploration and project expenditure related to the Kipushi Project. Expenditure at the Kipushi Project decreased by $2.0 million compared to the same period in 2015. The main classes of expenditure at the Kipushi Project for the year ending December 31, 2016 and 2015 are set out in the following table:

	Year ended December 31, 2016	Year ended December 31, 2015
	$'000	$'000
Kipushi Project		
Salaries and benefits	11,742	11,693
Electricity	5,255	5,974
Repair and maintenance	3,477	2,102
Depreciation	3,197	2,903
Indirect taxes	952	1,221
Contracting work	828	1,084
Site security and safety	735	997
Drilling	-	3,291
Other expenditure	5,488	4,376
Total project expenditure	31,674	33,641

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

The Company's total assets decreased by $20.3 million, from $1,022.6 million as at December 31, 2015, to $1,002.2 million as at December 31, 2016. This resulted from the Company utilizing its cash resources in its operations.The Company's total liabilities increased by $2.2 million to $46.0 million as at December 31, 2016, from $43.8 million as at December 31, 2015.

The remaining purchase price receivable due to the Company as a result of the sale of 49.5% of Kamoa Holding decreased as the Company received $134.3 million from Zijin during 2016. The present value of the remaining consideration receivable, net of transaction costs, was $76.2 million as at December 31, 2016. Ivanhoe received $41.2 million of the remaining consideration receivable subsequent to December 31, 2016, on February 8, 2017, and the last installment is due on May 23, 2017.

The Company's investment in the Kamoa Holding joint venture increased by $61.6 million from $412.0 as at December 31, 2015, to $473.6 million as at December 31, 2016, with the current shareholders funding the operations equivalent to their proportionate shareholding interest. The Company's portion of the Kamoa Holding joint venture cash calls amounted to $58.4 million during 2016, while the Company's share of comprehensive loss from joint venture amounted to $21.7 million. At Kamoa-Kakula, the focus remained on development, together with an exploration program at the Kakula Discovery.

Property, plant and equipment increased by $48.4 million, with a total of $43.5 million being spent on project development and to acquire other property, plant and equipment, $40.3 million of which pertained to development costs of the Platreef Project.

The Company utilized $31.0 million of its cash resources in its operations and earned interest income of $2.7 million in 2016.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	3 Months ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	$'000	$'000	$'000	$'000
Exploration and project expenditure	9,507	7,769	8,233	6,917
General administrative expenditure	7,272	4,213	3,657	3,693
Share-based payments	1,442	1,750	1,312	1,473
Finance income	(6,827)	(7,239)	(7,367)	(8,469)
Finance costs	471	454	445	428
Total comprehensive loss (profit) attributable to:				
Owners of the Company	14,101	(1,860)	6,568	4,203
Non-controlling interest	3,914	2,445	3,483	2,897
Loss per share (basic and diluted)	0.02	0.01	0.01	0.01

	3 Months ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	$'000	$'000	$'000	$'000
Exploration and project expenditure *	10,271	8,553	9,009	12,918
General administrative expenditure *	5,833	4,430	1,323	5,859
Share-based payments	2,345	1,655	1,736	1,986
Gain on partial sale of subsidiary	(357,671)	-	-	-
Re-measurement to fair value of the interest retained in joint venture	(376,148)	-	-	-
Finance income	(1,191)	(273)	(445)	(295)
Finance costs	1,556	36	48	34
Mark-to-market gain on revaluation of warrants	(429)	(970)	(1,334)	(4,212)
Loss (gain) from subsidiary held for partial sale	755	(7,958)	2,675	209
Total comprehensive loss attributable to:				
Owners of the Company	(717,213)	9,420	11,008	15,511
Non-controlling interest	2,468	3,439	3,564	3,498
(Profit)loss per share (basic and diluted)	(0.93)	0.00	0.01	0.02

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

Review of the three months ended December 31, 2016 vs. 2015

The Company recorded a total comprehensive loss of $18.0 million for Q4 2016 compared to a profit of $714.7 million for the same period in 2015. The profit in 2015 was attributable mainly to the gain on the partial sale of Kamoa Holding of $357.7 million and the re-measurement to fair value of the interest retained in the joint venture of $376.1 million as described above.

When excluding the gain on the partial sale of Kamoa Holding of $357.7 million and the re-measurement to fair value of the interest retained in the joint venture of $376.1 million, the Company's total comprehensive loss for the Q4 2015 amounted to $19.1 million. This is $1.1 million higher than for the same period in 2016 ($18.0 million).

The loss for Q4 2016 includes an exchange loss on translation of foreign operations of $0.1 million compared to $9.0 million in Q4 2015, resulting from the weakening of the South African Rand in late 2015. This was partly offset by other income of $8.2 million recognized in Q4 2015 relating to the receipt of refundable taxes which was previously expensed.

Finance income amounted to $6.8 million during the three months ending December 31, 2016, compared to $1.2 million for the same period in 2015. Interest earned on loans to the Kamoa Holding joint venture amounted to $4.7 million in Q4 2016 and deemed income on the purchase price receivable from the partial sale of the Kamoa-Kakula Project amounted to $1.5 million.

Exploration and project expenditures for the three months ending December 31, 2016, amounted to $9.5 million and were $0.8 million less than for the same period in 2015 ($10.3 million). $9.4 million of the total $9.5 million exploration and project expenditure related to the Kipushi Project, where expenditure increased by $0.8 million compared to the same period in 2015. The main classes of expenditure at the Kipushi Project in Q4 2016 and Q4 2015 are set out in the following table:

	Three months ended December 31, 2016 $'000	**Three months ended December 31, 2015 $'000**
Kipushi Project		
Salaries and benefits	3,697	3,199
Electricity	1,247	1,257
Repair and maintenance	1,061	689
Depreciation	840	718
Contracting work	317	330
Site security and safety	194	204
Drilling	-	786
Other expenditure	2,074	1,414
Total project expenditure	9,430	8,597

LIQUIDITY AND CAPITAL RESOURCES

The Company had $285.0 million in cash and cash equivalents as at December 31, 2016. Certain of the Company's cash and cash equivalents, having an aggregate value of $19.8 million, are subject to contractual restrictions as to their use and are reserved for the Platreef Project.

As at December 31, 2016, the Company had consolidated working capital of approximately $364.8 million, compared to $424.6 million at December 31, 2015. The Platreef Project working capital is restricted and amounted to $14.8 million at December 31, 2016, and $53.2 million at December 31, 2015. Excluding the Platreef Project working capital, the resultant working capital was $350.0 million at December 31, 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, through a subsidiary company, 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, July 8, 2016, October 25, 2016, and February 8, 2017; the last remaining $41.2 million is scheduled to be received on May 23, 2017. Since December 8, 2015, each shareholder in Kamoa Holding has been required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest.

The Company's main objectives for 2017 at the Platreef Project are the completion of the phase one feasibility study, the continuation of Shaft 1 construction and commencement of construction of Shaft 2. At Kipushi, the principal objective is the completion of the pre-feasibility study and continued upgrading of mining infrastructure. At the Kamoa-Kakula Project, priorities are the continuation of drilling, the continuation of construction of the twin declines at Kamoa and the commencement of a box-cut at Kakula. The Company expects to spend $60 million on further development at the Platreef Project; $33 million at the Kipushi Project; and $15 million on corporate overheads in 2017 – as well as its proportionate funding of the Kamoa-Kakula Project, expected to be $55 million for 2017.

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 ($2.9 million) and £0.9 million ($1.1 million) respectively. The first is fully repayable on June 30, 2020, secured by the property and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears, with the latter also secured by the property, incurring interest at a rate of LIBOR plus 2.5% payable monthly in arrears. During the first three years, from June 2014 until May 2017, only interest will be payable.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of $22.9 million as at December 31, 2016, and a contractual amount due of $30.3 million. The loan is repayable once the Platreef Project has residual cashflow, which is defined in the loan agreement as gross revenue generated by the Platreef Project, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not capitalized. The difference of $7.4 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:

	Payments Due By Period				
Contractual Obligations as at December 31, 2016	**Total $'000**	**Less than 1 year $'000**	**1-3 years $'000**	**4-5 years $'000**	**After 5 years $'000**
Debt	34,270	-	801	3,161	30,308
Operating leases	2,178	413	928	837	-
Shaft 1 construction – Platreef Project	13,216	11,743	1,473	-	-
Total contractual obligations	**49,664**	**12,156**	**3,202**	**3,998**	**30,308**

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

The Company is required to fund its Kamoa Holding 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:

	December 31, 2016	December 31, 2015
	$'000	$'000
Global Mining Management Corporation (a)	**2,697**	2,501
Ivanhoe Capital Aviation LLC (b)	**1,800**	1,200
Ivanhoe Capital Services Ltd. (c)	**560**	553
HCF International Advisers (d)	**487**	183
Ivanhoe Capital Pte Ltd (e)	**258**	397
GMM Tech Holdings Inc. (f)	**167**	-
Global Mining Services Ltd. (g)	**114**	111
Ivanhoe Capital Corporation (UK) Limited (h)	**2**	25
	6,085	4,970
Salaries and benefits	**3,021**	2,282
Travel	**2,081**	1,551
Consulting	**594**	871
Office and administration	**389**	266
	6,085	4,970

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

As at December 31, 2016, trade and other payables included $1.2 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 and the Executive Chairman of the Company hold an indirect equity interest in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.

(b) Ivanhoe Capital Aviation LLC (Aviation) is a private company owned indirectly by the Executive Chairman of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.

(c) Ivanhoe Capital Services Ltd. (Services) is a private company owned indirectly by the Executive Chairman of the Company. Services provides for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.

(d) HCF International Advisers (HCF) is a corporate finance adviser specializing in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. Guy de Selliers is the President and co-founder of HCF, which provides financial advisory services to the Company.

(e) Ivanhoe Capital Pte. Ltd. (Capital) is a private company owned indirectly by the Executive Chairman of the Company. Capital provides administration, accounting and other services in Singapore on a cost-recovery basis.

(f) GMM Tech Holdings Inc. (“GMM Tech”) is a private company incorporated in British Columbia, Canada and is 100% owned by Global. GMM Tech provides information technology services to the Company on a cost-recovery basis.

(g) 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.

(h) 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, 2016. 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) 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.

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 2 – Share-based payments. (ii)
- 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 is in the process of determining the impact of the adoption of these standards on the consolidated financial statements, if any. The Company has not yet adopted these new and amended standards.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

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

Financial instrument	Level	**December 31, 2016**	December 31, 2015
		$'000	$'000
Financial assets			
Financial assets at fair value through profit or loss			
Investment in listed entity	Level 1	**2,720**	1,027
Loans and receivables			
Promissary note receivable	Level 3	**10,804**	9,076
Financial liabilities			
Other liabilities			
Borrowings	Level 3	**26,875**	26,021

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 Company has two promissory notes:

- The fair value of the promissory note received as part of the purchase consideration when the Company sold its Australian subsidiaries was originally determined assuming repayment occurs on March 31, 2018 and is discounted using a rate of 8%.
- The fair value of the promissory note receivable by the Company from Crystal River was originally determined assuming repayment occurs on December 31, 2017 and is discounted using a rate of 8.3%.

The carrying value of the promissory notes are not significantly different to the fair value.

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, which include the purchase price receivable, trade and other payables and the financial liability, were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity.

Finance income

The Company's finance income is summarized as follows:

	December 31, 2016	December 31, 2015
	$	$
Interest from joint venture	**16,197**	906
Unwinding discount	**11,012**	-
Other interest income	**2,693**	1,298
	29,902	2,204

The interest from joint venture is interest received from the Kamoa Holding joint venture on shareholder loans advanced by the Company where each shareholder is required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest. The unwinding discount represents the unwinding of the purchase price receivable from Zijin.

Financial risk management objectives and policies

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

Foreign exchange risk

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

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

	December 31, 2016	December 31, 2015
	$'000	$'000
Assets		
Canadian dollar	**2,479**	1,786
South African rand	**20,486**	22,266
British pounds	**695**	1,316
Liabilities		
Canadian dollar	**(1,000)**	(246)
Australian dollar	**(21)**	(21)
South African rand	**(7,384)**	(4,262)

Foreign currency sensitivity analysis

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

	December 31, 2016	December 31, 2015
	$'000	$'000
Canadian dollar	**74**	77
Australian dollar	**(1)**	(1)
South African rand	**(97)**	(63)
British pounds	**-**	1

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 three instalments were received in March 2016, July 2016 and October 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 December 31, 2016					
Trade and other payables	13,903	366	88	783	**15,140**
Current income tax liabilities	1	-	-	-	**1**
Non-current borrowings	-	-	-	34,270	**34,270**
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**

Interest rate risk

The Company's interest rate risk arises mainly from long term borrowings and the loan advanced to the joint venture. The Company's main exposure to interest rate risk arises from the fact that the Company earns and incurs interest on interest rates linked to LIBOR.

If interest rates (including applicable LIBOR rates) had been 50 basis points higher or lower and all other variables were held constant, the Company's loss for the year ended 31 December 2016 would have increased or decreased by $2.6 million.

DESCRIPTION OF CAPITAL STOCK

As at March 24, 2017, 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 785,195,950 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 Pan") 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 March 24, 2017, there were 2,600,000 options, from individual stock-option agreements exercisable into 2,600,000 Class A Shares and 24,936,600 options issued in terms of the Equity Incentive Plan exercisable into 24,936,600 Class A Shares.

The Company granted 2,013,539 restricted share units (RSUs) in 2016 and 7,277,081 RSUs in 2015 per the Company's restricted share unit plan. As at March 24, 2017, there were 6,828,938 RSUs exercisable into 6,828,938 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operation of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design and operating effectiveness of the Company's DC&P and ICFR as of December 31, 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.

As at December 31, 2016, management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this MD&A, the Company's disclosure controls and procedures were effective.

The Company's CEO and CFO have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design and operation of the Company's ICFR as of December 31, 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.

As at December 31, 2016, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective.

During the year ended December 31, 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 have 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 had prepared a current independent NI 43-101-compliant technical report for each of the Platreef Project, the Kipushi Project and the Kamoa-Kakula Project, which are available under the Company's SEDAR profile at www.sedar.com:

- Technical Report dated January 20, 2017 prepared by OreWin Pty Ltd, AMEC and SRK Consulting Inc. covering the Company's Kamoa-Kakula Project;

- Technical Report dated April 22, 2016 prepared by OreWin Pty Ltd, AMEC, Stantec Inc., SRK Consulting Inc., and DRA Projects (Pty) Ltd. covering the Company's Platreef Project; and

- Technical Report dated March 11, 2016 prepared by MSA Group (Pty) Ltd and OreWin Pty Ltd covering the Company's Kipushi Project.

These technical reports include relevant information regarding the effective dates and the assumptions, parameters and methods of the mineral resource estimates on the Platreef Project, the Kipushi Project and the Kamoa-Kakula Project cited in this MD&A, as well as information regarding data verification, exploration procedures and other matters relevant to the scientific and technical disclosure contained in this MD&A in respect of the Platreef Project, Kipushi Project and Kamoa-Kakula Project.

ADDITIONAL INFORMATION

Additional information regarding the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.