

Condensed consolidated interim financial statements of

Ivanhoe Mines Ltd.

June 30, 2018
(Stated in U.S. dollars)

(Unaudited)

Ivanhoe Mines Ltd.

June 30, 2018

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Ivanhoe Mines Ltd.

Condensed consolidated interim statements of comprehensive income

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

(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Expenses					
Exploration and project expenditure		2,773	9,626	4,209	17,922
Salaries and benefits		2,220	1,936	3,632	4,402
Share-based payments	18	1,764	1,201	3,176	2,573
Travel		1,278	825	2,404	1,761
Foreign exchange losses		832	553	1,059	721
Professional fees		827	438	1,742	631
Other expenditure		466	453	1,148	985
Legal		331	93	535	229
Office and administration		315	654	1,003	1,176
Loss from operating activities		10,806	15,779	18,908	30,400
Share of losses from joint venture	6	6,702	5,035	13,902	10,553
Other expenses (income)	21	1,591	1,088	3,432	(2,577)
Finance costs	20	352	355	695	834
Finance income	19	(10,875)	(9,167)	(21,232)	(15,596)
Loss before income taxes		8,576	13,090	15,705	23,614
Income tax expense					
Current		23	145	68	196
Deferred tax recovery		(670)	151	(436)	151
		(647)	296	(368)	347
LOSS FOR THE PERIOD		7,929	13,386	15,337	23,961
Loss attributable to:					
Owners of the Company		6,391	9,338	12,164	16,158
Non-controlling interests		1,538	4,048	3,173	7,803
		7,929	13,386	15,337	23,961
Other comprehensive loss (profit)					
Items that may subsequently be reclassified to loss:					
Exchange loss (gain) on translation of foreign operations		30,044	(2,024)	18,784	(7,577)
Other comprehensive loss (profit) for the period, net of tax		30,044	(2,024)	18,784	(7,577)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		37,973	11,362	34,121	16,384
Total comprehensive loss attributable to:					
Owners of the Company		33,710	7,477	28,794	9,226
Non-controlling interest	17	4,263	3,885	5,327	7,158
		37,973	11,362	34,121	16,384
Basic and diluted loss per share	22	0.01	0.01	0.02	0.02
Weighted average number of basic and diluted shares outstanding	22	791,361,120	786,066,658	791,175,966	784,647,267

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of financial position as at

(stated in thousands of U.S. dollars)

(Unaudited)

	Notes	June 30, 2018	December 31, 2017
		\$	\$
ASSETS			
Non-current assets			
Property, plant and equipment	4	234,717	198,583
Mineral properties	5	261,297	260,287
Investment in joint venture	6	577,704	552,384
Long term loan receivable	7	35,248	34,065
Promissory note receivable	9	11,734	11,313
Deferred tax asset		1,000	766
Other assets		11,291	8,385
Total non-current assets		1,132,991	1,065,783
Current assets			
Prepaid expenses	8	6,812	8,416
Promissory note receivable	9	-	2,297
Other receivables	10	3,977	4,750
Financial assets at fair value through profit or loss	11	4,383	8,563
Cash and cash equivalents		87,063	181,419
Current tax assets		305	83
Total current assets		102,540	205,528
Total assets		1,235,531	1,271,311
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	1,143,315	1,141,514
Share option reserve	15	130,092	128,809
Foreign currency translation reserve	16	(25,485)	(8,855)
Accumulated profit		6,087	18,251
Equity attributable to owners of the Company		1,254,009	1,279,719
Non-controlling interests	17	(73,556)	(68,229)
Total equity		1,180,453	1,211,490
Non-current liabilities			
Borrowings	12	30,203	29,204
Advances payable	13	2,420	2,344
Deferred tax liabilities		2,082	2,082
Total non-current liabilities		34,705	33,630
Current liabilities			
Trade and other payables	14	17,371	23,586
Financial liability		3,002	2,605
Total current liabilities		20,373	26,191
Total liabilities		55,078	59,821
Total equity and liabilities		1,235,531	1,271,311

Continuing operations (Note 1)

Commitments and contingencies (Note 27)

(Signed) Oyvind Hushovd

Oyvind Hushovd, Director

(Signed) Livia Mahler

Livia Mahler, Director

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of changes in equity

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

(Unaudited)

	Share capital		Share option	Foreign currency	Accumulated	Equity attributable	Non-controlling	Total
	Number of shares	Amount	reserve	translation reserve	profit (deficit)	to owners	interests	
		\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2017	781,585,485	1,125,434	135,217	(21,509)	(151,967)	1,087,175	(130,913)	956,262
Loss for the period	-	-	-	-	(16,158)	(16,158)	(7,803)	(23,961)
Other comprehensive profit	-	-	-	6,932	-	6,932	645	7,577
Total comprehensive profit (loss)	-	-	-	6,932	(16,158)	(9,226)	(7,158)	(16,384)
<i>Transactions with owners</i>								
Share-based payments								
charged to operations (Note 18)	-	-	2,205	-	-	2,205	-	2,205
Options exercised (Note 15(b))	4,785,658	12,023	(8,100)	-	-	3,923	-	3,923
Balance at June 30, 2017	786,371,143	1,137,457	129,322	(14,577)	(168,125)	1,084,077	(138,071)	946,006
 Balance at January 1, 2018	 790,387,168	 1,141,514	 128,809	 (8,855)	 18,251	 1,279,719	 (68,229)	 1,211,490
Loss for the period	-	-	-	-	(12,164)	(12,164)	(3,173)	(15,337)
Other comprehensive loss	-	-	-	(16,630)	-	(16,630)	(2,154)	(18,784)
Total comprehensive loss	-	-	-	(16,630)	(12,164)	(28,794)	(5,327)	(34,121)
<i>Transactions with owners</i>								
Share-based payments								
charged to operations (Note 18)	-	-	2,780	-	-	2,780	-	2,780
Restricted share units vested (Note 15(c))	685,729	1,238	(1,238)	-	-	-	-	-
Options exercised (Note 15(b))	375,000	563	(259)	-	-	304	-	304
Balance at June 30, 2018	791,447,897	1,143,315	130,092	(25,485)	6,087	1,254,009	(73,556)	1,180,453

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of cash flows

(stated in thousands of U.S. dollars)

(Unaudited)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Cash flows from operating activities					
Loss before income taxes		(8,576)	(13,090)	(15,705)	(23,614)
Items not involving cash					
Share of losses from joint venture	6	6,702	5,035	13,902	10,553
Decrease (increase) in fair value of financial asset	21	2,215	1,830	4,180	(1,044)
Share-based payments	18	1,764	1,201	3,176	2,573
Transfer from other assets to working capital items		1,465	728	2,954	1,196
Depreciation	4	1,046	1,048	2,141	2,143
Unrealized foreign exchange loss		995	474	581	755
Finance costs	20	352	355	695	834
Other taxes		31	-	414	-
Finance income	19	(10,875)	(9,167)	(21,232)	(15,596)
Profit on disposal of property, plant and equipment		(208)	-	(208)	-
Borrowing costs capitalized		-	146	-	146
Promissory note fair value adjustment	21	-	(202)	-	(516)
		(5,089)	(11,642)	(9,102)	(22,570)
Change in non-cash working capital items	25	3,660	1,079	(3,838)	(884)
Interest received		604	944	1,690	1,707
Income taxes paid		(162)	(82)	(191)	(133)
Interest paid		(33)	(27)	(68)	(53)
Net cash used in operating activities		(1,020)	(9,728)	(11,509)	(21,933)
Cash flows from investing activities					
Property, plant and equipment acquired	4	(30,175)	(11,198)	(57,419)	(20,929)
Investment in joint venture		(9,634)	(20,334)	(20,862)	(33,844)
Other assets acquired		(3,881)	(1,483)	(6,216)	(1,882)
Proceeds from sale of property, plant and equipment		208	1	208	2
Proceeds from settlement of promissory note		-	-	2,297	-
Purchase of exploration licenses		-	-	(1,010)	-
Net cash used in investing activities		(43,482)	(33,014)	(83,002)	(56,653)
Cash flows from financing activities					
Options exercised		96	535	304	3,923
Cash paid on behalf of joint venturer		(194)	(411)	(421)	(913)
Proceeds from the partial sale of subsidiary, now jointly controlled		-	41,200	-	82,400
Transaction costs paid on partial sale of subsidiary, now jointly controlled		-	(2,195)	-	(4,550)
Net cash (used in) generated from financing activities		(98)	39,129	(117)	80,860
Effect of foreign exchange rate changes on cash		(2,933)	(529)	272	(289)
Net cash (outflow) inflow		(47,533)	(4,142)	(94,356)	1,985
Cash and cash equivalents, beginning of period		134,596	291,156	181,419	285,029
Cash and cash equivalents, end of period		87,063	287,014	87,063	287,014

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2018

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

(Unaudited)

1. Basis of presentation and continuing operations

Ivanhoe Mines Ltd. is a 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 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. The shares of the Company are also traded on the OTCQX Best Market in the United States under the symbol IVPAF.

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

The Company has an accumulated profit of \$6.1 million at June 30, 2018. As at June 30, 2018, the Company's total assets exceeds its total liabilities by \$1,180.5 million and current assets exceeds current liabilities by \$82.2 million. The Company currently has no producing properties and expects to fund all of its exploration and development activities through debt and equity financing until operating revenues are generated. The Company's spending plan for the remainder of 2018 exceeds the cash and cash equivalents as at June 30, 2018, of \$87.1 million.

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.

On June 11, 2018, the Company executed an agreement wherein CITIC Metal Co., Ltd. (CITIC Metal), a wholly-owned subsidiary of CITIC Limited, agreed to make a major investment acquiring a significant 19.9% stake in the Company. Under terms of the agreement, the Company will issue 196,602,037 common shares to CITIC Metal through a private placement at a price of C\$3.68 per share, yielding gross proceeds to Ivanhoe of approximately C\$723 million (\$560 million). Zijin Mining Group Co. Ltd. ("Zijin") has since exercised its existing anti-dilution rights, resulting in additional proceeds of C\$78 million (US\$60 million) that the Company will receive concurrently with the completion of CITIC Metal's investment.

The private placement is conditional upon completion of confirmatory due diligence and CITIC internal approval. It also is subject to approval by the Toronto Stock Exchange, other customary closing conditions, and records and registration with certain Chinese regulatory agencies. CITIC Metal Group Limited (CITIC Metal Group) has provided Ivanhoe with a nine-month, interim loan facility of \$100 million, which the Company had not yet utilized as at June 30, 2018 (see Note 30).

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2018

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

(Unaudited)

2. Significant accounting policies

(a) *Statement of compliance*

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

These condensed consolidated interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes. Results for the period ended June 30, 2018, are not necessarily indicative of future results. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its most recent annual consolidated financial statements as at and for the year ended December 31, 2017 except for the adoption of the new and amended accounting policies mentioned in Note 3.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017.

(b) *Significant accounting estimates and judgments*

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

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

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

(c) *Future accounting changes*

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ending June 30, 2018:

- 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. (i)

As at June 30, 2018, the Company has operating lease commitments totalling \$1.5 million (see Note 27). However, the Company is in the process of determining the impact these commitments will have on the condensed consolidated interim financial statements, if any.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2018

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

(Unaudited)

2. Significant accounting policies (continued)

(c) Future accounting changes (continued)

- IAS 19 - Employee Benefits. The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to a plan. (i)

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

- IAS 28 - Investment in Associates or Joint Ventures. The amendment provides clarity regarding when an entity should apply IFRS 9 to long term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture but to which the equity method is not applied. (i)

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

- IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. (i)

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

- Annual improvements 2015-2017 Cycle: IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements regarding clarification when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interest in that business. (i)

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

- Annual improvements 2015-2017 Cycle: IAS 12 – Income Taxes provides clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. (i)

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

- Annual improvements 2015-2017 Cycle: IAS 23 – Borrowing Costs clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. (i)

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

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

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

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Notes to the condensed consolidated interim financial statements

June 30, 2018

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

(Unaudited)

3. Application of new and revised standards

(a) Newly adopted accounting standards

The following standards became effective for annual periods beginning on or after January 1, 2018. The Company adopted these standards in the current period and they did not have a material impact on its condensed consolidated interim financial statements.

- 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.
- 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.
- Amendment to IFRS 9 - Financial instruments. The standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition. 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. The new standard also introduces a single "expected credit loss" impairment model for the measurement of financial assets.
- 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.
- 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.
- 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.

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

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

(Unaudited)

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Mining infrastructure	Assets under construction	Total
	\$	\$	\$	\$	\$		\$	\$
Cost								
Balance as at December 31, 2016	2,278	11,379	5,210	2,070	16,637	4,020	100,441	142,035
Additions	-	99	543	1,145	4,010	1,564	54,420	61,781
Disposals	-	-	(5)	-	-	-	-	(5)
Foreign exchange translation	228	1,135	430	104	135	520	13,459	16,011
Balance as at December 31, 2017	2,506	12,613	6,178	3,319	20,782	6,104	168,320	219,822
Additions	-	15	355	121	925	-	56,003	57,419
Disposals	-	-	(1)	-	(5)	-	-	(6)
Transfers	-	-	-	-	-	262	(262)	-
Foreign exchange translation	(241)	(494)	(433)	(109)	(126)	(617)	(17,744)	(19,764)
Balance as at June 30, 2018	2,265	12,134	6,099	3,331	21,576	5,749	206,317	257,471
Accumulated depreciation and impairment								
Balance as at December 31, 2016	-	1,234	3,598	1,220	10,115	81	-	16,248
Depreciation	-	141	601	242	3,265	148	-	4,397
Disposals	-	-	(4)	-	-	-	-	(4)
Transfers	-	(283)	-	-	-	283	-	-
Foreign exchange translation	-	115	308	42	98	35	-	598
Balance as at December 31, 2017	-	1,207	4,503	1,504	13,478	547	-	21,239
Depreciation	-	75	360	162	1,444	100	-	2,141
Disposals	-	-	(1)	-	(5)	-	-	(6)
Foreign exchange translation	-	(77)	(334)	(46)	(100)	(63)	-	(620)
Balance as at June 30, 2018	-	1,205	4,528	1,620	14,817	584	-	22,754
Carrying value								
December 31, 2017	2,506	11,406	1,675	1,815	7,304	5,557	168,320	198,583
June 30, 2018	2,265	10,929	1,571	1,711	6,759	5,165	206,317	234,717

Assets under construction

Assets under construction includes development costs capitalized 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 \$9.7 million (December 31, 2017: \$10.0 million) have been pledged to secure borrowings of the Company (see Note 12). The buildings have been pledged as security for a bank loan under a mortgage. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

5. Mineral properties

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

	June 30, 2018	December 31, 2017
	\$	\$
Platreef property, South Africa (a)	6,940	6,940
Kipushi Properties, Democratic Republic of Congo (b)	252,337	252,337
Other properties (d)	2,020	1,010
	261,297	260,287

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

Ivanhoe Mines Ltd.

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(Unaudited)

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

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

(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, 68% and 32% of the Kipushi Project respectively, 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. 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 (see Note 6).

(d) Other properties

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

Ivanhoe Mines Ltd.

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(Unaudited)

6. Investment in joint venture

Kamoa Holding Limited ("Kamoa Holding"), a joint venture between the Company and Zijin, holds a direct 80% interest in the Kamoa-Kakula Copper Project. The Company holds an indirect 39.6% interest in the project through its 49.5% shareholding in Kamoa Holding. The Kamoa-Kakula Copper Project is the largest copper discovery ever made on the African continent, with adjacent prospective exploration areas within the Central African Copperbelt in the Democratic Republic of Congo ("DRC") and is 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 the comprehensive loss of Kamoa Holding.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest expense	13,822	9,898	26,488	19,081
Exploration costs	3,353	4,343	8,868	9,758
Foreign exchange loss (gain)	70	78	91	(24)
Interest income	(989)	(352)	(1,609)	(644)
Loss for the period	16,256	13,967	33,838	28,171
Non-controlling interest	(2,716)	(3,796)	(5,753)	(6,852)
Attributable loss for the period	13,540	10,171	28,085	21,319
Share of losses from joint venture (49.5%)	6,702	5,035	13,902	10,553

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

(Unaudited)

6. Investment in joint venture (continued)

Net assets of the joint venture

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

	June 30, 2018		December 31, 2017	
	100%	49.5%	100%	49.5%
	\$	\$	\$	\$
Assets				
Property, plant and equipment	368,825	182,568	317,180	157,004
Other assets	72,865	36,068	58,185	28,802
Mineral property	802,021	397,000	802,021	397,000
Prepaid expenses	9,096	4,503	10,479	5,187
Cash and cash equivalents	16,691	8,262	40,645	20,119
Liabilities				
Shareholder's loans	(825,872)	(408,807)	(746,182)	(369,360)
Accruals and payables	(15,035)	(7,442)	(19,901)	(9,851)
Non-controlling interest	(87,938)	(43,529)	(93,691)	(46,377)
Net assets of the joint venture	340,653	168,623	368,736	182,524

Investment in Joint Venture

	June 30, 2018	December 31, 2017
	\$	\$
Company's share of net assets in joint venture	168,623	182,524
Loan advanced to joint venture	409,081	369,860
	577,704	552,384

The Company earns interest at USD 12 month LIBOR plus 7% on the loan advanced to the joint venture (see Note 19).

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 than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$	\$	\$	\$	\$
Advancement of loan	89,398	-	-	-	89,398
Kakula decline development	7,855	-	-	-	7,855
Other commitments	7,375	-	-	-	7,375
	104,628	-	-	-	104,628

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6. Investment in joint venture (continued)

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

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

The loan advanced as at June 30, 2018 by the subsidiary of Kamoa Holding amounted to \$69.4 million (December 31, 2017: \$56.3 million) and is included in the investment in joint venture.

The term for repayment of accrued interest and future costs is estimated to be 15 years, beginning after the expiry of a two year grace period from the signing date of the agreement. The actual repayment period will ultimately depend on the amount actually financed and on the amounts deducted from electricity bills based on a fixed percentage of 40% of the actual bill as per the loan repayment terms. The interest rate is USD 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 project, and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the production and mine expansion scenarios.

7. Long term loan receivable

A long term loan receivable from Gecamines of \$10 million was ceded to the Company on completion of the purchase of Kipushi on November 28, 2011, by the seller. An additional \$20 million was requested and advanced to Gecamines during November 2012. The loan carries interest at a rate of USD 12 month LIBOR plus 3%.

The loan receivable is unsecured and repayment will be made by offsetting the loan against future royalties and dividends payable to Gecamines from future profits earned in Kipushi. The fair value of the receivable at acquisition date has been estimated by the Company by calculating the present value of the future expected cash flows using an effective interest rate of 9.2%, which is deemed to be as follows:

	June 30, 2018	December 31, 2017
	\$	\$
Social development loan	35,248	34,065
	35,248	34,065

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(Unaudited)

8. Prepaid expenses

	June 30, 2018	December 31, 2017
	\$	\$
Advance payment on shaft construction	3,321	4,158
Deposits	1,335	1,340
Consumable stores	1,252	2,028
Other prepayments	904	890
	6,812	8,416

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

9. Promissory note receivable

The Company has the following promissory notes receivable:

	June 30, 2018	December 31, 2017
	\$	\$
Promissory note receivable from Crystal River (a)	11,734	11,313
A\$3 million promissory note receivable (b)	-	2,297
	11,734	13,610
Non-current promissory note	11,734	11,313
Current promissory note	-	2,297
	11,734	13,610

- (a) The promissory note receivable with a carrying value of \$11.7 million is a non-interest-bearing, 10 year promissory note, of which \$8.3 million was received by the Company as the purchase consideration for selling 1% of its share in Kamo a Holding (see Note 6). The remaining \$3.4 million is for subsequent funding provided to Kamo a Holding by the Company on Crystal River's behalf. The promissory note is payable on the earlier of December 8, 2025 or the next business day following the completion of the sale, transfer or disposition of the shares held by Crystal River in Kamo a Holding.
- (b) The promissory note receivable with a carrying value of \$2.3 million at December 31, 2017 was a A\$3 million promissory note which was received as part of the purchase consideration when the Company sold its Australian subsidiaries. The promissory note was settled in cash on March 29, 2018.

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(Unaudited)

10. Other receivables

	June 30, 2018	December 31, 2017
	\$	\$
Refundable taxes (a)	1,134	1,053
Advances	1,044	1,043
Accounts receivable	878	816
Administration consulting receivable from joint venture	490	1,344
Other	431	494
	3,977	4,750

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

11. Financial assets at fair value through profit or loss

The Company holds listed shares which have been classified as financial assets at fair value through profit or loss. The trading value of the listed shares as at June 30, 2018 is \$4.4 million (December 31, 2017: \$8.6 million).

12. Borrowings

	June 30, 2018	December 31, 2017
	\$	\$
<i>Unsecured - at amortised cost</i>		
(a) Loans from other entities	25,971	24,847
<i>Secured - at amortised cost</i>		
(b) Citi bank loan	4,232	4,357
	30,203	29,204

(a) On June 6, 2013, the Company, through its subsidiary Ivanplats (Pty) Ltd ("Ivanplats"), the owner of the Platreef Project, became party to a \$28.0 million loan payable to ITC Platinum Development Limited. 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 USD 3 month LIBOR plus 2% calculated monthly in arrears. Interest is not compounded. Using prevailing market interest rates for an equivalent loan of USD 3 month LIBOR plus 7% at June 6, 2013, the fair value of the loan at June 30, 2018 was estimated at \$26.0 million. The difference of \$5.9 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan. Interest of \$0.6 million was recognised during the six months ended June 30, 2018.

(b) The Citi bank loan of \$4.2 million (£3.23 million) is secured by the Rhenfield property (see Note 23). The loan is an interest only term loan repayable on August 31, 2020, and incurs interest at a rate of USD LIBOR plus 1.90% payable monthly in arrears.

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13. Advances payable

	June 30, 2018	December 31, 2017
	\$	\$
Advances payable to Gecamines	2,420	2,344
	2,420	2,344

Advances payable to Gecamines are unsecured and bear interest at USD LIBOR plus 4% and represent the loan advanced to Kipushi by Gecamines prior to acquisition of Kipushi by the Company.

14. Trade and other payables

	June 30, 2018	December 31, 2017
	\$	\$
Trade accruals	10,910	10,701
Trade payables	4,294	8,714
Other payables	1,398	3,733
Indirect taxes payable	769	438
	17,371	23,586

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

15. Share capital

(a) Shares issued

The Company is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares (together with the Class A Shares, the "common shares") and an unlimited number of Preferred Shares.

As at June 30, 2018, 791,447,897 (December 31, 2017: 790,387,168) Class A Shares, nil Class B Shares and nil Preferred Shares were issued and outstanding.

During 2017, 30,000 Class A Shares were issued to certain non-executive directors as settlement for deferred share units.

(b) Options

Share options are granted at an exercise price equal to the estimated value of the Company's common shares on the date of the grant. As at June 30, 2018, 48,951,500 share options have been granted and exercised, and 23,818,500 have been granted and are outstanding.

All outstanding share options vest in four equal parts, commencing on the one year anniversary of the date of grant and on each of the three anniversaries thereafter. The maximum term of options awarded is five years.

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15. Share capital (continued)

(b) Options

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

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at the beginning of year	22,348,500	1.36	32,050,000	1.54
Granted	4,000,000	2.38	-	-
Exercised	(375,000)	0.91	(9,576,500)	1.91
Expired	(2,130,000)	4.78	(75,000)	4.90
Forfeited	(25,000)	0.86	(50,000)	1.11
Balance at the end of the period	23,818,500	1.22	22,348,500	1.36

4,000,000 options were granted in the six months ended June 30, 2018. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. An expense of \$5.0 million for the options granted during the 2018 will be amortized over the vesting period, of which \$0.7 million was recognized in the six months ended June 30, 2018.

The following weighted average assumptions was used for the share option grants in 2018:

	2018
Risk free interest rate	2.51%
Expected volatility ⁽ⁱ⁾	73.48%
Expected life	3.75 years
Expected dividends	\$Nil
Forfeiture rate	1.00%

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

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(Unaudited)

15. Share capital (continued)

(b) Options (continued)

The following table summarizes information about share options outstanding and exercisable as at June 30, 2018:

Expiry date	Options outstanding		Options exercisable	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
August 14, 2018	25,000	1.44	25,000	1.44
August 16, 2018	750,000	1.45	750,000	1.45
August 29, 2018	125,000	1.26	125,000	1.26
December 13, 2018	4,067,500	1.86	4,067,500	1.86
June 16, 2019	250,000	1.20	250,000	1.20
August 15, 2019	375,000	1.33	125,000	1.33
December 8, 2019	8,873,500	0.86	6,023,500	0.86
December 15, 2020	5,352,500	0.47	2,262,500	0.47
March 12, 2023	3,500,000	2.38	-	2.38
May 7, 2023	500,000	2.07	-	2.07
	23,818,500	1.22	13,628,500	1.14

(c) Restricted share units

The Company issues restricted share units ("RSUs") as a security based compensation arrangement. Each restricted share unit represents the right of an eligible participant to receive one Class A Share.

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.

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

	June 30, 2018	December 31, 2017
Balance at the beginning of the year	4,457,947	6,814,942
RSUs issued	1,503,509	43,683
RSUs vested	(685,729)	(2,400,678)
Balance at the end of the period	5,275,727	4,457,947

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16. Foreign currency translation reserve

	June 30, 2018	December 31, 2017
	\$	\$
Balance at the beginning of the period	(8,855)	(21,509)
Exchange differences arising on translation of the foreign operations	(16,630)	12,654
Balance at the end of the period	(25,485)	(8,855)

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.

17. Non-controlling interests

	June 30, 2018	December 31, 2017
	\$	\$
Balance at beginning of the period	(68,229)	(130,913)
Share of comprehensive (loss) profit for the period	(5,327)	64,909
Reversal of impairment of common share investment funded on behalf of non-controlling interest	-	(2,225)
Balance at the end of the period	(73,556)	(68,229)

18. Share-based payments

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<i>Equity settled share-based payments</i>				
Options vested (Note 15(b))	653	456	1,080	1,086
Restricted share unit expense (Note 15(c))	920	562	1,700	1,119
	1,573	1,018	2,780	2,205
<i>Cash settled share-based payments</i>				
B-BBEE transaction expense	191	183	396	368
	1,764	1,201	3,176	2,573

Of the share-based payment expense recognized for the six months ended June 30, 2018, \$0.4 million (2017: \$0.4 million) related to the Platreef B-BBEE transaction, with the remaining \$2.8 million (2017: \$2.2 million) being the expense for options and restricted share units granted to employees recognised over the vesting period.

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19. Finance income

Finance income is summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest from loan to joint venture (a)	(9,675)	(7,664)	(18,360)	(12,216)
Other interest income	(603)	(945)	(1,689)	(1,707)
Interest on long term loan receivable (b)	(597)	-	(1,183)	-
Unwinding discount (c)	-	(558)	-	(1,673)
	(10,875)	(9,167)	(21,232)	(15,596)

- (a) The Company earns interest at a rate of USD 12 month LIBOR plus 7% on the loan advanced to the Kamo Holding joint venture (see Note 6).
- (b) The Company earns interest at a rate of USD 12 month LIBOR plus 3% on the long term loan receivable from Gecamines (see Note 7), although an effective interest rate of 9.2% was applied from initial recognition. No interest was recognized during the six months ended June 30, 2017 as the loan was impaired during that period.
- (c) The unwinding discount relates to the unwinding of the purchase price receivable from Zijin, which arose when the Company sold a 50.5% stake in Kamo Holding on December 8, 2015. The Company received the last of five installments of the purchase price in May 2017.

20. Finance costs

The finance costs of the Company are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest on non-current borrowings	310	354	606	832
Other financing costs	42	1	89	2
	352	355	695	834

21. Other expenses (income)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Fair valuation of financial asset (a)	2,215	1,830	4,180	(1,044)
Administration consulting fee	(583)	(529)	(1,062)	(947)
Other	(41)	(11)	(67)	(70)
Other taxes	-	-	388	-
Promissory notes unwinding discount (b)	-	(202)	(7)	(516)
	1,591	1,088	3,432	(2,577)

- (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 receivable (see Note 9).

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22. Loss per share

The basic loss per share is computed by dividing the loss attributable to the owners of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and restricted share units, in the weighted average number of common shares outstanding during the period, if dilutive. All outstanding stock options and restricted share units were anti-dilutive for the six months ended June 30, 2018 and 2017.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Loss attributable to owners of the Company	6,391	9,338	12,164	16,158
Weighted average number of basic and diluted shares outstanding	791,361,120	786,066,658	791,175,966	784,647,267
Basic and diluted loss per share	0.01	0.01	0.02	0.02

23. Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The buildings have a carrying value of \$9.7 million (December 31, 2017: \$10.0 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 Kroondal Operations Corporate Service Proprietary Limited ("Kroondal") and 25% by Sylvania South Africa Proprietary Limited, operating at the Kroondal mine on the western limb of the Bushveld Complex in South Africa's North West Province. On June 22, 2018, RK1 sold its processing plant for a consideration of R6.0 million (\$0.4 million). The Company received its 25% share of the proceeds on June 27, 2018. RK1 is expected to be dissolved by the end of 2018.

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24. Related party transactions

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

Name	Country of Incorporation	% equity interest as at	
		June 30, 2018	December 31, 2017
Subsidiaries			
Gabon Holding Company Ltd.	Barbados	100%	100%
Ivanhoe DRC Holding Ltd.	Barbados	100%	100%
Ivanhoe Mines (Barbados) Limited	Barbados	100%	100%
Kipushi Holding Limited	Barbados	100%	100%
African Copperbelt Exploration Ltd.	Barbados	100%	100%
Nzuri Exploration Holdings Limited	Barbados	100%	100%
Ivanhoe Mines DRC SARL	Democratic Republic of Congo	100%	100%
Ivanhoe Mines Exploration DRC SARL	Democratic Republic of Congo	100%	100%
Lufupa SASU	Democratic Republic of Congo	100%	100%
Kipushi Corporation SA	Democratic Republic of Congo	68%	68%
Ivanhoe Gabon SA	Gabon	100%	100%
Ivanplats Finance Limited	Ireland	97%	97%
Ivanplats Holding SARL	Luxembourg	97%	97%
Ivanhoe (Namibia) (Pty) Ltd.	Namibia	100%	100%
Africa Consolidated Mineral Exploration (Pty) Ltd.	South Africa	100%	100%
GB Mining & Exploration (SA) (Pty) Ltd.	South Africa	100%	100%
Ivanhoe Mines SA (Pty) Ltd.	South Africa	100%	100%
Ivanplats (Pty) Ltd.	South Africa	64%	64%
RK Mining (SA) (Pty) Ltd.	South Africa	100%	100%
Ivanhoe Mines UK Limited	United Kingdom	100%	100%
Ivanhoe Mines US LLC	United States of America	100%	100%
Ivanhoe (Zambia) Ltd.	Zambia	100%	100%
Joint ventures			
Kamoa Holding Limited	Barbados	49.50%	49.50%
Joint operations			
Rhenfield Limited	British Virgin Islands	50%	50%
RK1 Consortium	South Africa	25%	25%

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(Unaudited)

24. Related party transactions (continued)

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Global Mining Management Corporation (a)	1,156	567	2,218	1,017
Ivanhoe Capital Aviation LLC (b)	625	500	1,250	1,000
HCF International Advisors (c)	232	134	294	180
Ivanhoe Capital Services Ltd. (d)	114	73	242	161
GMM Tech Holdings Inc. (e)	59	24	876	755
Ivanhoe Capital Pte Ltd (f)	9	19	110	165
Global Mining Services Ltd. (g)	6	59	16	59
Kamoa Copper SA (h)	(996)	(929)	(1,891)	(1,699)
Ivanhoe Mines Energy DRC Sarl (i)	(85)	(107)	(159)	(186)
Ivanhoe Capital Corporation (UK) Ltd (j)	(59)	-	(58)	-
	1,061	340	2,898	1,452
Salaries and benefits	848	547	1,693	980
Travel	681	517	1,417	1,155
Consulting	588	283	1,714	1,063
Office and administration	25	29	124	139
Cost recovery and management fee	(1,081)	(1,036)	(2,050)	(1,885)
	1,061	340	2,898	1,452

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

As at June 30, 2018, trade and other payables included \$0.51 million (December 31, 2017: \$0.93 million) with regards to amounts due to related parties related by way of directors, officers or shareholders in common. These amounts are unsecured and non-interest bearing.

Included in other receivables is \$0.22 million (December 31, 2017: \$0.18 million) due from parties related by way of directors, officers or shareholders in common.

- (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.

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(Unaudited)

24. Related party transactions (continued)

- (c) HCF International Advisers ("HCF") is a corporate finance adviser specializing in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. HCF has a director in common with the Company and provides financial advisory services to the Company.
- (d) 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.
- (e) 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.
- (f) 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.
- (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) Kamoa Copper SA ("Kamoa Copper") is a company incorporated in the DRC. Kamoa Copper is 80% owned by the Kamoa Holding joint venture (see Note 6). The Company provides administration, accounting and other services to Kamoa Copper on a cost-recovery basis.
- (i) Ivanhoe Mines Energy DRC Sarl ("Energy") is a company incorporated in the DRC. Energy is 100% owned by the Kamoa Holding joint venture (see Note 6). The Company provides administration, accounting and other services to Energy on a cost-recovery basis.
- (j) Ivanhoe Capital Corporation (UK) Ltd. ("UK") is a private company 100% owned by a director of the Company. UK provides administration, accounting and other services in Singapore on a cost-recovery basis.

25. Cash flow information

Net change in non-cash working capital items:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net decrease (increase) in				
Other receivables	353	1,151	773	2,948
Prepaid expenses	1,372	(130)	1,604	(528)
Net increase (decrease) in				
Trade and other payables	1,935	58	(6,215)	(3,304)
	3,660	1,079	(3,838)	(884)

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(Unaudited)

26. Financial instruments

(a) Fair value of financial instruments

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

Financial instrument	Level	June 30, 2018 \$	December 31, 2017 \$
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	4,383	8,563
<i>Loans and receivables</i>			
Promissory note receivable	Level 3	11,734	13,610
Long term loan receivable	Level 3	35,248	34,065
Financial liabilities			
Borrowings	Level 3	30,203	29,204
Advances payable	Level 3	2,420	2,344

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

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

The fair value of the promissory note receivable by the Company from Crystal River (see Note 9 (a)) was originally determined assuming repayment occurs on December 31, 2017 and was discounted using a rate of 8.3%. The carrying value of the promissory note is not significantly different to its 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 (see Note 12(a)) was originally determined assuming repayment occurs on August 31, 2022 and using an interest rate of USD 3 month LIBOR plus 7%. The carrying value of borrowings is not significantly different to their fair value.

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

Ivanhoe Mines Ltd.

Notes to the condensed consolidated interim financial statements

June 30, 2018

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

(Unaudited)

26. Financial instruments (continued)

(b) Financial risk management objectives and policies

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

(i) Foreign exchange risk

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

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

	June 30, 2018	December 31, 2017
	\$	\$
Assets		
Canadian dollar	3,810	2,597
Australian dollar	4,383	8,563
South African rand	14,896	46,030
British pounds	377	452
Liabilities		
Canadian dollar	(100)	(384)
Australian dollar	(5)	(57)
South African rand	(5,182)	(11,100)
British pounds	(110)	(180)

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 period where the foreign currencies strengthen against the U.S. dollar. The opposite number will result if the foreign currencies depreciate against the U.S. dollar.

	Six months ended June 30,	
	2018	2017
	\$	\$
Canadian dollar	185	20
Australian dollar	219	188
South African rand	(40)	21

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

(Unaudited)

26. 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 other receivables, cash equivalents and 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 recognized for irrecoverable amounts. In this regard, the Company considers that the credit risk is significantly reduced. The credit risk associated with 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.

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

Management of liquidity risk is primarily executed through maintaining a balance between continuity of funding and flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

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

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total un- discounted cash flows
	\$	\$	\$	\$	\$
As at June 30, 2018					
Trade and other payables	15,158	1,101	889	223	17,371
Non-current borrowings	-	-	-	36,159	36,159
As at December 31, 2017					
Trade and other payables	21,154	1,452	940	40	23,586
Non-current borrowings	-	-	-	35,711	35,711

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(Unaudited)

26. 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, advances payable, the long term loan receivable 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 six months ended June 30, 2018 would have increased or decreased by \$2.5 million.

27. Commitments and contingencies

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 condensed consolidated interim financial statements of the Company.

As at June 30, 2018, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$	\$	\$	\$	\$
Shaft 1 construction (Platreef project)	9,517	-	-	-	9,517
Shaft 2 construction (Platreef project)	3,994	-	-	-	3,994
Operating leases	461	1,035	45	-	1,541
	13,972	1,035	45	-	15,052

The Company contracted Aveng Mining for the sinking of shaft 1 to a depth of 800 metres, while Murray & Roberts Cementation have been contracted for Shaft 2, at the Platreef Project.

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

28. Segmented information

At June 30, 2018, the Company has four reportable segments, being the Platreef property, Kamoa Holding joint venture, Kipushi properties 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.

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(Unaudited)

28. Segmented information (continued)

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 development of mineral properties in South Africa; exploration and development of mineral properties through a joint venture in the DRC; and the upgrading of mining infrastructure and refurbishment of a mine in the DRC respectively. The following is an analysis of the non-current assets by geographical area and reconciled to the Company financial statements:

	South Africa	DRC	Other	Total
	\$	\$	\$	\$
Non-current assets				
As at June 30, 2018	189,558	884,338	59,095	1,132,991
As at December 31, 2017	175,435	826,568	63,780	1,065,783
		June 30,	December 31,	
		2018	2017	
		\$	\$	
Segment assets				
Kamoa Holding joint venture		577,704	552,384	
Kipushi properties		343,561	311,030	
Platreef property		200,279	221,353	
Treasury (ii)		91,146	158,969	
All other segments (i)		22,841	27,575	
Total		1,235,531	1,271,311	
Segment liabilities				
Platreef property		32,344	34,472	
All other segments (i)		10,934	11,981	
Kipushi properties		9,862	9,193	
Treasury (ii)		1,938	4,175	
Total		55,078	59,821	

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Notes to the condensed consolidated interim financial statements

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

(Unaudited)

28. Segmented information (continued)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Segment losses (profits)				
Kamoa Holding Limited joint venture	6,702	5,035	13,902	10,553
All other segments (i)	2,243	(393)	2,679	945
Platreef property	1,585	683	3,913	1,343
Treasury (ii)	(1,987)	(1,470)	(4,087)	(6,857)
Kipushi properties	(614)	9,531	(1,070)	17,977
Total	7,929	13,386	15,337	23,961
Capital expenditures				
Kipushi properties	15,892	669	30,265	1,332
Platreef property	14,076	10,465	26,391	19,487
All other segments (i)	207	64	763	110
Total	30,175	11,198	57,419	20,929
Exploration and project expenditure				
All other segments (i)	2,721	700	4,111	1,077
Platreef property	52	42	98	84
Kipushi properties	-	8,884	-	16,761
Total	2,773	9,626	4,209	17,922

(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.

(ii) Treasury includes mainly cash balances, the promissory note receivable and the financial asset at fair value through profit or loss.

29. Approval of the financial statements

The condensed consolidated interim financial statements of Ivanhoe Mines Ltd., for the six months ended June 30, 2018 were approved and authorized for issue by the Board of Directors on August 10, 2018.

30. Subsequent events

The Company issued a utilization request to CITIC Metal Group on August 6, 2018, in order to utilise the entire interim loan facility of \$100 million, which was received on August 8, 2018. The loan will have an interest rate of 6% and will be pre-payable, or will be repaid with part of the 19.9% private placement proceeds, or no later than nine months following draw-down.

CITIC Metal has completed its confirmatory due diligence and the TSX has issued its conditional approval to the CITIC Metal private placement and the issuance of the anti-dilution common shares to Zijin. The Ivanhoe-CITIC Metal transaction now remains subject only to customary closing conditions, and the recordals and registration with the Chinese government regulatory agencies.