



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

DATED: AUGUST 10, 2018

INTRODUCTION

This management's discussion and analysis (MD&A) should be read in conjunction with the unaudited condensed consolidated interim financial statements of Ivanhoe Mines Ltd. ("Ivanhoe", "Ivanhoe Mines" or the "Company"), for the three and six months ended June 30, 2018, which have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) and the audited consolidated financial statements of Ivanhoe for the years ended December 31, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar figures stated herein are in U.S. dollars, unless otherwise specified. References to "C\$" mean Canadian dollars and references to "R" mean South African Rands.

The effective date of this MD&A is **August 10, 2018**. 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 underground access to the high grade orebody at the Flatreef Deposit; (ii) statements regarding the station development of Shaft 1 at the 750-, 850- and 950-metre-levels; (iii) statements regarding Shaft 1 expected to intersect the upper contact of the Flatreef Deposit (T1 mineralized zone) at an approximate shaft depth of 783 metres; (iv) statements regarding Shaft 1 reaching the planned, final depth at 982 metres below surface in Q4 2019; (v) statements regarding the timing of Shaft 2 development, including that excavation of the box cut and construction of the tower hitch foundation be completed by the end of 2018 and that Shaft 2 will be sunk to a final depth of more than 1,104 metres; (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 supply of treated water from the town of Mokopane's new Masodi treatment plant including 5 million litres a day for 32 years; (xi) statements regarding the timing of the study and construction on the Kipushi-Munama spur line; (xii) statements regarding the timing and completion of a pre-feasibility study for a six Mtpa mine at Kakula by the end of 2018; (xiii) statements regarding the timing, size and objectives of drilling and other exploration programs for 2018 and future periods; (xiv) statements regarding exploration on the Western Foreland exploration licences; (xv) statements regarding completion of the twin declines at Kakula by the end of 2018; (xvi) statements regarding the timing and completion of a definitive feasibility study at the Kipushi Project in the second half of 2018 or early in 2019; (xvii) statements regarding expected expenditure of \$43 million on further development at the Platreef Project; \$35 million at the Kipushi Project; \$6 million on regional exploration in the DRC; and \$9 million on corporate overheads for the remainder of 2018 – as well as its proportionate funding of the Kamoa-Kakula Project, expected to be \$28 million for the remainder of 2018; (xviii)

statements regarding the inclusion of the updated Mineral Resource at Kipushi in the definitive feasibility study at the Kipushi Project; (xix) statements regarding the timing of closing of the private placement with CITIC Metal no later than October 22, 2018 and potentially by mid-September 2018; and (xx) statements regarding Ivanhoe's expectation to be in a position to provide an important update on its Makoko and Kamo North exploration programs in September.

As well, all of the results of the pre-feasibility study of the Kamo-Kakula Project and preliminary economic assessment of development options for the Kakula deposit, the feasibility study of the Platreef Project and the pre-feasibility study 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 Kamo-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 (xv) 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 judgments. 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 licences; 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 43 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 Mines 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, Japan Oil, Gas and Metals National 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 Mines holds a 68% interest in Kipushi; the state-owned mining company, La Générale des Carrières et des Mines (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 ("Crystal River") 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 as the world's fourth-largest copper deposit. (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 April 2018, Ivanplats reconfirmed its Level 3 status in its fourth verification assessment on a B-BBEE scorecard. A Japanese consortium of ITOCHU Corporation, Japan Oil, Gas and Metals National Corporation and Japan Gas Corporation owns a 10% interest in Ivanplats, which it acquired in two tranches for a total investment of \$290 million.

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

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 two contiguous properties: Turfspruit and Macalacaskop. 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.

Health and safety at Platreef

At the end of Q2 2018, the Platreef Project reached a total of 195,484 lost-time, injury-free hours worked in terms of South Africa's Mine Health and Safety Act and Occupational Health and Safety Act. One lost-time injury occurred in Q2 2018. The Platreef Project continues to strive toward its workplace objective of an environment that causes zero harm to employees, contractors, sub-contractors and consultants.

Positive independent, definitive feasibility study for Platreef's first-phase development; Platreef projected to be Africa's lowest-cost producer of platinum-group metals

On July 31, 2017, Ivanhoe Mines announced the positive results of an independent, definitive feasibility study (DFS) for the planned first phase of the Platreef Project's platinum-group metals, nickel, copper and gold mine in South Africa.

The Platreef DFS covers the first phase of development that would include construction of a state-of-the-art underground mine, concentrator and other associated infrastructure to support initial production of concentrate by 2022. As the first phase is being developed and commissioned, there would be opportunities to refine the timing and scope of subsequent phases of expanded production.

DFS highlights include:

- Indicated Mineral Resources containing an estimated 41.9 million ounces of platinum, palladium, rhodium and gold, with an additional 52.8 million ounces of platinum, palladium, rhodium and gold in Inferred Resources.
- Increased Mineral Reserves containing 17.6 million ounces of platinum, palladium, rhodium and gold, following stope optimization and mine sequencing work.

- Development of a large, safe, mechanized, underground mine, with an initial four-Mtpa concentrator and associated infrastructure.
- Planned initial average annual production rate of 476,000 ounces of platinum, palladium, rhodium and gold (3PE+Au), plus 21 million pounds of nickel and 13 million pounds of copper.
- Estimated pre-production capital requirement of approximately \$1.5 billion, at a ZAR:USD exchange rate of 13 to 1.
- Platreef would rank at the bottom of the cash-cost curve, at an estimated \$351 per ounce of 3PE+Au produced, net of by-products and including sustaining capital costs, and \$326 per ounce before sustaining capital costs.
- After-tax net present value (NPV) of \$916 million, at an 8% discount rate.
- After-tax internal rate of return (IRR) of 14.2%.

The DFS was prepared for Ivanhoe Mines by principal consultant DRA Global, with economic analysis led by OreWin, and specialized sub-consultants including Amec Foster Wheeler E&C Services (Amec Foster Wheeler), Stantec Consulting, Murray & Roberts Cementation, SRK Consulting, Golder Associates and Digby Wells Environmental.

Platreef Mineral Resources

The Platreef Project's Mineral Resource estimate was prepared by Ivanhoe Mines under the direction of Dr. Harry Parker, RM SME, of Amec Foster Wheeler. 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.

Shaft 1 now extends to a depth of 750 metres below surface

On April 23, 2018, Ivanhoe announced that Platreef's Shaft 1 had reached a depth of 750 metres below surface. Lateral development of the first mine-access station continued during Q2 2018.

The 750-metre-level station will provide initial, underground access to the high-grade orebody, enabling mine development to proceed during the construction of Shaft 2, which will become the mine's main production shaft, with a hoisting capacity of six million tonnes a year. Shaft 1's station at the 750-metre-level also will allow access for the first raise-bore shaft that will provide ventilation to the underground workings during the mine's ramp-up phase.

Sinking of Shaft 1 will resume after the 750-metre-level station is completed. The shaft is expected to intersect the upper contact of the Flatreef Deposit (T1 mineralized zone) at an approximate shaft depth

of 783 metres in Q3 2018. As shaft sinking advances, two additional shaft stations will be developed at mine-working depths of 850 metres and 950 metres. Shaft 1 is expected to reach its projected, final depth of 982 metres below surface in Q4 2019. Shaft 1 ultimately will become the primary ventilation intake shaft during the project's initial four-Mtpa production case.

Figure 1: An engineer marking the drill-hole pattern for Platreef's ongoing underground development at the eastern-end of Shaft 1's 750-metre station.



Figure 2: An equipment operator with Platreef's 5.5-tonne, load-haul-dump machine used for excavating the 750-metre station.



Shaft 2 early-works construction progressing

Shaft 2, to be located approximately 100 metres northeast of Shaft 1, will have an internal diameter of 10 metres, and will be lined with concrete and sunk to a planned, final depth of more than 1,104 metres below surface. It will be equipped with two, 40-tonne, rock-hoisting skips capable of hoisting a total of six million tonnes of ore a year – the single largest hoisting capacity at any mine in Africa.

The headgear for the permanent hoisting facility was designed by South Africa-based Murray & Roberts Cementation. The first six blasts for Shaft 2's box cut were successfully completed, the most recent conducted in July. The next of two planned additional blasts is expected to take place in September 2018. The blasting will enable the excavation of the box cut to a depth of approximately 29 metres below surface and the construction of the concrete hitch (shaft collar foundation) for the 103-metre-tall concrete headgear that will house the shaft's permanent hoisting facilities and support the shaft collar. Excavation of the box cut and construction of the hitch foundation is expected to be completed by the end of 2018.

Figure 3: Removing blasted rock from the Shaft 2 box cut.



Underground mining to incorporate highly productive, mechanized methods

Ivanhoe plans to develop the Platreef Mine in phases. The initial annual production rate of four million tonnes a year (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 eight 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.

The mining zones in the current Platreef mine plan occur at depths ranging from approximately 700 metres to 1,200 metres below surface. Shaft 2 will provide primary access to the mining zones; secondary access will be via Shaft 1. During mine production, both shafts also will serve as ventilation intakes. Three additional ventilation exhaust raises are planned to achieve steady-state production.

Planned mining methods will use highly productive, mechanized methods, including long-hole stoping and drift-and-fill mining. Each method will utilize cemented backfill for maximum ore extraction. The ore will be hauled from the stopes to a series of internal ore passes and fed to the bottom of Shaft 2, where it will be crushed and hoisted to surface.

The current mine plan has been improved beyond earlier projections in the 2015 pre-feasibility study (PFS) mine plan by optimizing stope design, employing a declining Net Smelter Return (NSR) strategy and targeting higher-grade zones early in the mine's life. This strategy has increased the grade profile by 23% on a 3PE+Au basis in the first 10 years of operation and by 10% during the life of the mine.

Preliminary expressions of interest received for approximately \$900 million of the targeted \$1 billion Platreef project financing

During 2017, Ivanhoe announced the appointment of five leading financial institutions to arrange project financing for the development of the Platreef Project. The five Initial Mandated Lead Arrangers (IMLAs) will make best efforts to arrange a total debt financing of up to \$1 billion for the development of Platreef's first-phase, four-Mtpa mine. Preliminary expressions of interest have been received for approximately \$900 million of the targeted \$1 billion financing. Negotiation of a term sheet is ongoing. In addition, preliminary discussions have begun with leading financial institutions around the financing of the black economic empowerment partners' contribution to the development capital.

The IMLAs appointed Export Development Canada to direct the technical, environmental and social due diligence phase of the project. Chlumsky, Armbrust & Meyer and IBIS ESG South Africa Consulting were appointed as Independent Technical Consultant and Independent Social and Environmental Consultant, respectively.

Long-term supply of bulk water secured for the Platreef Mine

On May 7, 2018, Ivanhoe announced the signing of a new agreement to receive local, treated water to supply most of the bulk water needed for the first phase of production at Platreef. The Mogalakwena Local Municipality has agreed to supply a minimum of five million litres of treated water a day for 32 years, beginning in 2022, from the town of Mokopane's new Masodi Treatment Works. Initial supply will be used in Platreef's ongoing underground mine development and surface infrastructure construction.

Under terms of the agreement, which is subject to certain suspensive conditions, Ivanplats will provide financial assistance to the municipality for certified costs of up to a maximum of R248 million (approximately \$19.6 million) to complete the Masodi treatment plant. Ivanplats will purchase the treated wastewater at a reduced rate of R5 per thousand litres for the first 10 Ml/day to offset a portion of the initial capital contributed.

Development of human resources and job skills

Work progressed on the implementation of Ivanhoe's Social and Labour Plan (SLP). The Company has pledged a total of R160 million (\$13 million) during the first five years, culminating in November 2019. The approved plan includes R67 million (\$6 million) for the development of job skills among local residents and R88 million (\$7 million) for local economic development projects.

Figure 4: Ivanhoe Mines awarded 200 scholarships last year to secondary-school students living near the Platreef Project in South Africa for their academic achievements in science and mathematics. Precious Moremi, a student at Guerane High School, is one of the scholarship recipients.



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 Kamo-a-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, Gécamines.

Health, safety and community development

At the end of Q2 2018, the Kipushi Project had achieved a total 1,317,866 work hours free of lost-time injuries.

The Kipushi Project operates a potable-water station to supply the municipality with water. This includes power supply, disinfectant chemicals, routine maintenance, security and emergency repair of leaks to the primary reticulation. The Kipushi Project also installed and commissioned new overhead powerlines to the pump station. Other community development projects continued during Q2 and included the Kipushi women's literacy project.

Figure 5: Yufeng “Miles” Sun, President of CITIC Metal (fourth from right), Gaoming Zhu, Vice President of CITIC Group (sixth from right), and other key representatives from CITIC Metal and CITIC Group join Robert Friedland, Ivanhoe’s Executive Chairman (fifth from right), Egizio Bianchini, Ivanhoe’s Vice Chairman (sixth from left), and other members of Ivanhoe’s senior management team during a recent site visit to Kipushi.



Kipushi Mineral Resources

On July 30, 2018, Ivanhoe Mines announced a new Mineral Resource estimate for the Kipushi Mine, the first update to be issued for Kipushi since Ivanhoe Mines published its initial, independent CIM compliant current Mineral Resource estimate in January 2016. The new Mineral Resource estimate has increased Kipushi's Measured and Indicated zinc-rich resources by 16%, from 10.2 million tonnes to 11.8 million tonnes, with an increase in zinc grade from 34.89% to 35.34%. In addition, the mine's copper-rich Measured and Indicated Resources have increased by 40% from 1.6 million tonnes to 2.3 million tonnes, with a slight increase in the copper grade from 4.01% to 4.03%.

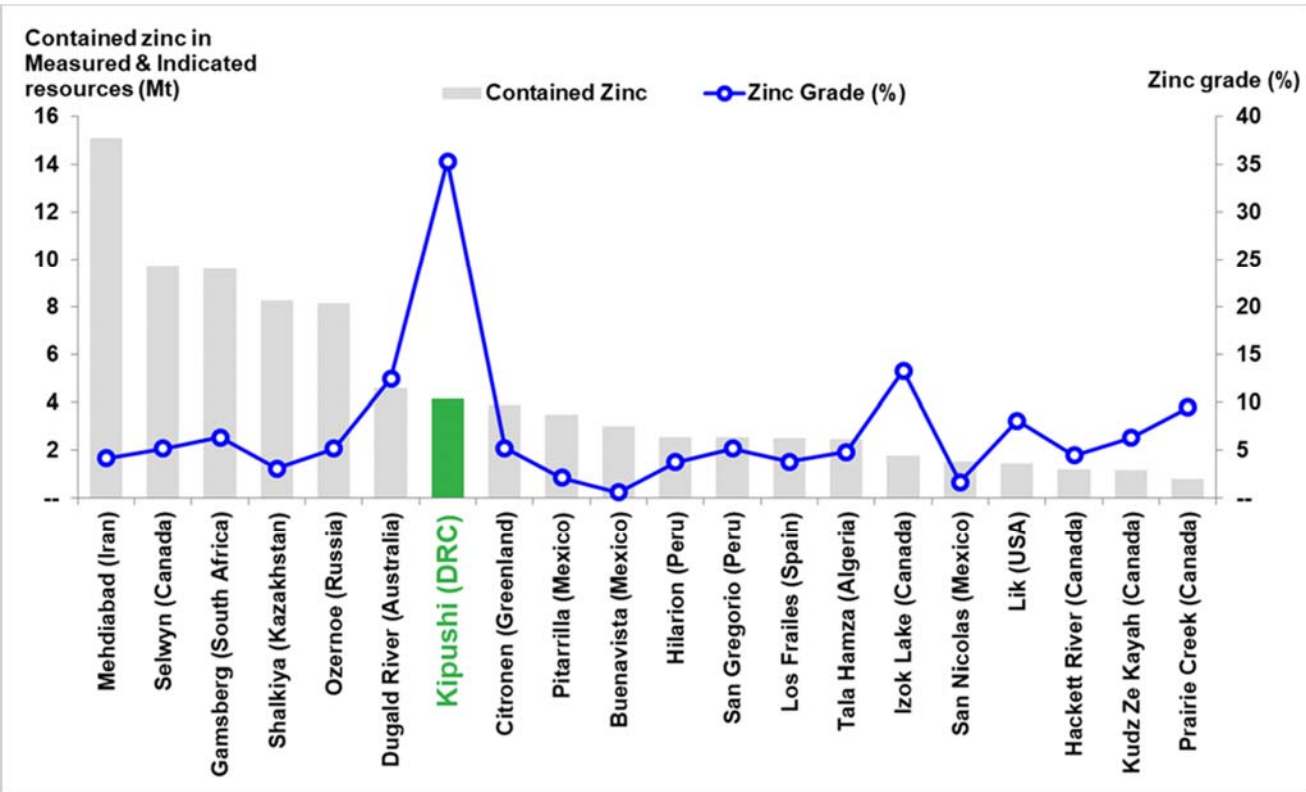
Highlights of this updated estimate, prepared by the MSA Group, of Johannesburg, South Africa, in compliance with CIM definition standards, are:

- Measured and Indicated Mineral Resources, primarily in the Big Zinc Zone, have increased to 11.78 million tonnes at grades of 35.34% zinc, 0.80% copper, 23 grams per tonne (g/t) silver and 64 g/t germanium, at a 7% zinc cut-off – containing an estimated 9.2 billion pounds of zinc.
- The zinc grade of Kipushi's Measured and Indicated Mineral Resources is more than twice as high as the world's next-highest-grade zinc project, independently ranked by Wood Mackenzie, an international industry research and consulting group, based on contained zinc (Figure 6).
- Zinc-rich Inferred Mineral Resources total an additional 1.14 million tonnes at grades of 33.77% zinc, 1.24% copper, 12 g/t silver and 62 g/t germanium. The Inferred Mineral Resources are contained partly in the Big Zinc Zone and partly in the Southern Zinc Zone.
- Kipushi's copper-rich Measured and Indicated Mineral Resources contained in the adjacent Fault Zone, Fault Zone Splay and Série Récurrente Zone total an additional 2.29 million tonnes at grades of 4.03% copper, 2.85% zinc, 21 g/t silver and 19 g/t germanium, at a 1.5% copper cut-off – containing 144 million pounds of copper. Copper-rich Inferred Mineral Resources in these zones total an additional 0.44 million tonnes at grades of 3.89% copper, 10.77% zinc, 19 g/t silver and 55 g/t germanium.
- Ivanhoe's 2017 drilling program has demonstrated that zinc and copper mineralization of the Kipushi system remain open laterally and at depth.

The new Mineral Resource estimate incorporates Ivanhoe's second phase of underground drilling at Kipushi that was completed in 2017, with a total of 9,706 metres drilled in 58 holes. Eight holes were drilled for metallurgy, 31 holes in the Southern Zinc and Big Zinc, five holes in the Nord Riche and 14 holes in the Série Récurrente. The updated Mineral Resource will be used in the preparation of the Kipushi definitive feasibility study, which is expected to be finalized later this year or early in 2019.

The DFS will update and refine the findings of the PFS issued in December 2017. Similar to the PFS, the DFS will focus on the initial mining of Kipushi's Big Zinc Zone. The planned return to production would establish Kipushi as the world's highest-grade, major zinc mine.

Figure 6: World's top 20 zinc projects, by contained zinc.



Source: Wood Mackenzie.

Note: All tonnes and zinc grades of the above-mentioned projects (except for Kipushi) are based on public disclosure and have been compiled by Wood Mackenzie.

New estimate enhances the Mineral Resources available for Kipushi's Definitive Feasibility Study

The new Mineral Resource estimate was prepared in accordance with the 2014 CIM definition standards, incorporated by reference into Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects.

The new estimate was based on the results of the 50 new drill holes completed at Kipushi by Ivanhoe Mines in 2017, 84 drill holes completed by Ivanhoe Mines prior to 2016 and an additional 106 historical holes drilled by Gécamines. Mineral Resource estimates were completed below the 1,150-metre-level on the Big Zinc Zone, Southern Zinc Zone, Fault Zone, Fault Zone Splay and Série Récurrente Zone. The Mineral Resources were categorized either as zinc-rich resources or copper-rich resources, depending on the most abundant metal. The Big Zinc and Southern Zinc zones have been tabulated using zinc cut-offs and are shown in Table 1; the Fault Zone, the Fault Zone Splay and Série Récurrente Zone have been tabulated using copper cut-offs and are shown in Table 2.

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

Table 1: Kipushi zinc-rich Mineral Resource at 7% zinc cut-off grade, effective date of June 14, 2018.

Zone	Category	Tonnes (Millions)	Zn %	Cu %	Pb %	Ag g/t	Co ppm	Ge g/t
Big Zinc	Measured	3.65	39.87	0.65	0.35	18	18	56
	Indicated	7.25	34.36	0.62	1.29	19	12	53
	Inferred	0.98	35.32	1.18	0.09	8	15	62
Southern Zinc Zone	Indicated	0.88	24.52	2.97	1.95	75	6	188
	Inferred	0.16	24.37	1.64	1.20	38	6	61
Total	Measured	3.65	39.87	0.65	0.35	18	18	56
	Indicated	8.13	33.30	0.87	1.36	25	11	68
	Measured & Indicated	11.78	35.34	0.80	1.05	23	13	64
	Inferred	1.14	33.77	1.24	0.24	12	14	62
			Contained Metal Quantities					
Zone	Category	Tonnes (Millions)	Zn Pounds (Millions)	Cu Pounds (Millions)	Pb Pounds (Millions)	Ag Ounces (Millions)	Co Pounds (Millions)	Ge Ounces (Millions)
Big Zinc	Measured	3.65	3210.6	52.3	27.8	2.06	0.14	6.60
	Indicated	7.25	5489.0	98.7	206.6	4.48	0.19	12.43
	Inferred	0.98	764.0	25.5	1.9	0.26	0.03	1.96
Southern Zinc Zone	Indicated	0.88	476.5	57.6	37.8	2.11	0.01	5.34
	Inferred	0.16	86.7	5.8	4.3	0.20	0.00	0.32
Total	Measured	3.65	3210.6	52.3	27.8	2.06	0.14	6.60
	Indicated	8.13	5965.5	156.4	244.4	6.59	0.20	17.77
	Measured & Indicated	11.78	9176.0	208.6	272.2	8.65	0.34	24.36
	Inferred	1.14	850.7	31.3	6.2	0.46	0.04	2.28

Notes:

1. All tabulated data has been rounded and as a result minor computational errors may occur.
2. Mineral Resources which are not Mineral Reserves have no demonstrated economic viability.
3. The Mineral Resource is reported as the total in-situ Mineral Resource.
4. Metal quantities are reported in multiples of Troy Ounces or Avoirdupois Pounds.
5. The cut-off grade calculation was based on the following assumptions: zinc price of \$1.0/lb, mining cost of \$50/tonne, processing cost of \$10/tonne, G&A and holding cost of \$10/tonne, transport of 55% zinc concentrate at \$210/tonne, 90% zinc recovery and 85% payable zinc.

Table 2: Kipushi copper-rich Mineral Resource at 1.5% copper cut-off grade, effective date of June 14, 2018.

Zone	Category	Tonnes (Millions)	Cu %	Zn %	Pb %	Ag g/t	Co ppm	Ge g/t
Fault Zone	Measured	0.14	2.74	1.52	0.04	16	77	21
	Indicated	1.22	4.11	3.32	0.09	21	96	30
	Inferred	0.20	3.11	2.58	0.07	18	43	23
<i>Série Récurrenté</i>	Indicated	0.93	4.14	2.43	0.02	23	50	4
	Inferred	0.03	1.81	0.06	0.00	8	52	0.3
Offset Zone	Inferred	0.21	4.91	19.84	0.01	21	107	93
Total	Measured	0.14	2.74	1.52	0.04	16	77	21
	Indicated	2.15	4.12	2.94	0.06	22	76	19
	Measured & Indicated	2.29	4.03	2.85	0.06	21	76	19
	Inferred	0.44	3.89	10.77	0.04	19	75	55
			Contained Metal Quantities					
Zone	Category	Tonnes (Millions)	Cu Pounds (Millions)	Zn Pounds (Millions)	Pb Pounds (Millions)	Ag Ounces (Millions)	Co Pounds (Millions)	Ge Ounces (Millions)
Fault Zone	Measured	0.14	8.5	4.7	0.1	0.07	0.02	0.09
	Indicated	1.22	110.8	89.7	2.5	0.82	0.26	1.19
	Inferred	0.20	13.4	11.1	0.3	0.12	0.02	0.14
<i>Série Récurrenté</i>	Indicated	0.93	84.6	49.8	0.5	0.69	0.10	0.12
	Inferred	0.03	1.3	0.04	0.0	0.01	0.00	0.00
Offset Zone	Inferred	0.21	23.2	93.7	0.1	0.14	0.05	0.64
Total	Measured	0.14	8.5	4.7	0.1	0.07	0.02	0.09
	Indicated	2.15	195.4	139.4	3.0	1.51	0.36	1.31
	Measured & Indicated	2.29	204.0	144.2	3.1	1.58	0.39	1.40
	Inferred	0.44	37.9	104.9	0.4	0.27	0.07	0.78

Notes:

1. All tabulated data has been rounded and as a result minor computational errors may occur.
2. Mineral Resources which are not Mineral Reserves have no demonstrated economic viability.
3. The Mineral Resource is reported as the total in-situ Mineral Resource.
4. Metal quantities are reported in multiples of Troy Ounces or Avoirdupois Pounds.
5. The cut-off grade calculation was based on the following assumptions: copper price of \$3.0/lb, mining cost of \$50/tonne, processing cost of \$10/tonne, G&A and holding cost of \$10/tonne, 80% copper recovery and 96% payable copper.

Pre-feasibility study for Kipushi completed in December 2017; definitive feasibility study underway

The Kipushi Project's PFS, announced by Ivanhoe Mines on December 13, 2017, anticipated annual production of an average of 381,000 tonnes of zinc concentrate over an 11-year, initial mine life at a total cash cost of approximately \$0.48 per pound of zinc.

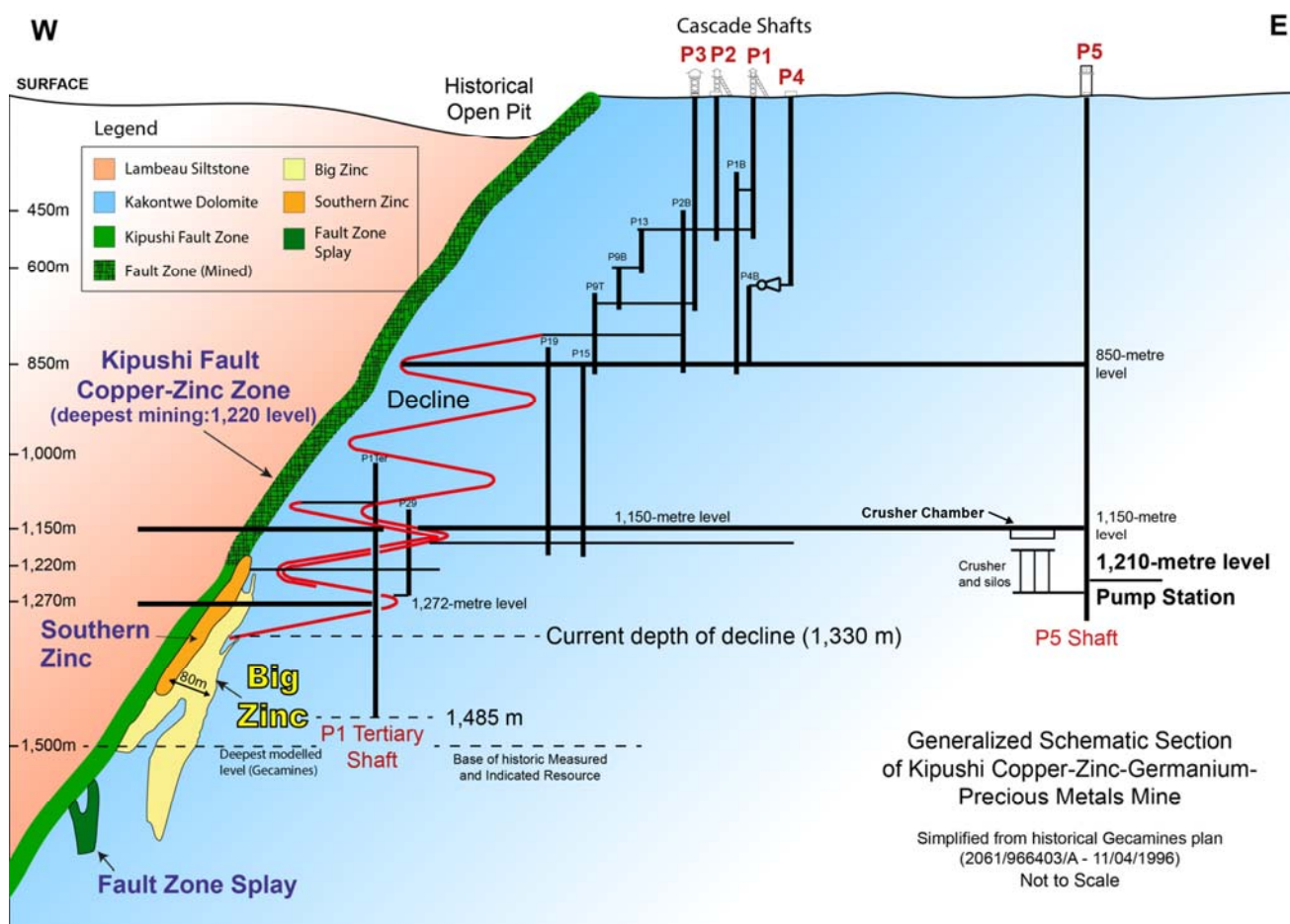
Highlights of the PFS, based on a long-term zinc price of \$1.10/lb include:

- After-tax net present value (NPV) at an 8% real discount rate of \$683 million.
- After-tax real internal rate of return (IRR) of 35.3%.
- After-tax project payback period of 2.2 years.
- Pre-production capital costs, including contingency, estimated at \$337 million.
- Existing surface and underground infrastructure allows for significantly lower capital costs than comparable greenfield development projects.
- Life-of-mine average planned zinc concentrate production of 381,000 dry tonnes per annum, with a concentrate grade of 59% zinc, is expected to rank Kipushi, once in production, among the world's largest zinc mines.

Estimated life-of-mine average cash cost of \$0.48/lb of zinc is expected to rank Kipushi, once in production, in the bottom quartile of the cash-cost curve for zinc producers internationally.

The planned primary mining method for the Big Zinc Deposit in the PFS is sublevel long-hole, open stoping, with cemented backfill. The crown pillars are expected to be mined once adjacent stopes are backfilled using a pillar-retreat mining method. The Big Zinc Deposit is expected to be accessed via the existing decline and without any significant new development. The main levels are planned to be at 60-metre vertical intervals, with sublevels at 30-metre intervals.

Figure 7: Generalized schematic section of Kipushi Mine. The Fault Zone (green), Big Zinc Zone (yellow), Southern Zinc Zone (brown) and Fault Zone Splay (dark green) are shown in the bottom left corner of the section. Access to these zones will be via the decline (shown in red) leading from the mine's 1,150-metre level. The ore will be transported up the decline and along the 1,150-metre level to the P5 Shaft, where it will be crushed and hoisted to surface for processing.



Project development and infrastructure

Significant progress has been made in modernizing the Kipushi Mine's underground infrastructure as part of preparations for the mine to resume commercial production. In Q2 2018, the Kipushi Project successfully installed a large-capacity rock crusher 1,150 metres below surface. After the 54-tonne machine was disassembled on surface, the pieces were lowered down Kipushi's main production shaft – Shaft 5 – and installed in the crusher chamber. The Sandvik jaw crusher has a maximum capacity of 1,085 tonnes an hour.

Ivanhoe completed the upgrading of a significant amount of underground infrastructure at the Kipushi Project, including a series of vertical mine shafts to various depths, with associated head frames, as well as underground mine excavations. A series of crosscuts and ventilation infrastructure still are in working condition. The underground infrastructure also includes a series of pumps to manage the influx of water into the mine.

Figure 8: Installation of the two fly wheels (orange) onto the main frame of the new, primary rock crusher at Kipushi's 1,150-metre-level crusher station.



Shaft 5 is eight metres in diameter and 1,240 metres deep. It now has been upgraded and re-commissioned. The main personnel and material winder has been upgraded and modernized to meet international industry standards and safety criteria. The Shaft 5 rock-hoisting winder now is fully operational.

The main haulage way on the 1,150-metre level between the Big Zinc access decline and Shaft 5 rock load-out facilities has been resurfaced with concrete so the mine now can use modern, trackless, mobile machinery.

With the underground upgrading program nearing completion, the project's focus now will shift to modernizing and upgrading Kipushi's surface infrastructure to handle and process Kipushi's high-grade zinc and copper resources.

Agreement to rebuild railway spur line to support the Kipushi Project

On October 30, 2017, Ivanhoe Mines and the DRC's state-owned railway company, Société Nationale des Chemins de Fer du Congo (SNCC), signed a Memorandum of Understanding (MOU) to rebuild 34 kilometres of track to connect the Kipushi Mine with the DRC national railway at Munama, south of the mining capital of Lubumbashi.

Under the terms of the MOU, Ivanhoe has appointed R&H Rail to conduct a front-end engineering design study to assess the scope and cost of rebuilding the spur line from the Kipushi Mine to the main Lubumbashi-Sakania railway at Munama. The study is underway and construction on the Kipushi-Munama spur line could start later this year. Ivanhoe will finance the estimated \$32 million (plus contingency) capital cost for the rebuilding, which is included within the overall Kipushi 2017 PFS capital cost.

The proposed export route is to utilize the SNCC network from Kipushi to Ndola, connecting to the north-south rail corridor from Ndola to Durban. The rail corridor to Durban via Zimbabwe is fully operational and has significant excess capacity.

Figure 9: Community adult literacy program at Kipushi, sponsored by Ivanhoe Mines and implemented in partnership with AlfaCongo, a non-profit NGO based in Kinshasa.



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. The project is approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of Lubumbashi.

Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited (“Kamoa Holding”) to Zijin Mining in December 2015 for an aggregate consideration of \$412 million. At the time, Kamoa Holding held a 95% interest in the Kamoa Project. In addition, Ivanhoe sold a 1% share interest in Kamoa Holding to privately-owned Crystal River 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 2002 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 holds an indirect 0.8% interest and the DRC government holds a direct 20% interest. Kamoa Holding holds an 80% interest in the project.

Health and safety at Kamoa-Kakula

Health and safety remain key priorities for all people working at the Kamoa-Kakula Project. The project achieved a significant milestone during May 2018 when it recorded a combined total of 10 million hours of work without a lost-time, injury. By the end of Q2 2018, a total of 10,386,840 hours had been worked free of lost-time injuries. This outstanding achievement reflects the dedication and safety-focused culture of the entire Kamoa-Kakula exploration and development teams.

Figure 10: Ten million hours worked by Kamoa-Kakula employees and contractors without any time lost due to an on-the-job injury – an outstanding achievement celebrated at site on May 16, 2018.



Kamoa-Kakula Mineral Resources

Ivanhoe issued an updated Mineral Resource estimate for the Kamoa-Kakula Project on February 26, 2018. The updated estimate included an update to the Kakula Mineral Resource estimate and was 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.

Indicated Mineral Resources for the combined Kamoa-Kakula Project now total 1,340 million tonnes grading 2.72% copper, containing 80.7 billion pounds of copper at a 1.0% copper cut-off grade and a minimum thickness of three metres. Kamoa-Kakula also has Inferred Mineral Resources of 315 million tonnes grading 1.87% copper and containing 13.0 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum thickness of three metres.

The Kakula estimate covers a mineralized strike length of 13.3 kilometres and is based on results from approximately 151,000 metres of drilling in 271 holes completed by December 31, 2017. Indicated Mineral Resources total 585 million tonnes at a grade of 2.92% copper, containing 37.7 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Indicated Mineral Resources total 330 million tonnes at a 4.07% copper grade, containing 29.6 billion pounds of copper. At a 3% copper cut-off, Indicated Mineral Resources total 174 million tonnes at a grade of 5.62% copper, containing 21.5 billion pounds of copper.

Inferred Mineral Resources total 113 million tonnes at a grade of 1.90% copper, containing 4.7 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Inferred Mineral Resources total 44 million tonnes at a 2.59% copper grade, containing 2.5 billion pounds of copper. At a 3% copper cut-off, Inferred Mineral Resources total nine million tonnes at a grade of 3.66% copper, containing 0.7 billion pounds of copper.

The average true thickness of the selective mineralized zone (SMZ) at a 1% copper cut-off is 10.1 metres in the Indicated Mineral Resources area and 6.7 metres in the Inferred Mineral Resources area. At a higher 3% copper cut-off, the average true thickness of the SMZ is 4.7 metres in the Indicated Mineral Resources area and 3.3 metres in the Inferred Mineral Resources area.

The Kakula Mineral Resources are defined within a total area of 24.9 square kilometres at a 1% copper cut-off. At the same cut-off grade, the areal extent of Indicated Mineral Resources is 19.4 square kilometres and the areal extent of the Inferred Mineral Resources is 5.5 square kilometres. The Kakula Discovery remains open for significant expansion in multiple directions, while the remainder of the southern parts of the Kamoa-Kakula mining-licence area is virtually untested.

Kakula PFS currently underway

A pre-feasibility study for phase 1 of the Kamoa-Kakula Project is underway. The study is considering a six-Mtpa mine and concentrator at Kakula and is expected to be completed by the end of 2018.

Underground development progressing at the Kakula Deposit

Each of the twin declines at Kakula has been advanced more than 600 metres from the portal face toward the mineralized zone, with combined development of the twin declines totalling 1,597 metres at the end of Q2 2018. The 3,535-metre decline development contract is scheduled to be completed by the end of 2018.

The detailed infrastructure designs have been completed for the bottom of the main decline, including rock tips, conveyor transfers, vent shaft and pump stations, enabling procurement to begin.

The design of the conveyor system and development truck tip for the main decline is well advanced. A single, 1.5-metre-wide steel cord conveyor has been selected. Tender enquiries for the various components of the conveyor and truck tipping station have been issued.

Figure 11: Drilling holes for explosives in preparation for a blast as part of ongoing excavation of the underground decline that will house the ore conveyor at Kakula.



Kakula construction facilities

Some concrete roadways, berms and walkways were constructed in the mine area during Q2 2018, as well as two additional office blocks and a central meeting area. The site team also has started the construction of a temporary, brick control room near the top of the box cut ramp and a prefabricated change house adjacent to the workshop.

Fibre-optic internet and cellular services have been installed and commissioned at Kakula.

Kakula perimeter fence and resettlement

Approximately 95% of the 16 kilometre perimeter fence around the mine site has been erected. The remaining 5% can only be completed once resettlement, including the construction of 45 houses has been completed. Of the 45 houses, 22 have been completed and these were occupied in March. Completion of all resettlement is expected by the end of August 2018.

Exploration activities focused on development programs at Kakula and Kakula West

A total of 13 rigs are drilling at Kakula and surrounding areas and completed 18,633 metres during Q2 2018. As of the end of Q2 2018, a total of 36,926 metres had been drilled for the year to date. The exploration program was revised during Q2, taking into account results obtained during the Kakula West expansion campaign. Additional exploration drilling has been planned to the north of Kakula West

following a narrow but high grade continuation of Kakula West mineralization. Further drilling was directed to infill, and to inform metallurgical, hydrogeological and civil geotechnical studies, as well as a condemnation hole for the planned tailings storage facility site.

Figure 12: Exploration drilling testing a zone of strong copper mineralization at Kamoa North.



Regional geophysical surveys

A 2D seismic survey that began in February 2018 was continued during Q2 2018, after a period of demobilization and stand-down due to wet season access issues within water-logged grasslands. The study is to acquire data on a series of seismic lines planned across the Kamoa-Kakula orebody and into the Western Foreland area.

A total of 74 kilometres of lines were surveyed, including a 10-kilometre line done at variable spacing to test near-surface reflectors. A downhole vertical seismic profile study also was completed in conjunction with the surface survey to tie in identified reflectors and get a more accurate depth estimate to the surface survey. Both surveys were completed by the end of June 2018.

Ongoing upgrading work enables Mwadingusha power station to supply 32 megawatts of clean electricity to national grid

In January 2018, Ivanhoe announced that ongoing upgrading work at the Mwadingusha hydropower plant in the DRC had almost tripled the plant's interim power output from 11 to 32 megawatts (MW). This represents 45% of the plant's designed capacity. Three of Mwadingusha's six generators now have been modernized; the remaining three generators are due to be upgraded and fully operational by the end of 2019 – restoring the plant to its installed output capacity of approximately 71 MW of power.

The work at Mwadingusha, part of a program to eventually overhaul and boost output from three hydropower plants, is being conducted by engineering firm Stucky, of Lausanne, Switzerland, under the direction of Ivanhoe Mines and its joint-venture partner, Zijin Mining, in conjunction with the DRC's state-owned power company, La Société Nationale d'Electricité (SNEL). Once fully reconditioned, the three plants will have combined installed capacity of approximately 200 MW of electricity for the national grid, which is expected to be more than sufficient for the Kamo-Kakula Project.

The Kansoko Mine, Kakula Mine and Kamo camp have been connected to the national, hydroelectric power grid, since the completion of a 12-kilometre, 120-kilovolt, dual-circuit power line between Kansoko and Kakula last December. The design of permanent 11-kilovolt reticulation to the vent shafts and mine has started, which includes permanent 11-kilovolt substations, overhead lines and surface cables.

Continued focus on community and sustainability

The Kamo-Kakula Sustainable Livelihoods program is committed to sustainable development in the communities within the project's footprint.

The main objective of the Livelihoods program is to enhance food security and the living standards of the people who reside near the Kamo-Kakula Project. The program is being implemented mainly through fish farming and agricultural activities, such as production of maize (corn), vegetables and poultry, and beekeeping.

Activities during Q2 2018 included construction of a new school at the Muvunda village; the start of a brick-making program; clearing of new maize plots; construction of an additional community fish pond; a community literacy program; training communities in vegetable and poultry production; creation of numerous job opportunities; and the progression of the Kakula housing relocation program.

Figure 13: One of the gardens that supplies fresh produce to the Kamo-Kakula Project –an initiative of the Sustainable Livelihoods program, which is working to build a sustainable, independent economy in nearby communities.



Figure 14 and 15: A new secondary school in Kaponda was built as part of the community relations program being conducted by the Kamoia-Kakula Project.



Figure 16: Fish pond at one of the local villages near the Kamoia-Kakula Project as part of a community-support initiative.



DRC WESTERN FORELAND EXPLORATION PROJECT

Ivanhoe's DRC exploration group is targeting Kamoia-Kakula-style copper mineralization through a regional drilling program on its 100%-owned Western Foreland exploration licences, located to the north and west of the Kamoia-Kakula Project.

During Q2 2018, the team completed 6,857 metres of drilling in 16 holes and finalized detailed interpretation of the Makoko area. The acquisition of 1,626 ground gravity stations equating to 81 line kilometres of data were collected on the Western Foreland licences and the interpretation of the results is in progress.

Exploration drilling with one rig began at the Kiala area on high-grade copper trends emanating from Kamoia North. One hole has been completed to date. Two rigs continued at the Makoko area and five holes were completed west of the Lufupa River. Figure 17 below shows the current exploration project areas for the 2018 field season.

Improvements to the Ivanhoe exploration camp are continuing; a fully functioning drill-core yard and core-storage facility were added during the quarter.

In September, Ivanhoe expects to be in a position to provide an important update on its Makoko and Kamoia North exploration programs.

Figure 17: Location of project areas in Ivanhoe's 2018 Western Foreland drilling campaign.

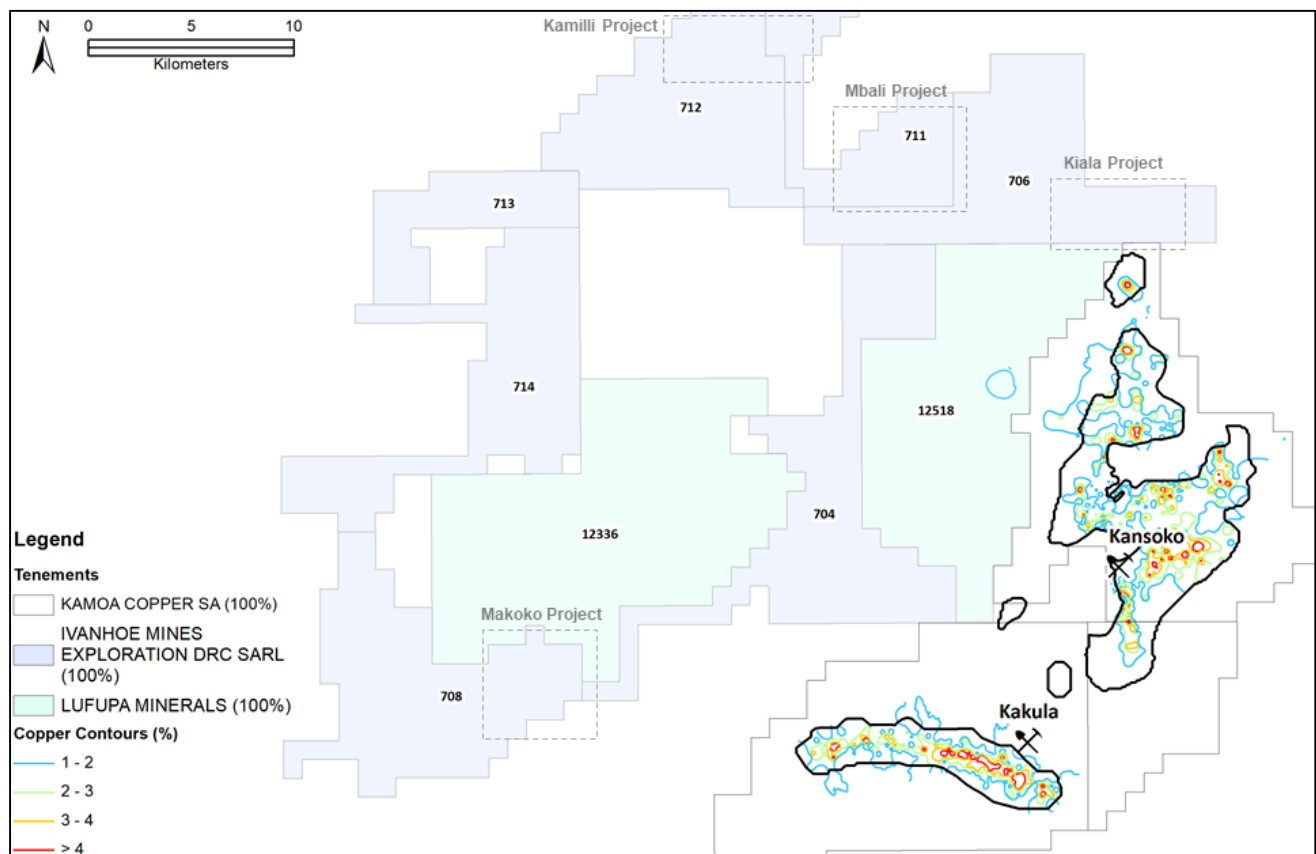


Figure 18: One of the exploration drill rigs targeting Kamo-a-Kakula-style copper mineralization at Makoko on Ivanhoe's 100%-owned Western Foreland exploration licences.



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.

	Three months ended			
	June 30,	March 31,	December 31,	September 30,
	2018	2018	2017	2017
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure	2,773	1,436	10,986	11,595
Share of losses from joint venture	6,702	7,200	10,193	6,759
General administrative expenditure	6,269	5,254	3,316	6,039
Share-based payments	1,764	1,412	1,111	1,224
Reversal of impairment of mineral property and other items	-	-	(286,283)	-
Finance income	(10,875)	(10,357)	(8,986)	(8,032)
Finance costs	352	343	442	434
Total comprehensive loss (profit) attributable to:				
Owners of the Company	33,710	(4,916)	(207,991)	15,893
Non-controlling interest	4,263	1,064	(77,336)	5,269
Basic loss (profit) per share	0.01	0.01	(0.25)	0.01
Diluted loss (profit) per share	0.01	0.01	(0.24)	0.01

	Three months ended			
	June 30,	March 31,	December 31,	September 30,
	2017	2017	2016	2016
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure	9,626	8,296	9,507	7,769
Share of losses from joint venture	5,035	5,518	5,890	6,306
General administrative expenditure	4,952	4,953	7,272	4,213
Share-based payments	1,201	1,372	1,442	1,750
Finance income	(9,167)	(6,429)	(6,827)	(7,239)
Finance costs	355	479	471	454
Total comprehensive loss (profit) attributable to:				
Owners of the Company	7,477	1,749	14,101	(1,860)
Non-controlling interest	3,885	3,273	3,914	2,445
Loss per share (basic and diluted)	0.01	0.01	0.02	0.01

DISCUSSION OF RESULTS OF OPERATIONS

Review of the three months ended June 30, 2018, vs. June 30, 2017

The Company recorded a total comprehensive loss of \$38.0 million for Q2 2018 compared to a total comprehensive loss of \$11.4 million for the same period in 2017. The increased loss mainly was due to an exchange loss on translation of foreign operations of \$30.0 million recognized in Q2 2018 resulting from the weakening of the South African Rand by 16% from March 31, 2018, to June 30, 2018, compared to an exchange gain on translation of foreign operations recognized in Q2 2017 of \$2.0 million.

Exploration and project expenditures for the three months ending June 30, 2018, amounted to \$2.8 million and were \$6.8 million less than for the same period in 2017 (\$9.6 million). The decrease is attributable to the capitalization of costs incurred at the Kipushi Project subsequent to the finalization of its pre-feasibility study in December 2017. With the focus at the Kipushi and Platreef projects being on development and the Kamoia-Kakula Project being accounted for as a joint venture, the total \$2.8 million exploration and project expenditure in Q2 2018 related to exploration at Ivanhoe's 100%-owned Western Foreland exploration licences. In Q2 2017, \$9.5 million of the total \$9.6 million exploration and project expenditure related to the Kipushi Project.

The Company's share of losses from the Kamoia Holding joint venture increased from \$5.0 million in Q2 2017 to \$6.7 million in Q2 2018. The following table summarizes the Company's share of the comprehensive loss of Kamoia Holding for the three months ending June 30, 2018 and for the same period in 2017:

	Three months ended June 30, 2018	Three months ended June 30, 2017
	\$'000	\$'000
Interest expense	13,822	9,898
Exploration costs	3,353	4,343
Foreign exchange loss	70	78
Interest income	(989)	(352)
Loss for the period	16,256	13,967
Loss attributable to non-controlling interest	(2,716)	(3,796)
Loss for the period attributable to joint venture partners	13,540	10,171
Company's share of losses from joint venture (49.5%)	6,702	5,035

The costs associated with mine development are capitalized as development costs in Kamoia Holding, while the exploration expenditure is expensed. Capitalization of costs at Kakula commenced during Q2 2017, coinciding with the start of the Kakula box cut. Expenditure on exploration drilling at Kakula West and in the saddle area between Kakula West and Kakula still is expensed.

The interest expense in the Kamoia Holding joint venture relates to shareholder loans where each shareholder is required to fund Kamoia Holding in an amount equivalent to its proportionate shareholding interest. The Company is advancing Crystal River's portion on its behalf in return for an increase in the promissory note due to Ivanhoe.

Finance income for the three months ending June 30, 2018, amounted to \$10.9 million, and was \$1.7 million more than for the same period in 2017 (\$9.2 million). The increase mainly was due to interest earned on loans to the Kamoia Holding joint venture to fund operations that amounted to \$9.7 million in 2018, as the accumulated loan balance increased.

Review of the six months ended June 30, 2018, vs. June 30, 2017

The Company's total comprehensive loss of \$34.1 million for the six months ended June 30, 2018, was \$17.7 million higher than for the same period in 2017 (\$16.4 million). The increased loss mainly was due to an exchange loss on translation of foreign operations of \$18.8 million for the six months ended June 30, 2018, resulting from the weakening of the South African Rand by 11% from December 31, 2017, to June 30, 2018, compared to an exchange gain on translation of foreign operations recognized in the same period of 2017 of \$7.6 million.

Exploration and project expenditures for the six months ending June 30, 2018, amounted to \$4.2 million and were \$13.7 million less than for the same period in 2017 (\$17.9 million). Exploration and project expenditures for the six months ending June 30, 2018 related to Ivanhoe's 100%-owned Western Foreland exploration licences, while \$17.6 million for the same period in 2017 related to the Kipushi Project.

The Company's share of losses from the Kamoia Holding joint venture increased to \$13.9 million for the six months ended June 30, 2018, from \$10.6 million for the same period in 2017. The following table summarizes the Company's share of the comprehensive loss of Kamoia Holding for the six months ending June 30, 2018, and for the same period in 2017:

	Six months ended June 30, 2018	Six months ended June 30, 2017
	\$'000	\$'000
Interest expense	26,488	19,081
Exploration costs	8,868	9,758
Foreign exchange loss (gain)	91	(24)
Interest income	(1,609)	(644)
Loss for the period	33,838	28,171
Loss attributable to non-controlling interest	(5,753)	(6,852)
Loss for the period attributable to joint venture partners	28,085	21,319
Company's share of losses from joint venture (49.5%)	13,902	10,553

Financial position as at June 30, 2018 vs. December 31, 2017

The Company's total assets decreased by \$35.8 million, from \$1,271.3 million as at December 31, 2017, to \$1,235.5 million as at June 30, 2018. The Company utilized \$11.5 million of its cash resources in its operations and received interest of \$1.7 million during the six months ending June 30, 2018.

The Company's investment in the Kamoia Holding joint venture increased by \$25.3 million from \$552.4 million as at December 31, 2017, to \$577.7 million as at June 30, 2018, with each of the current shareholders funding the operations equivalent to their proportionate shareholding interest. The Company's portion of the Kamoia Holding joint venture cash calls amounted to \$20.9 million during the six months ending June 30, 2018, while the Company's share of comprehensive loss from the joint venture amounted to \$13.9 million.

Property, plant and equipment increased by \$36.1 million, with a total of \$57.4 million being spent on project development and to acquire other property, plant and equipment, \$26.4 million and \$30.3 million pertained to development costs and other acquisitions to property, plant and equipment of the Platreef Project and Kipushi Project respectively.

The main components of the additions to property, plant and equipment of the Platreef and Kipushi projects for the six months ending June 30, 2018, and for the same period in 2017, are set out in the following table:

	Six months ended June 30, 2018	Six months ended June 30, 2017
	\$'000	\$'000
Platreef Project		
Shaft 1 construction	14,646	8,700
Salaries and benefits	4,227	3,555
Administrative and other expenditure	2,626	2,922
Shaft 2 early works	2,487	521
Social and environmental	1,029	1,093
Studies and contracting work	682	2,084
Site costs	558	405
Infrastructure	-	155
Total development costs	26,255	19,435
Other additions to property, plant and equipment	136	53
Total additions to property, plant and equipment for Platreef	26,391	19,488
Kipushi Project		
Salaries and benefits	7,314	5,671
Electricity	3,348	2,924
Studies and contracting work	2,909	1,744
Depreciation	1,497	1,681
Repair and maintenance	624	2,062
Other expenditure	5,961	3,545
	21,653	17,627
<i>Classified as:</i>		
Exploration and project expenditure in the loss from operating activities	-	17,627
Capitalized as development cost in property, plant and equipment	21,653	-
Other additions to property, plant and equipment	8,612	1,332
Total additions to property, plant and equipment for Kipushi	30,265	1,332

The Company's total liabilities decreased by \$4.7 million to \$55.1 million as at June 30, 2018, from \$59.8 million as at December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$87.1 million in cash and cash equivalents as at June 30, 2018. At this date, the Company had consolidated working capital of approximately \$85.2 million, compared to \$181.9 million at December 31, 2017.

The Platreef Project's restricted cash, which were the funds invested by the Japanese consortium of \$290 million, has been fully utilized and the project's current expenditure is being funded solely by Ivanhoe as the Japanese consortium of ITOCHU Corporation, Japan Oil, Gas and Metals National Corporation and Japan Gas Corporation have elected not to contribute to current expenditures. Since the Platreef Project's restricted cash was fully utilized, the Company has contributed a total of \$7.0 million on behalf of the Japanese consortium.

Since December 8, 2015, each shareholder in Kamo Holding has been required to fund Kamo Holding in an amount equivalent to its proportionate shareholding interest. The Company is advancing Crystal River's portion on its behalf in return for an increase in the promissory note due to Ivanhoe.

The Company's main objectives for 2018 at the Platreef Project are the continuation of Shaft 1 construction, securing a bulk-water supply and completion of early-works construction of Shaft 2. At Kipushi, the principal objective is the completion of the feasibility study and continued upgrading of mining infrastructure. At the Kamo-Kakula Project, priorities are the continuation of decline construction at Kakula and the completion of a pre-feasibility study for Kakula. The Company has budgeted to spend \$43 million on further development at the Platreef Project; \$35 million at the Kipushi Project; \$6 million on regional exploration in the DRC; and \$9 million on corporate overheads for the remainder of 2018 – as well as its proportionate funding of the Kamo-Kakula Project, expected to be \$28 million for the remainder of 2018.

On June 11, 2018, Ivanhoe announced that CITIC Metal Co., Ltd. (CITIC Metal), a wholly-owned subsidiary of CITIC Limited, had agreed to make a major investment acquiring a significant 19.9% stake in Ivanhoe Mines. Under terms of the agreement, Ivanhoe Mines 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 (\$557 million). Zijin Mining has since exercised its existing anti-dilution rights. This will result in additional proceeds of C\$78 million (\$60 million) that Ivanhoe will receive concurrently with the completion of CITIC Metal's investment and CITIC Metal's stake in Ivanhoe Mines will be reduced to 19.5% as a result.

The Toronto Stock Exchange 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 records and registration with the Chinese government regulatory agencies. These are progressing according to plan and the Ivanhoe-CITIC Metal transaction is expected to close no later than October 22, 2018. Both Ivanhoe and CITIC Metal are working toward an early closing, potentially by mid-September 2018, subject to all closing conditions being satisfied.

CITIC Metal Group Limited (CITIC Metal Group) has provided Ivanhoe with a nine-month, interim loan facility of \$100 million in accordance with a term-loan-facility that was part of the long-term strategic cooperation and investment agreement between Ivanhoe and CITIC Metal. Ivanhoe issued a utilization request to CITIC Metal Group on August 6, 2018, to utilize the full \$100 million loan which was received on August 8, 2018.

The interim loan funds, which Ivanhoe does not expect to utilize before the strategic investment closes, carry an annual interest rate of 6% and will be repaid upon receipt of the C\$723 million (\$557 million) proceeds from CITIC Metal to be received upon closing of the central investment being made by CITIC Metal, but no later than nine months following draw-down. Mr. Friedland has provided a secured, limited-recourse guarantee and share pledge securing Ivanhoe Mines' obligation under the interim loan facility. The interim loan provides an additional level of comfort to ensure that Ivanhoe can continue to advance its exploration and development activities uninterrupted and on current timetables.

The Company has a mortgage bond outstanding on its offices in London, United Kingdom, of £3.2 million (\$4.2 million). The bond is fully repayable on August 31, 2020, secured by the property and incurs interest at a rate of LIBOR plus 1.9% payable monthly in arrears. Only interest will be payable until maturity.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of \$26.0 million as at June 30, 2018, and a contractual amount due of \$31.9 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 \$5.9 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan.

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

Contractual obligations as at June 30, 2018	Payments Due By Period				
	Total \$'000	Less than			After 5 years \$'000
		1 year \$'000	1-3 years \$'000	4-5 years \$'000	
Debt	36,159	-	4,232	-	31,927
Operating leases	1,541	461	1,035	45	-
Shaft 1 construction – Platreef Project	9,517	9,517	-	-	-
Shaft 2 construction – Platreef Project	3,994	3,994	-	-	-
Total contractual obligations	51,211	13,972	5,267	45	31,927

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

The Company is required to fund its Kamoia 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 income earned and 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 income earned and expenditures incurred with related parties:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
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 above noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at June 30, 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 director or officers 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 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) HCF International Advisers (HCF) is a corporate finance adviser specializing in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. Guy de Selliers is the President and co-founder of HCF, which provides financial advisory services to the Company.
- (d) Ivanhoe Capital Services Ltd. (Services) is a private company owned indirectly by the Executive Chairman of the Company. Services provides for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.
- (e) 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 the Executive Chairman 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 Kamoa Holding Limited ("KHL"), a joint venture of the Company. 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 Kamoa Holding Limited ("KHL"), a joint venture of the Company. The Company provides administration, accounting and other services to Energy on a cost-recovery basis.
- (j) 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, 2017. 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. Such estimates have a pervasive effect on 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. This 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.

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

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 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. Failure to obtain further financing could result in the delay or indefinite postponement of further exploration and development of the Company's properties, which could result in a material uncertainty that may cast significant doubt upon the Company's ability to meet its operational and capital objectives, realize its assets and discharge its liabilities in the normal course of business and accordingly the appropriateness of the use of accounting principles applicable to a going concern. 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.

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, 2018, with earlier application permitted. The Company adopted these standards in the current period, which 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 IASB clarified that this election should be made separately for each associate or joint venture at initial recognition.

Accounting standards issued but not yet effective

- IFRS 16 - 'Leases'. The standard requires lessees to recognize 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)
 - IAS 19 - 'Employee Benefits'. The amendments require an entity to use the updated assumptions from a remeasurement of a 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)
 - 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)
 - 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)
 - 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)
 - Annual improvements 2015-2017 Cycle: IAS 12 – 'Income Taxes' provides clarification that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises. (i)
 - 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)
- (i) 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:

	Level	June 30, 2018 \$'000	December 31, 2017 \$'000
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
Financial liabilities			
Borrowings	Level 3	30,203	29,204

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

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

The fair value of the promissory note receivable by the Company from Crystal River 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 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 USD 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 trade and other payables and the financial liability, were estimated to approximate their carrying values, due primarily to their immediate or short-term maturity.

Finance income

The Company's finance income is summarized as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Interest from loan to joint venture	(9,675)	(7,664)	(18,360)	(12,216)
Other interest income	(603)	(945)	(1,689)	(1,707)
Interest on long term loan receivable	(597)	-	(1,183)	-
Unwinding discount	-	(558)	-	(1,673)
	(10,875)	(9,167)	(21,232)	(15,596)

The interest from the loan to the joint venture is interest earned from the Kamo Holding joint venture on shareholder loans advanced by the Company where each shareholder is required to fund Kamo Holding in an amount equivalent to its proportionate shareholding interest.

Financial risk management objectives and policies

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

Foreign exchange risk

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

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

	June 30, 2018	December 31, 2017
	\$'000	\$'000
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 or decrease in the U.S. dollar against the foreign currencies presented. The sensitivity analysis includes only outstanding foreign currency denominated monetary items not denominated in the functional currency of the Company or the relevant subsidiary and adjusts their translation at the end of the period for a 5% change in foreign currency rates. A positive number indicates a decrease in loss for the year where the foreign currencies strengthen against the U.S. dollar. The opposite number will result if the foreign currencies depreciate against the U.S. dollar.

	Six months ended June 30, 2018	Six months ended June 30, 2017
	\$'000	\$'000
Canadian dollar	185	20
Australian dollar	219	188
South African rand	(40)	21

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 its receivables at each statement of financial position date to ensure that adequate impairment losses are made for irrecoverable 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.

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 \$'000	1 to 3 months \$'000	3 to 12 months \$'000	More than 12 months \$'000	Total undiscounted cash flows \$'000
As at June 30, 2018					
Trade and other payables	15,158	1,101	889	223	17,371
Non-current borrowings	-	-	-	36,152	36,152
As at December 31, 2017					
Trade and other payables	21,154	1,452	940	40	23,586
Non-current borrowings	-	-	-	35,711	35,711

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 USD LIBOR.

If interest rates (including applicable USD 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.

DESCRIPTION OF CAPITAL STOCK

As at August 10, 2018, 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 791,933,589 Class A Shares, nil Class B Shares, nil warrants and nil preferred shares were issued and outstanding.

The Company granted no options in 2016 or 2017 and 4,000,000 options in 2018 to date. As at August 10, 2018, there were 22,881,000 options issued in terms of the Equity Incentive Plan exercisable into 22,881,000 Class A Shares.

The Company granted 1,503,509 restricted share units (RSUs) in 2018 to date, 43,683 restricted RSUs in 2017 and 2,013,539 RSUs in 2016 per the Company's restricted share unit plan. As at August 10, 2018, there were 5,275,727 RSUs which may vest into 5,275,727 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operation of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design effectiveness of the Company's DC&P and ICFR as of June 30, 2018 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 to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's CEO and CFO have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of June 30, 2018 and have concluded that these controls and procedures have been designed effectively to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design and operation of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected.

During the six months ended June 30, 2018, 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, interest rate 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 has 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:

- The Kamoa-Kakula 2018 Resource Update dated March 23, 2018, prepared by OreWin; Amec Foster Wheeler; MDM (Technical) Africa; Stantec Consulting International and SRK Consulting (South Africa), covering the Company's Kamoa-Kakula Project;

- The Platreef 2017 Feasibility Study Technical Report dated September 4, 2017, prepared by DRA Global, OreWin, Amec Foster Wheeler, Stantec Consulting, Murray & Roberts Cementation, SRK Consulting, Golder Associates and Digby Wells Environmental, covering the Company's Platreef Project; and
- The Kipushi 2017 Prefeasibility Study Technical Report dated January 25, 2018, prepared by OreWin, The MSA Group, SRK Consulting (South Africa) and MDM (Technical) Africa, 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.