IVANHOE MINES

NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

DATED: MARCH 19, 2018

INTRODUCTION

This management's discussion and analysis (MD&A) should be read in conjunction with the audited consolidated financial statements of Ivanhoe Mines Ltd. ("Ivanhoe", "Ivanhoe Mines" or the "Company") 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 ***March 19, 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 access for early underground development at the Flatreef Deposit; (ii) statements regarding the station development of Shaft 1 at the 750, 850 and 950 metre levels; (iii) statements regarding the sinking of Shaft 1, including that the average sinking rate is between 40 and 50 metres a month; (iv) statements regarding Shaft 1 reaching the planned, final depth at 980 metres below surface in 2019; (v) statements regarding the timing of Shaft 2 development, including that construction of the box cut will take approximately 12 months to complete and that Shaft 2 will be sunk to a final depth of more than 1,100 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 peak water use of 7.5 million litres per day at the Platreef Project and development of the Pruissen Pipeline Project; (xi) statements regarding the Platreef Project's estimated electricity requirement of 100 million volt-amperes; (xii) statements regarding the timing and completion of a pre-feasibility study for a six Mtpa mine at Kakula; (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 licenses; (xv) statements regarding completion of the twin declines at Kakula scheduled for completion of the contract by the end of 2018; (xvi) statements regarding the timing of an update to the Kipushi Mineral Resource estimate early in Q2 2018; (xvii) statements regarding the timing and completion of the feasibility study at the Kipushi Project; and (xviii) statements regarding expected expenditure for 2018 of $64 million on further development at the Platreef Project; $62 million at the Kipushi Project; $12 million on regional exploration in the DRC; and $18 million on corporate overheads in 2018 – as well as its proportionate funding of the Kamoa-Kakula Project, expected to be $76 million for 2018.

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

This MD&A also contains references to estimates of Mineral Resources and Mineral Reserves. The estimation of Mineral Resources is inherently uncertain and involves subjective judgments about many relevant factors. Estimates of Mineral Reserves provide more certainty but still involve similar subjective 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 licenses; and (vii) changes in law or regulation.

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

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

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors set forth below in the "Risk Factors" section beginning on page 48 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 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, 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 January 2017, Ivanplats reconfirmed its Level 3 status in its third 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 in 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 2017, the Platreef Project reached a total of 215,496 lost time injury (LTI) free hours worked in terms of South Africa's Mines Health and Safety Act and Occupational Health and Safety Act. 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 Phase 1 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 – an increase of 13% – 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

On May 11, 2016, Ivanhoe Mines announced a substantial increase in Indicated and Inferred Mineral Resources at the Platreef Project. The updated Mineral Resource estimate, which included updated UMT_TCU Mineral Resources, Bikkuri Mineral Resources and the Mineral Resources in the immediate footwall of the TCU, was prepared by Ivanhoe Mines under the direction of Dr. Harry Parker, RM SME, of Amec Foster Wheeler. 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 has reached a depth of more than 700 metres below surface

Sinking of Platreef's Shaft 1 had reached a depth of 584 metres at the end of December 2017 and further advanced to 711 metres on March 19, 2018. The shaft is expected to intersect the upper contact of the Flatreef Deposit (T1 mineralized zone), at an approximate shaft depth of 783 metres, during the third quarter of this year. The grade for the T1 mineralized zone at this location is 4.83 grams per tonne of 3PE (platinum, palladium and rhodium) plus gold, 0.33% nickel and 0.15% copper over a vertical thickness of 12 metres.

Shaft 1, with an internal diameter of 7.25 metres, will provide access to the Flatreef Deposit and enable the initial underground development to take place during the development of Shaft 2. Ultimately, Shaft 1 will become the primary ventilation intake shaft during the project's four-million-tonne-per-annum production case.

The average sinking rate has ranged between 40 to 50 metres a month. The shaft includes a 300-millimetre-thick, concrete-lined shaft wall. The main sinking phase is expected to reach its projected, final depth of 980 metres below surface in 2019.

Shaft stations to provide access to horizontal mine workings for personnel, materials, pump stations and services will be developed at depths of 450 metres, 750 metres, 850 metres and 950 metres.

The first off-shaft lateral development on the 450-metre level, which will serve as an intermediate water pumping and shaft cable-termination station, was successfully completed in September 2017. The next off-shaft lateral development will be at the 750-metre-level and will serve as the first mine-working level. The 750-metre-level station development is expected to be completed by September 2018.

Figure 1: Benjamin Sekano (centre), Platreef's Mine Manager, reviews shaft sinking plans with geotechnical engineers at the 450-metre-level substation in Shaft 1.

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, 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 early-works for Shaft 2 include the excavation of a surface box cut to a depth of approximately 29 metres below surface and the construction of the concrete hitch (foundation) for the 103-metre-tall concrete headgear (headframe) that will house the shaft's permanent hoisting facilities

and support the shaft collar. Excavation of the box cut commenced in January 2018 and is expected to be completed by the end of 2018.

Figure 2: Excavation of a surface box cut now underway as part of early-works construction for Shaft 2 at the Platreef Mine in South Africa.

Shaft 2 engineered to allow for future expansion options

Shaft 2 has been engineered with a crushing and hoisting capacity of six Mtpa. This will allow a relatively quick and capital-efficient first expansion of the Platreef Project to six Mtpa by increasing underground development and commissioning a third, two-Mtpa processing module and associated surface infrastructure as required.

A further expansion to more than eight Mtpa would entail converting Shaft 1 from a ventilation shaft into a hoisting shaft. This would require additional ventilation exhaust raises, as well as a further increase of underground development, commissioning of a fourth, two-Mtpa processing module and associated surface infrastructure, as described in the Platreef preliminary economic assessment (PEA) as Phase 2 of the project.

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 per annum (Mtpa) is designed to establish an operating platform to support future expansions. This is expected to be followed by a potential doubling of production to 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. Primary access to the mining zones will be by way of Shaft 2; 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. 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 the earlier projections in the 2015 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

On July 19, 2017, Ivanhoe Mines announced the appointment of another two leading mine-financing institutions — KfW IPEX-Bank, a German government-owned institution, and the Swedish Export Credit Corporation (SEK) — as Initial Mandated Lead Arrangers (IMLAs) to arrange debt financing for the ongoing development of the Platreef Mine.

KfW IPEX-Bank and SEK joined the three initial IMLAs — Export Development Canada, Nedbank Limited (acting through its Corporate and Investment Banking division) and Societe Generale Corporate & Investment Banking — that were appointed last year.

The five 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 now have been received for approximately $900 million of the targeted $1 billion project financing. Negotiation of a term sheet is ongoing. In addition, preliminary discussions have begun with leading financial institutions around the financing of the contribution by the black economic empowerment partners to the development capital.

Metallurgical test work and processing methods

Metallurgical test work has focused on maximizing recovery of platinum-group metals (PGM) and base metals, mainly nickel, while producing an acceptably high-grade concentrate suitable for further processing and/or sale to a third party. The three main geo-metallurgical units and composites tested produced smelter-grade final concentrates of approximately 85 g/t PGM+Au at acceptable PGM recoveries. Test work also has shown that the material is amenable to treatment by conventional flotation without the need for mainstream or concentrate ultrafine re-grinding. Extensive bench scale test work comprising of open-circuit and locked-cycled flotation testing, comminution testing, mineralogical characterization, dewatering and rheological characterization was performed at Mintek in South Africa, an internationally accredited metallurgical testing facility and laboratory.

Comminution and flotation test work has indicated that the optimum grind for beneficiation is 80% passing 75 micrometres. Platreef ore is classified as being 'hard' to 'very hard' and thus not suitable for semi-autogenous grinding; a multi-stage crushing and ball-milling circuit has been selected as the preferred size reduction route.

Improved flotation performance has been achieved using high-chrome grinding media as opposed to carbon-steel media. The inclusion of a split-cleaner flotation circuit configuration, in which the fast-floating fraction is treated in a cleaner circuit separate from the medium- and slow-floating fractions, resulted in improved PGM, copper and nickel recoveries and concentrate grades.

A two-phased development approach was used for the DFS flow-sheet design. The selected flow sheet comprises a common four-Mtpa, three-stage crushing circuit that feeds crushed material to two parallel milling-flotation modules, each with a nominal capacity of two Mtpa. Flotation is followed by a common concentrate thickening, concentrate filtration, tailings disposal and tailings-handling facility.

Bulk water and electricity supply

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

The Platreef Project's water requirement for the first phase of development is projected to peak at approximately 7.5 million litres per day, which is expected to be supplied by the water network. Ivanhoe also is investigating various alternative sources of bulk water, including an allocation of bulk grey-water from a local source.

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

Development of human resources and job skills

Work progressed well on the implementation of Ivanhoe's Social and Labour Plan (SLP) during 2017, to which 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. Additional internal training is ongoing to upskill the current work force.

KIPUSHI PROJECT

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

Health, safety and community development

The Kipushi Project achieved a total of 458,884 work hours free of lost-time injuries by December 31, 2017. One lost-time injury occurred in September 2017.

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

The Ivanhoe-sponsored Fionet program to improve malaria diagnostics and treatment was expanded in 2017 to 300 Deki Readers installed in 252 medical-service providers in Haut-Katanga and Lualaba provinces in southern DRC, which host Ivanhoe's Kipushi and Kamoa-Kakula projects. Deki devices provide automated readings of rapid diagnostic tests to remove the human-error factor and avoid prescription of unnecessary medication. The data are uploaded to a cloud server for analysis by the Ministry of Health in planning malaria-control measures. Deki Readers provided diagnostic testing in more than 30,000 patient encounters during the past year, with approximately 63% of patients testing negative for malaria.

Kipushi Mineral Resources

The current Mineral Resource estimate for Kipushi was prepared by MSA Group on January 27, 2016. Zinc-rich Measured and Indicated Mineral Resources totalled 10.18 million tonnes at 34.89% zinc, 0.65% copper, 0.96% lead, 19 g/t silver, 15ppm cobalt and 51 g/t germanium at a 7% zinc cut-off, containing 7,833 million pounds of zinc. Zinc-rich Inferred Mineral Resources totalled 1.87 million tonnes at 28.24% zinc, 1.18% copper, 0.88% lead, 10 g/t silver, 15ppm cobalt and 53 g/t germanium at a 7% zinc cut-off containing 1,169 million pounds of zinc.

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

Underground drilling program completed in November 2017 with updated Mineral Resource estimate expected in Q2 2018

Ivanhoe initiated a second phase of underground drilling at Kipushi in April 2017 with the goal of upgrading Inferred Mineral Resources on the Southern Zinc and Fault Zone to Indicated, expanding Mineral Resources in the Série Recurrent Zone and collecting additional sample material for metallurgical flotation testing.

A total of 9,706 metres were 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.

Logging and sampling of the holes was completed at the end of 2017 and the final assays are expected soon. Geology interpretation of the results is ongoing and a new resource update in planned for release in Q2 2018. The updated Mineral Resource will be used in the preparation of the Kipushi Feasibility Study.

Project development and infrastructure

Ivanhoe completed the refurbishment 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. A schematic layout of the existing development is shown in Figure 3.

Shaft 5, the main production shaft for the Kipushi Mine, 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.

Underground upgrading work is continuing on the crusher and the rock load-out facilities at the bottom of Shaft 5 and the main haulage way on the 1,150-metre level, between the Big Zinc access decline and Shaft 5.

Figure 3: Schematic underground section of Kipushi Mine.

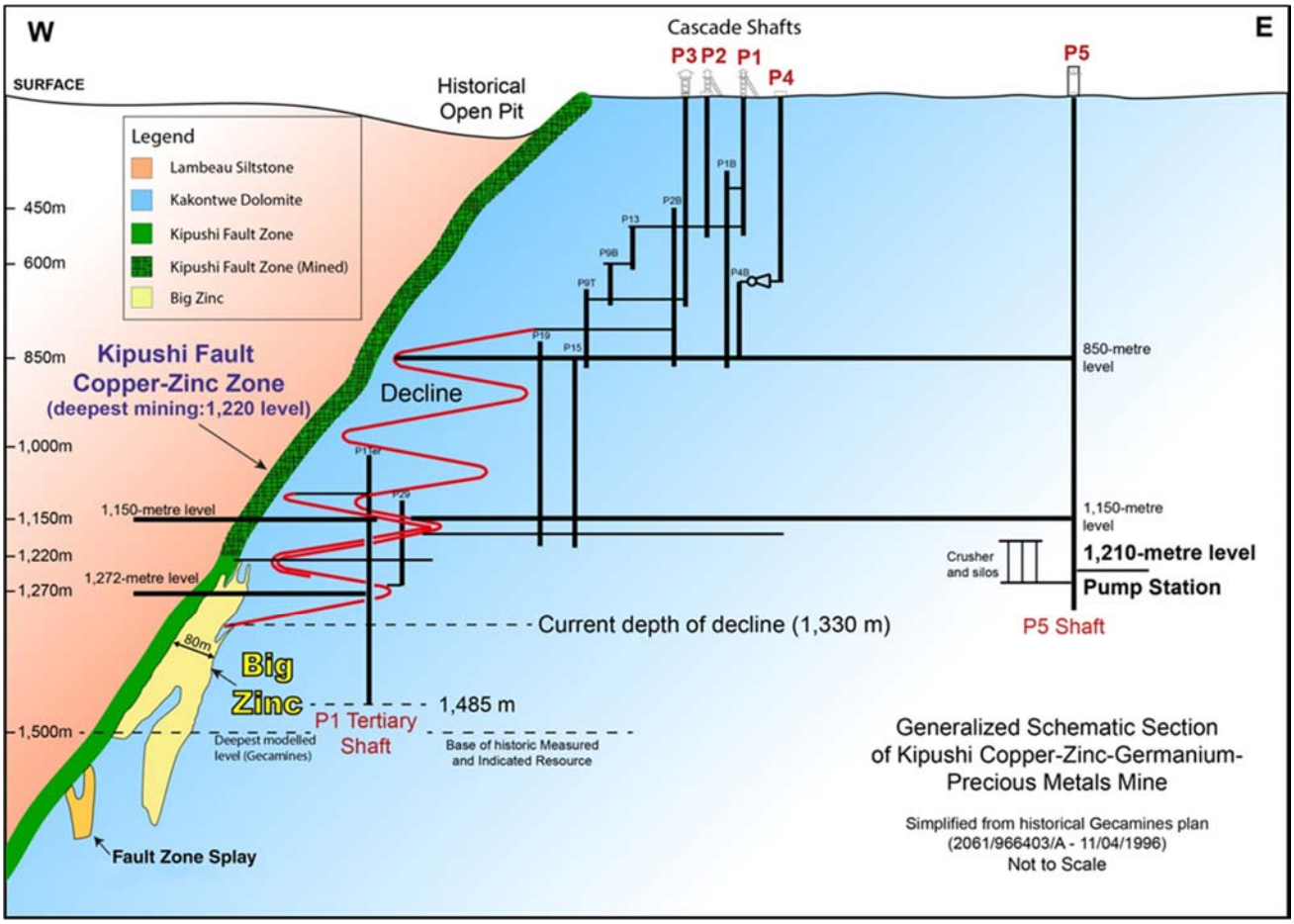


Figure 4: The new ore conveyor belt installed as part of Kipushi's upgrading work.

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

On December 13, 2017, Ivanhoe Mines announced the results of a pre-feasibility study for the rebirth of the historic Kipushi Mine. The study anticipates 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 globally.

The definitive feasibility study, to further refine and optimize the project's economics, is underway and is expected to be completed in the second half of 2018.

Figure 5: Kipushi Project's proposed site layout.

Figure 6: Shaft 5 main pumping station at Kipushi's 1,200-metre level.

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 has begun and construction on the Kipushi-Munama spur line could start in late 2018. 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.

KAMOA-KAKULA PROJECT

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

Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited ("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, which had achieved 8,686,769 lost-time, injury-free hours worked to the end of 2017. This outstanding achievement reflects the dedication and safety-focused culture of the entire Kamoa-Kakula exploration and development teams.

February 2018 Mineral Resource Estimate establishes Kamoa-Kakula as world's fourth largest copper deposit

On February 26, 2018, Ivanhoe announced a new Mineral Resource estimate for the Kakula Discovery on the Kamoa-Kakula Project. The updated Kakula Mineral Resource estimate, prepared under the direction of independent consultant Amec Foster Wheeler, covers a mineralized strike length of 13.3 kilometres. For the first time, the updated estimate incorporates Mineral Resources contained in the Kakula West Discovery area and the saddle area between the main Kakula Discovery area and Kakula West. The updated Mineral Resource estimate is based on results from approximately 151,000 metres of drilling in 271 holes completed by December 31, 2017. The updated Kamoa-Kakula Mineral Resource statement is shown in table 1.

<u>Highlights of the updated Mineral Resource include:</u>

Kakula's Indicated Mineral Resources now 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 higher cut-off of 3% copper, 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 higher cut-off of 3%

copper, 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 (see figure 7).

Figure 7: Kamoa-Kakula mining licence, showing the Kamoa, Kakula and Kakula West Mineral Resource areas.

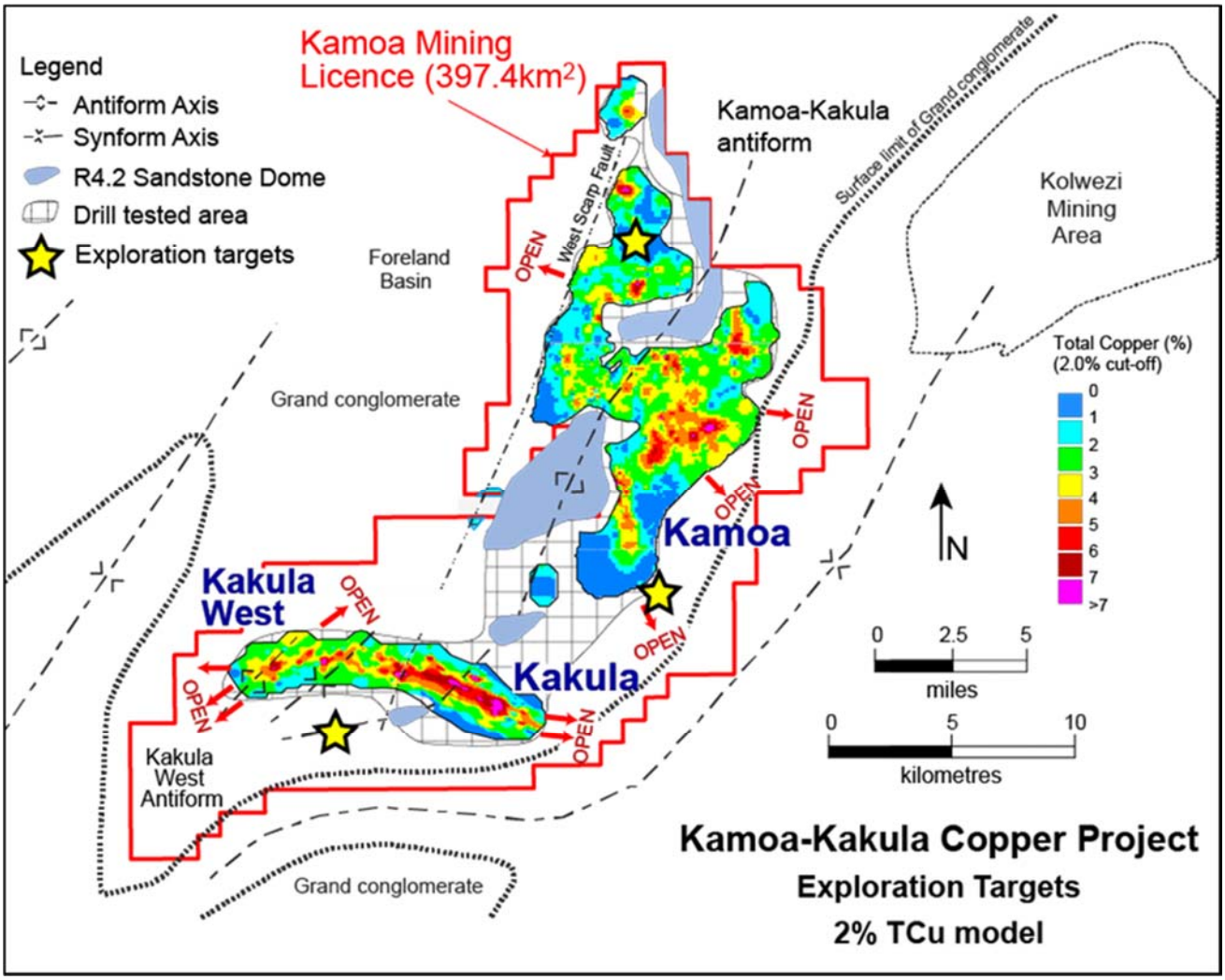


Table 1. Consolidated Mineral Resource Statement, Kamoa-Kakula Project, February 2018.

Deposit	Category	Tonnes (millions)	Area (sq. km)	Copper Grade	Vertical Thickness (metres)	Contained Copper (kt)	Contained Copper (billion lbs)
Kamoa	Indicated	759	50.7	2.57%	5.5	19,500	43.0
	Inferred	202	19.4	1.85%	3.8	3,740	8.2
Kakula	Indicated	585	19.4	2.92%	10.8	17,100	37.7
	Inferred	113	5.5	1.90%	7.3	2,150	4.7
Total Kamoa-Kakula Copper Project	Indicated	1,340	70.1	2.72%	6.9	36,600	80.7
	Inferred	315	24.9	1.87%	4.6	5,890	13.0

Notes:

1. Ivanhoe's Mineral Resources Manager, George Gilchrist, Professional Natural Scientist (Pr. Sci. Nat) with the South African Council for Natural Scientific Professions (SACNASP), estimated the Mineral Resources under the supervision of Dr. Harry Parker and Gordon Seibel, both Registered Members of the Society for Mining, Metallurgy and Exploration (SME), who are the Qualified Persons for the Mineral Resource estimate. The effective date of the estimate is February 23, 2018. Mineral Resources are estimated using the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves. Mineral Resources at Kamoa are inclusive of Mineral Reserves. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. No Mineral Reserves are currently estimated at Kakula.
2. Mineral Resources at Kamoa are reported using a total copper (TCu) cut-off grade of 1% TCu and a minimum vertical thickness of 3 m. There are reasonable prospects for eventual economic extraction under assumptions of a copper price of $3.00/lb; employment of underground mechanized room-and-pillar and drift-and-fill mining methods; and that copper concentrates will be produced and sold to a smelter. Mining costs are assumed to be $27/t, and concentrator, tailings treatment, and general and administrative costs (G&A) are assumed to be $17/t. Metallurgical recovery for Kamoa is estimated to average 84%. At a 1% TCu cut-off grade, assumed net smelter returns for 100% of Mineral Resource blocks will cover concentrator, tailings treatment, and G&A costs.
3. Mineral Resources at Kakula are reported using a TCu cut-off grade of 1% TCu and an approximate minimum thickness of 3 m. There are reasonable prospects for eventual economic extraction under assumptions of a copper price of $3.00/lb, employment of underground, mechanized, room-and-pillar and drift-and-fill mining methods, and that copper concentrates will be produced and sold to a smelter. Mining costs are assumed to be $42/t and concentrator, tailings treatment, and G&A costs are assumed to be $18/t. Metallurgical recovery is assumed to average 85% at the average grade of the Mineral Resource. Ivanhoe is studying reducing mining costs using a controlled convergence room-and-pillar method. At a 1% TCu cut-off grade, assumed net smelter returns for 100% of Mineral Resource blocks will cover concentrator, tailings treatment and G&A costs.
4. Reported Mineral Resources contain no allowances for hangingwall or footwall contact boundary loss and dilution. No mining recovery has been applied.
5. Tonnage and contained-copper tonnes are reported in metric units, contained-copper pounds are reported in imperial units and grades are reported as percentages.
6. Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.
7. Resources stated in Tables 2 and 3 are not additive to this table

Table 2. Kakula Deposit Indicated Mineral Resources, Sensitivity Cases.

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	True Thickness (metres)	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Indicated	7.0	41	2.2	8.07%	6.3	3,290	7.3
Indicated	6.0	67	3.6	7.46%	6.2	4,970	11.0
Indicated	5.0	98	5.7	6.82%	5.7	6,690	14.7
Indicated	4.0	140	9.0	6.13%	5.1	8,560	18.9
Indicated	3.0	174	12.3	5.62%	4.7	9,750	21.5
Indicated	2.5	208	14.4	5.14%	4.8	10,700	23.5
Indicated	2.0	330	16.6	4.07%	6.6	13,400	29.6
Indicated	1.5	420	18.0	3.55%	7.8	14,900	32.9
Indicated	1.0	585	19.4	2.92%	10.1	17,100	37.7

The footnotes 1,3,4,5,6,7 of Table 1 also apply to Table 2.

Table 3. Kakula Deposit Inferred Mineral Resources, Sensitivity Cases.

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	True Thickness (metres)	Contained Copper (ktonnes)	Contained Copper (billion lbs)
Inferred	4.0	2	0.2	4.17%	3.3	98	0.2
Inferred	3.0	9	0.8	3.66%	3.3	325	0.7
Inferred	2.5	17	1.7	3.20%	3.2	549	1.2
Inferred	2.0	44	3.2	2.59%	4.3	1,140	2.5
Inferred	1.5	69	4.5	2.26%	5.0	1,560	3.4
Inferred	1.0	113	5.5	1.90%	6.7	2,150	4.7

The footnotes 1,3,4,5,6,7 of Table 1 also apply to Table 3.

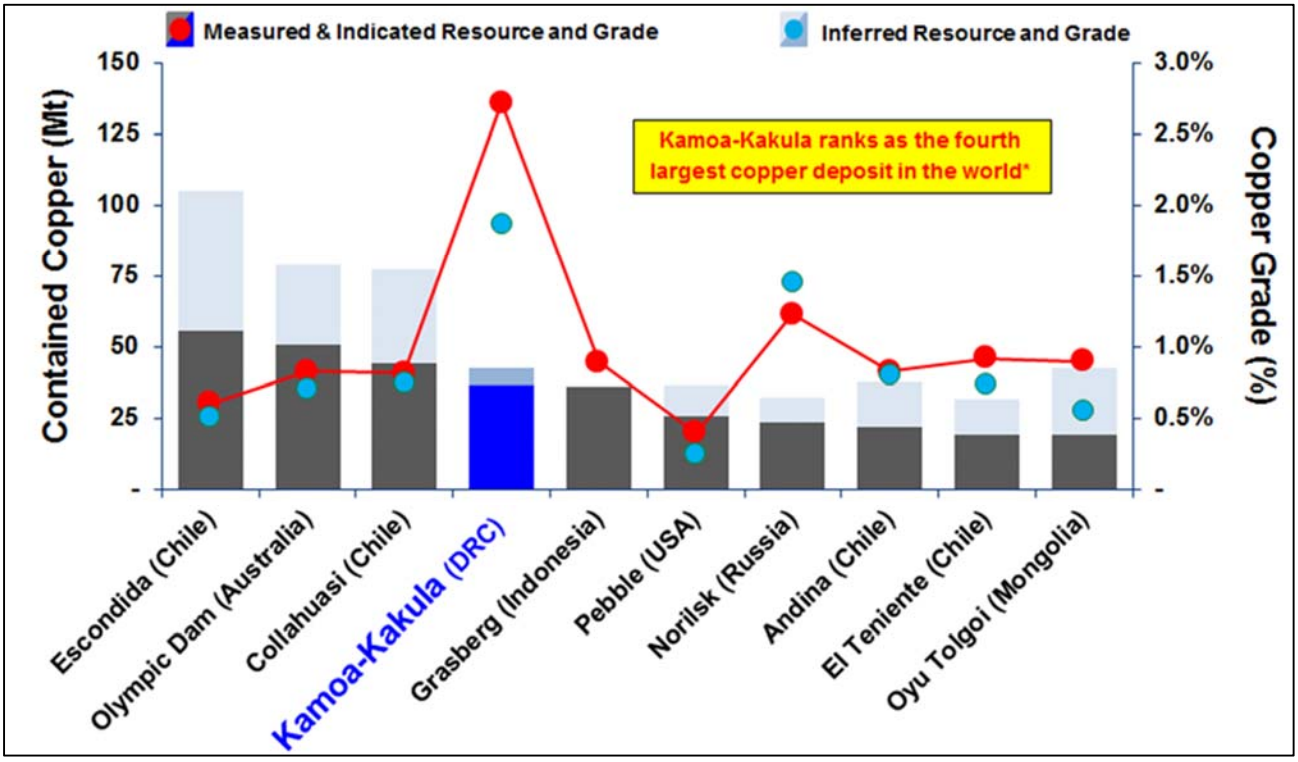
Table 4. Indicated and Inferred Mineral Resources, Kamoa-Kakula Project, February 2018.

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Indicated	3.0	396	33.2	4.79%	19,000	41.8
Indicated	2.5	535	44.0	4.25%	22,800	50.2
Indicated	2.0	780	53.8	3.63%	28,300	62.4
Indicated	1.5	1030	62.8	3.17%	32,500	71.7
Indicated	1.0	1340	70.1	2.72%	36,600	80.7

Category	Cut-off Grade (Cu%)	Tonnes (millions)	Area (Sq. km)	Copper Grade	Contained Copper (kTonnes)	Contained Copper (billion lbs)
Inferred	3.0	28	3.0	3.56%	979	2.2
Inferred	2.5	58	6.1	3.13%	1,800	4.0
Inferred	2.0	111	10.3	2.69%	2,980	6.6
Inferred	1.5	183	16.3	2.31%	4,220	9.3
Inferred	1.0	315	24.9	1.87%	5,890	13.0

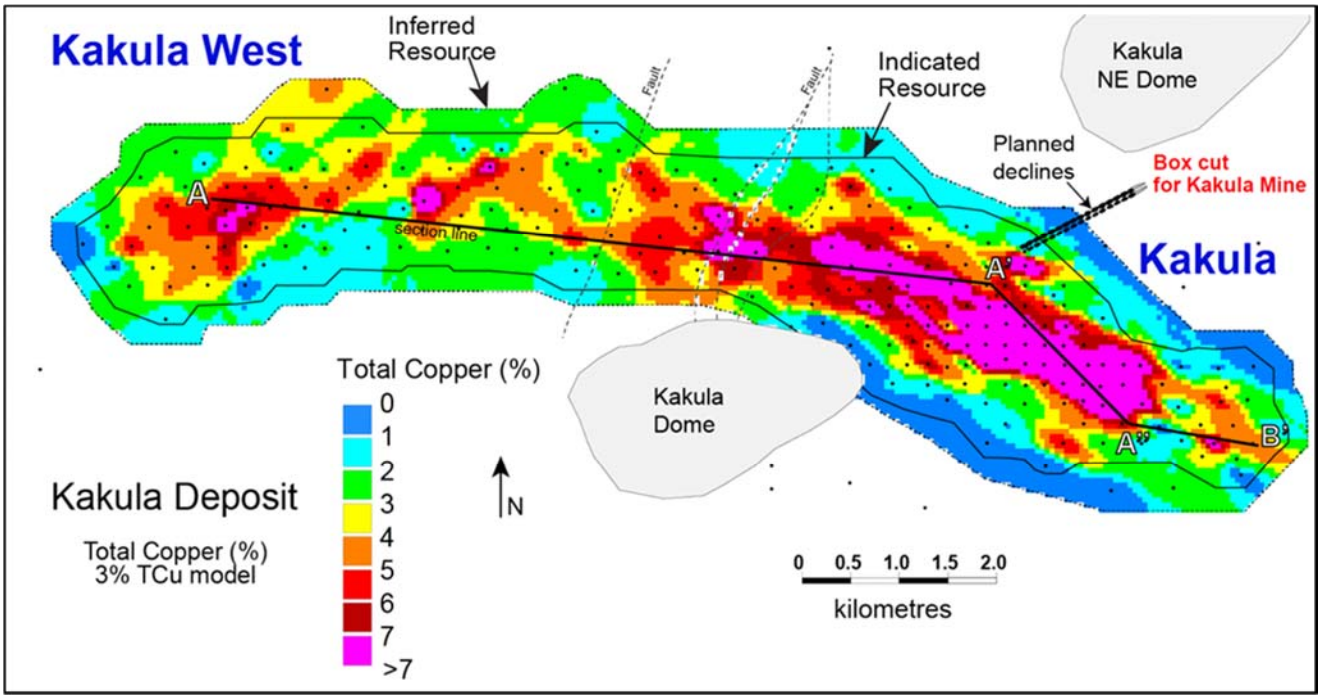
The footnotes to Table 1 also apply to Table 4.

Figure 8: Among the world's largest copper deposits by contained copper, Kamoa-Kakula has the highest copper grades by a wide margin.



Source: Wood Mackenzie
*Note: Selected based on contained copper (Measured & Indicated Mineral Resources, inclusive of Mineral Reserves, and Inferred Mineral Resources), ranked on contained copper in Measured & Indicated Mineral Resources.

Figure 9: Kakula and Kakula West discovery areas showing grades of Indicated and Inferred Mineral Resource blocks at a 3% copper cut-off.



Kamoa-Kakula 2017 PEA and Kamoa PFS present three initial development scenarios

On November 28, 2017, Ivanhoe Mines announced positive findings of an expanded, independent PEA for the development of the Kakula Discovery at the Kamoa-Kakula Project. The study was based on the November 2017 Mineral Resource estimate for Kamoa and May 2017 Mineral Resource estimate for Kakula.

Highlights of the three potential development scenarios examined include:

1. *Initial mine development scenario of a six-Mtpa underground mine and surface processing complex at Kakula:*

- For this option, the PEA envisaged an average annual production rate of 246,000 tonnes of copper at a mine site cash cost of $0.45/lb copper and total cash cost of $1.08/lb copper for the first five years of operations, and copper annual production of up to 385,000 tonnes by year four.
- An initial capital cost of $1.2 billion for this option would result in an after-tax net present value at an 8% discount rate (NPV8%) of $4.2 billion. The internal rate of return of 36.2% and project payback period of 3.1 years confirm the compelling economics for Kamoa-Kakula's initial phase of production.
- Kakula would benefit from an ultra-high, average feed grade of 6.4% copper during the first 10 years of operations, and 5.5% copper on average during a 24-year mine life.
- A six Mtpa Kakula PFS is underway, with completion targeted for the second half of 2018. Kakula's surface box cut was completed in October 2017. Development of twin underground declines, similar to those at the nearby Kansoko Mine, has begun and is expected to take about a year to complete. The first blast for the declines was completed in November 2017.

2. *Expanded, two-mine scenario for an integrated, 12 Mtpa, two-stage development, beginning with initial production from Kakula, to be followed by a subsequent, separate underground mining operation at nearby Kansoko, along with the construction of a smelter:*

- Under this option, initial production would occur at a rate of six Mtpa from the Kakula Mine, before increasing to 12 Mtpa with ore from the Kansoko Mine. As resources at Kakula and Kansoko are mined, the PEA envisages that production would begin at Kamoa North to maintain 12 Mtpa throughput during a 44-year mine life.
- For the two-phase sequential operation, the PEA envisaged $1.2 billion in initial capital costs. Future expansion at the Kansoko Mine and subsequent extensions could be funded by cash flows from the Kakula Mine, resulting in an after-tax, net present value at an 8% discount rate (NPV8%) of $7.2 billion and an internal rate of return of 33%.
- Under this approach, the PEA also included the construction of a direct-to-blister flash copper smelter with a capacity of 690,000 tonnes of copper concentrate per annum to be funded from internal cash flows. This would be completed in year five of operations, achieving significant savings in treatment charges and transportation costs.
- The 12 Mtpa scenario would deliver average annual production of 370,000 tonnes of copper at a total cash cost of $1.02/lb copper during the first 10 years of operations and production of 542,000 tonnes by year nine. At this future production rate, Kamoa-Kakula would rank among the world's five largest copper mines.

3. *Kamoa 2017 pre-feasibility study (PFS) development scenario of building the Kansoko Mine as a stand-alone six-Mtpa underground mine and surface processing complex:*

- Under this scenario, the PFS envisages an average annual production rate of 178,000 tonnes of copper for the first 10 years of operations, and annual copper production of 245,000 tonnes by year seven.

- The initial capital cost of $1.0 billion to develop this mine would result in an after-tax, net present value of $2.1 billion at an 8% discount rate (NPV8%) – an increase of 109% compared to the net present value projected in the March 2016 Kamoa PFS. The internal rate of return is expected to be 24%, with a five-year project payback period.

Potential phased mine developments to 18 Mtpa and above are under evaluation for Kamoa-Kakula. In light of the successful step-out drilling at Kakula West, as well as the potential to find additional resources in high-priority targets located in the untested parts of the Kamoa-Kakula Project, development plans will be reassessed and amended as the project moves forward.

The Kakula six-Mtpa PFS has begun. The work will be based on an updated Kakula 3-D resource model. The target date for completion is at the end of Q3 2018.

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

The next phase of flowsheet development is nearing completion following the positive preliminary test work results received during Q4 2016 showing 87.8% recovery at an extremely high concentrate grade of 56% copper.

A metallurgical drilling campaign to compile a representative composite sample was completed during the first half of 2017 and the flowsheet development test work at the XPS metallurgical laboratories in Canada is nearing completion. The results of this work will be used for the PFS, which is planned for completion in 2018.

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

Underground development at the Kakula Deposit advancing ahead of plan

Construction of the 18-metre-deep Kakula box cut was successfully completed in October 2017, allowing access for the start of development of the twin declines in November.

The Kakula decline development contract was awarded to JMMC, the DRC subsidiary of JCHX Mining Management. The first blast for the twin declines at Kakula was carried out in November 2017; approximately 150 metres of development were completed by the end of 2017. As of March 15, each of the declines had been advanced more than 316 metres. The 3,535-metre decline development contract is scheduled to be completed by the end of 2018.

Figure 10: Underground development at Kakula has advanced each of the service and conveyor declines more than 316 metres toward the mineralized zone.

Figure 11: Kamoa-Kakula electricians testing a new electrical panel installed in one of Kakula's twin declines where development work is well underway to provide access to what will be a highly mechanized, underground copper mine.

Underground development at the Kansoko Deposit reached the high-grade mineralization in mid-2017; awaiting finalization of Kamoa-Kakula development plans

Underground development at Kamoa-Kakula's Kansoko Mine, consisting of service and conveyor declines, was completed by Byrnecut Underground Congo SARL in September, 2017. The high-grade Kansoko Sud copper mineralization was reached and approximately 13,500 tonnes of development ore was stockpiled at surface. Various development options for Kansoko are being assessed in conjunction with the ongoing mine development activities at Kakula.

Exploration activities focused on expanding Kakula Discovery

Exploration activity in Q4 2017 focused on infill drilling at Kakula West and the saddle area between Kakula and Kakula West. Drilling for the resource estimate was extended to the end of Q4 2017 to ensure that almost the entire, 13.3 kilometre strike length of Kakula was converted directly to Indicated Mineral Resources. A total of 31,433 metres of exploration drilling was completed in 60 holes. In addition to exploration drilling, 1,754 metres of hydro-geology drilling was completed in 10 holes and 400 metres of underground cover drilling also was completed.

Exploration drilling completed in 2017 at the Kamoa-Kakula Project totalled 121,899 metres in 239 holes. This total included 26 wedges for geotechnical and metallurgy test work. In addition, 3,420 metres of hydro-geology drilling and 664 metres of cover drilling were completed.

Figure 12: Underground development progress at the Kakula mine.

Other exploration activities

The Kamoa geology team have been busy working on stratigraphic interpretation and lateral variation and have been collecting hangingwall density data, P-wave velocity data and magnetic susceptibility measurements in order to assist with stratigraphic interpretation. This work is ongoing and will be used to assist with both the airborne gravity survey and interpretation of the seismic program.

Additional structural modelling was completed to incorporate the Kakula West drilling. An initial model was produced and is being tested with both the drilling and seismic survey.

A program of downhole acoustic televiewer (ATV) and rock property test work was completed. The ATV data will be used in conjunction with the geophysical study of Kakula and the rock property analysis will be used to help tie in the seismic data.

Regional geophysical surveys underway at Kamoa-Kakula and Western Forelands

An airborne gravity survey at Kamoa-Kakula and the Western Forelands area was completed in January 2018. The data are being processed, and will be integrated with other geophysical and geological data and used for target development during Q1 2018.

Figure 13: The seismic vibrator rig being used in a geophysical survey of the Kamoa-Kakula licence area. The vibrator stops every 10 metres and sends controlled, seismic pulses into the ground to detect key geological markers.

Initial seismic line surveying and access development were undertaken in Q4 2017 in advance of running seismic traverses. The seismic work is being conducted by Hi-Seis, a leading international services

company based in Australia. A seismic vibrator rig was mobilized to site in early January and high-definition seismic surveys are underway.

The geophysical seismic survey program is designed to assist in mine planning through gaining a better understanding of the relationship between geologic faults and the high-grade copper mineralization, and with targeting exploration-drilling.

Kakula and Kansoko Mine sites now connected to the national hydroelectric grid

The construction of a 120-kilovolt (kV) power line to the Kansoko Mine was completed and a 120kV mobile substation installed, commissioned and energized in Q4 2016. An eight-kilometre, 11kV overhead power line, with mini–substations, was constructed from the Kansoko Mine to the Kamoa camp and is supplying hydropower to the Kamoa camp. A 12 kilometre, 120kV, dual-circuit power line between Kansoko and Kakula was completed in December 2017 and the Kakula Mine was energized with grid power fed from Kamoa's substation at the Kansoko Mine.

The Kansoko Mine, Kakula Mine and Kamoa camp now all are connected to the national, hydroelectric power grid.

Figure 14: 120kV power line at the Kamoa-Kakula Project.

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

In January of this year, 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 Group, in conjunction with the DRC's state-owned power company, La Société Nationale d'Electricité (SNEL). Once fully reconditioned, the

three plants will have installed capacity of approximately 200 MW of electricity for the national grid, which is expected to be more than sufficient for the Kamoa-Kakula Copper Project.

Continued focus on community and sustainability

The number of job opportunities from the Kamoa-Kakula Project and contractors has risen during the fourth quarter of 2017 due to the increase in activity around the camp and mine area. Preference is being given to local job-seekers and numerous positions have been filled.

The Sustainable Livelihoods project is largely aimed at economically empowering communities in the vicinity of the planned mine. The project, which has been in place for the past five years, has continued to successfully manage the following programs during 2017:

- a maize (corn) production program yielded maize from local communities and the mine's farm, which now includes a recently acquired sheller, cleaning machine, dehuller and grinding mill to produce maize meal;
- a vegetable program supplying produce to the Kamoa-Kakula Project camp kitchen;
- a poultry project that supplies chickens and eggs to the Kamoa-Kakula Project camp kitchen;
- a beekeeping program managing more than 50 honey-producing hives; and
- a fish-farming program, consisting of three fully-stocked dams.

A crop and household relocation survey has been conducted for the entire 15-square-kilometre Kakula mining area. Compensation to farmers has been paid; alternative land has been allocated and is in the process of being ploughed. A total of 45 relocation houses are being built near the village of Muvundaquali for households to be relocated from the mining area.

Figure 15: Pineapples being harvested from the livelihoods garden as part of the program supplying produce to the Kamoa-Kakula Project.

Figure 16: The poultry project that supplies chickens and eggs to the Kamoa-Kakula Project – one of the initiatives of the Kamoa-Kakula Sustainable Livelihoods Project working to build a sustainable, independent economy in nearby communities.

In 2017, the Kamoa-Kakula Project constructed, equipped and handed over a primary school at the Muvunda village and a secondary school at the Kaponda village. In addition, three communities now are being supplied with fresh, clean water from boreholes drilled by the project's personnel and equipment.

Figure 17: Upgraded buildings at the Kaponda Primary School – one of the schools constructed and furnished by Ivanhoe Mines.

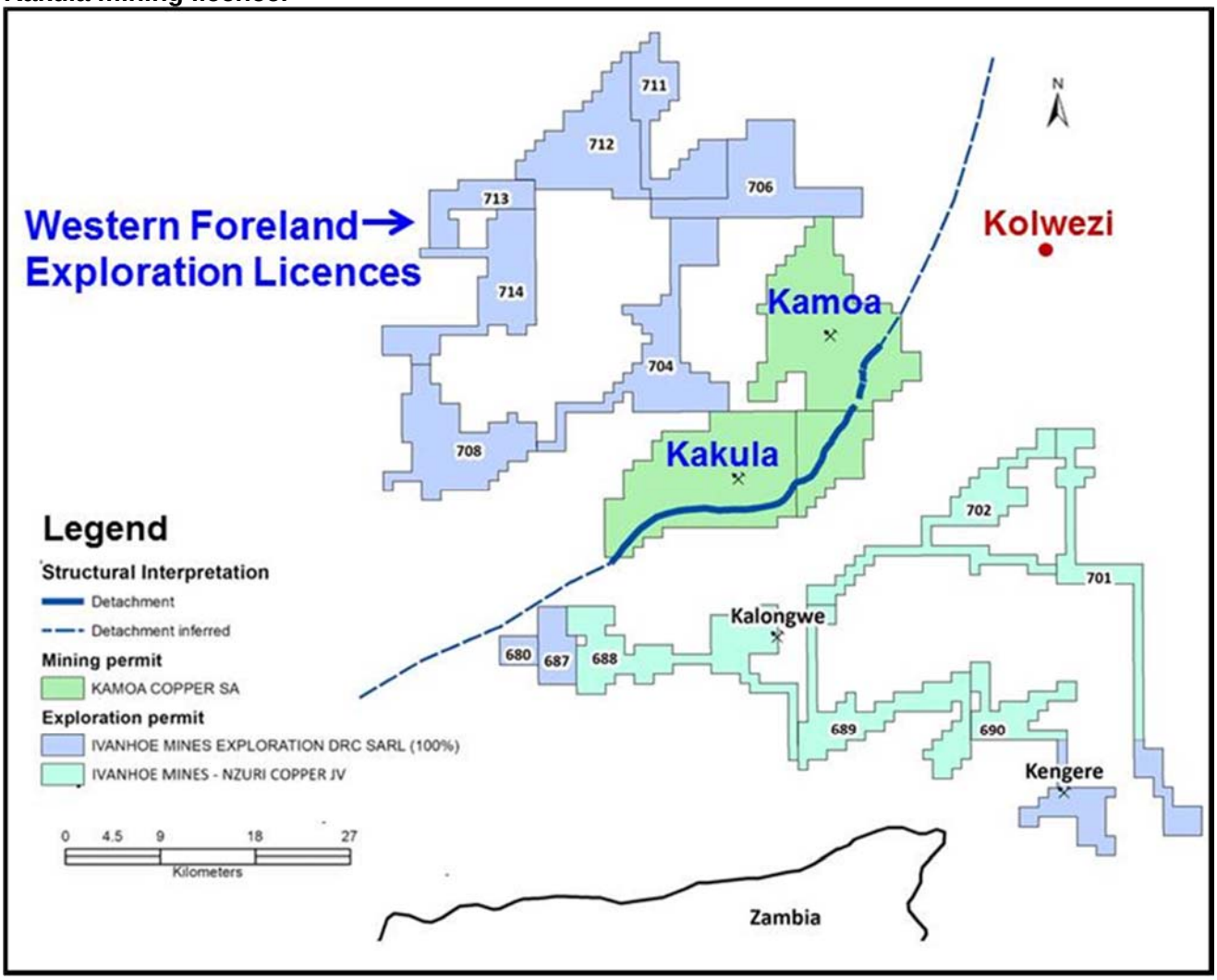
DRC WESTERN FORELAND EXPLORATION PROJECT

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

Ivanhoe successfully continued its exploration drilling program through the rainy season during Q4 2017, based out of its new stand-alone exploration camp. Drilling with two rigs is focused on one of the Company's promising targets, utilizing the new, all-weather road that connects the Kamoa-Kakula road network to the Western Foreland exploration licences. A recently completed bridge across the Lufupa River will provide all-weather road access west of the river to previously inaccessible targets. One drill rig presently is drilling west of the river.

During Q4 2017, Ivanhoe's exploration team completed 5,925 metres of drilling and finalized interpretation of the regional geology of the Western Foreland area. The Company undertook a regional airborne gravity survey across the area and the data are expected to be available soon for interpretation by geologists. Acquisition of 2-D seismic data is underway; approximately 11 kilometres of data will be recorded over the Western Foreland exploration licences.

Figure 18: Ivanhoe's 100%-owned Western Foreland exploration licences, west of the Kamoa-Kakula mining licence.



Ongoing detailed discussions to resolve issues arising from DRC's 2018 mining code

On March 9, 2018, DRC President Joseph Kabila Kabange signed a new mining code into effect that revises and updates the country's 2002 mining code.

International mining companies that have operations in the DRC, including Glencore, Randgold, China Molybdenum, MMG, Ivanhoe Mines and Zijin Mining, are collectively negotiating with the government to resolve their concerns about the impacts on their DRC operations that would result from the new mining code. The companies have confirmed their willingness to negotiate royalties and changes to other taxes as part of this process, but they expect that the negotiations will give priority to the recognition of the stability clauses contained in Article 276 of the 2002 mining code and certain mining conventions. Most notably, Article 276 provides that existing mining projects will continue to benefit from the terms of the 2002 code for 10 years after the implementation of a new code. The stability afforded under Article 276 influenced the decisions by many of the companies to invest in the DRC, resulting in more than $10 billion in direct investments and the creation more than 20,000 full-time mining jobs in the country.

The detailed, DRC mining-code negotiations are scheduled to begin March 26, following an initial, high-level meeting in Kinshasa on March 7 during which President Kabila gave an assurance that the companies' concerns would be resolved through transitional arrangements, mining regulations and respect for existing agreements and guarantees.

Egizio Bianchini appointed as Ivanhoe Mines' Executive Vice Chairman

On February 8, 2018, Ivanhoe announced the strengthening of the Company's senior management team with the appointment of Egizio Bianchini as Ivanhoe's Executive Vice Chairman. Mr. Bianchini's appointment with Ivanhoe Mines is effective from March 12, 2018. He has also joined Ivanhoe's board of directors.

SELECTED ANNUAL FINANCIAL INFORMATION

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

	For the year ended December 31,		
	2017	**2016**	**2015**
	$'000	**$'000**	**$'000**
Exploration and project expenditure	40,503	32,426	40,751
Share of losses from joint venture	27,505	21,732	1,030
General administrative expenditure	19,260	18,835	17,445
Share-based payments	4,908	5,977	7,722
Reversal of impairment of mineral property and other items	(286,283)	-	-
Gain on partial sale of subsidiary	-	-	(357,671)
Re-measurement to fair value of the interest retained in joint venture	-	-	(376,148)
Mark-to-market gain on revaluation of warrants	-	-	(6,945)
Loss from subsidiary held for partial sale	-	-	(4,319)
Finance income	(32,614)	(29,902)	(2,204)
Finance costs	1,710	1,798	1,674
Total comprehensive (profit) loss attributable to:			
Owners of the Company	(182,872)	23,011	(681,274)
Non-controlling interest	(64,909)	12,739	12,969
Basic (profit) loss per share	(0.22)	0.04	(0.93)
Diluted (profit) loss per share	(0.21)	0.04	(0.93)
Total assets	1,271,311	1,002,230	1,022,578
Non-current liabilities	33,630	28,957	28,103

DISCUSSION OF RESULTS OF OPERATIONS

Review of the year ended December 31, 2017 vs. December 31, 2016

The Company recorded a total comprehensive profit of $247.8 million for the year ended December 31, 2017, compared to a total comprehensive loss of $35.8 million for the year ended December 31, 2016. The profit in 2017 was attributable mainly to the reversal of the impairment of mineral property and other items of the Kipushi Project of $286.3 million.

During 2017, the Company recorded a reversal of the impairment of $286.3 million relating to the Kipushi Project. The circumstances leading to the reversal of the impairment charge included, but were not limited to, (i) an increase in the long-term zinc price estimate; (ii) optimized zinc processing methodology; (iii) reduced capital expenditure estimates; and (iv) reduced realization cost estimates. All these estimates were supported by the pre-feasibility study for the Kipushi Project announced on December 13, 2017.

When excluding the 2017 reversal of impairment of $286.3 million, the Company's total comprehensive loss for the year ended December 31, 2017, amounted to $38.5 million. This is $2.7 million higher than the total comprehensive loss of $35.8 million for the same period in 2016. The increase mainly was due to an increase in exploration and project expenditure of $8.1 million and an increase in the Company's share of losses from the Kamoa Holding joint venture of $5.8 million, which was partially offset by an increase in exchange gains on translation of foreign operations, finance income and other income when compared to 2016.

Exploration and project expenditures for the year ended December 31, 2017, amounted to $40.5 million and were $8.1 million more than for the same period in 2016 ($32.4 million).

Of the total $40.5 million exploration and project expenditure, $36.7 million related to the Kipushi Project and $3.6 million was for exploration at Ivanhoe's 100%-owned Western Foreland exploration licences. Exploration and project expenditures at the Kipushi Project increased by $5.0 million compared to the same period in 2016. The main classes of expenditure at the Kipushi Project for the year ended December 31, 2017 and 2016 are set out in the following table:

	Year ended December 31, 2017	**Year ended December 31, 2016**
	$'000	**$'000**
Kipushi Project		
Salaries and benefits	14,569	11,742
Electricity	6,204	5,255
Repair and maintenance	3,820	3,477
Depreciation	3,445	3,197
Studies and contracting work	3,240	828
Drilling	2,262	-
Site security and safety	979	735
Other expenditure	4,421	6,440
Total project expenditure	38,940	31,674
Capitalized as development cost in property, plant and equipment	(2,259)	-
Total project expenditure (excluding capex)	36,681	31,674

Costs incurred at the Kipushi Project subsequent to the finalization of its pre-feasibility study, have been capitalized as property, plant and equipment.

The following table summarizes the Company's share of the comprehensive loss of the Kamoa Holding joint venture for the year ended December 31, 2017, and for the same period in 2016:

	Year ended December 31, 2017	Year ended December 31, 2016
	$'000	$'000
Interest expense	42,137	32,438
Exploration costs	26,631	14,743
Foreign exchange loss	4,333	187
Interest income	(1,747)	(111)
Loss for the period	71,354	47,257
Loss attributible to non-controlling interest	(15,788)	(3,354)
Loss for the period attributible to joint venture partners	55,566	43,903
Company's share of losses from joint venture (49.5%)	27,505	21,732

The costs associated with mine development are capitalized as development costs in Kamoa 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. Exploration drilling at Kakula West and in the saddle area between Kakula West and Kakula still is expensed.

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

Exchange gains on translation of foreign operations amounted to $13.8 million for the year ended December 31, 2017, compared to $10.2 million for the same period in 2016.

Finance income for the year ended December 31, 2017, amounted to $32.6 million, and was $2.7 million more than for the same period in 2016 ($29.9 million). The increase mainly was due to interest earned on loans to the Kamoa Holding joint venture to fund operations that amounted to $27.4 million in 2017 (2016: $16.2 million), as the accumulated loan balance increased.

Financial position as at December 31, 2017 vs. December 31, 2016

The Company's total assets increased by $269.1 million, from $1,002.2 million as at December 31, 2016, to $1,271.3 million as at December 31, 2017. This mainly was due to the $253.3 million increase in mineral properties and the $34.1 million increase in long term loan receivable resulting from the reversal of the impairment relating to the Kipushi Project.

The Company received a fourth installment of $41.2 million on February 8, 2017, a fifth and final installment on May 23, 2017, which represented the remaining purchase-price receivable due to the Company as at December 31, 2016, as a result of the sale of 49.5% of Kamoa Holding.

The Company's investment in the Kamoa Holding joint venture increased by $78.7 million from $473.6 as at December 31, 2016, to $552.4 million as at December 31, 2017, with each of the current shareholders funding the operations equivalent to their proportionate shareholding interest. The Company's portion of the Kamoa Holding joint venture cash calls amounted to $78.8 million during 2017, while the Company's share of comprehensive loss from the joint venture amounted to $27.5 million.

Property, plant and equipment increased by $72.8 million, with a total of $61.8 million being spent on project development and to acquire other property, plant and equipment, $47.2 million and $7.1 million pertained to development costs of the Platreef Project and Kipushi Project respectively. The total property, plant and equipment additions at the Kipushi Project for 2017 amounted to $11.6 million.

The Company utilized $38.5 million of its cash resources in its operations and received interest of $3.7 million during 2017.

The main components of the capitalized development costs of the Platreef Project for the year ended December 31, 2017, and for the same period in 2016, are set out in the following table:

	Year ended December 31, 2017	**Year ended December 31, 2016**
	$'000	**$'000**
Platreef Project		
Shaft 1 construction	23,112	15,268
Salaries and benefits	8,222	6,659
Administrative and other expenditure	6,929	5,501
Studies and contracting work	4,371	9,866
Social and environmental	2,431	2,177
Shaft 2 early works	1,164	-
Site costs	865	829
Infrastructure	145	6
Total development costs	47,239	40,306
Other additions to property, plant and equipment	1,856	341
Total additions to property, plant and equipment for Platreef	49,095	31,674

The Company's total liabilities increased by $13.9 million to $59.8 million as at December 31, 2017, from $46.0 million as at December 31, 2016.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Three months ended			
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
	$'000	$'000	$'000	$'000
Exploration and project expenditure	10,986	11,595	9,626	8,296
Share of losses from joint venture	10,193	6,759	5,035	5,518
General administrative expenditure	3,316	6,039	4,952	4,953
Share-based payments	1,111	1,224	1,201	1,372
Reversal of impairment of mineral property and other items	(286,283)	-	-	-
Finance income	(8,986)	(8,032)	(9,167)	(6,429)
Finance costs	442	434	355	479
Total comprehensive (profit) loss attributable to:				
Owners of the Company	(207,991)	15,893	7,477	1,749
Non-controlling interest	(77,336)	5,269	3,885	3,273
Basic (profit) loss per share	(0.25)	0.01	0.01	0.01
Diluted (profit) loss per share	(0.24)	0.01	0.01	0.01

	Three months ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	$'000	$'000	$'000	$'000
Exploration and project expenditure	9,507	7,769	8,233	6,917
Share of losses from joint venture	5,890	6,306	5,320	4,216
General administrative expenditure	7,272	4,213	3,657	3,693
Share-based payments	1,442	1,750	1,312	1,473
Finance income	(6,827)	(7,239)	(7,367)	(8,469)
Finance costs	471	454	445	428
Total comprehensive loss (profit) attributable to:				
Owners of the Company	14,101	(1,860)	6,568	4,203
Non-controlling interest	3,914	2,445	3,483	2,897
Loss per share (basic and diluted)	0.02	0.01	0.01	0.01

Review of the three months ended December 31, 2017 vs. 2016

The Company recorded a total comprehensive profit of $285.3 million for Q4 2017 compared to a loss of $18.0 million for the same period in 2016. The profit in 2017 was attributable mainly to the reversal of the impairment of mineral property and other items of the Kipushi Project of $286.3 million as described above.

When excluding the 2017 reversal of impairment, the total comprehensive loss for Q4 2017 amounts to $1.0 million, $17.0 million lower than in the same period in 2016. This largely was due to exchange gains on translation of foreign operations recognized in Q4 2017 of $12.4 million resulting from the strengthening of the South African Rand by more than 8% from September 30, 2017, to December 31, 2017, compared to an exchange loss on translation of foreign operations recognized in Q4 2016 of $0.1 million.

Exploration and project expenditures for the three months ended December 31, 2017, amounted to $11.0 million and were $1.5 million more than for the same period in 2016 ($9.5 million). $8.3 million of the total $11.0 million exploration and project expenditure related to the Kipushi Project with $2.6 million being spent on exploration at Ivanhoe's 100%-owned Western Foreland exploration licences in Q4 2017. Expenditure at the Kipushi Project decreased by $1.1 million compared to the same period in 2016. The main classes of expenditure at the Kipushi Project in Q4 2017 and Q4 2016 are set out in the following table:

	Three months ended December 31, 2017	**Three months ended December 31, 2016**
	$'000	**$'000**
Kipushi Project		
Salaries and benefits	4,789	3,697
Electricity	1,919	1,247
Studies and contracting work	1,096	317
Depreciation	912	840
Drilling	529	-
Repair and maintenance	197	1,061
Other expenditure	1,108	2,268
Total project expenditure	10,550	9,430
Capitalized as development cost in property, plant and equipment	(2,259)	-
Total project expenditure (excluding capex)	8,291	9,430

The Company's share of losses from the Kamoa Holding joint venture increased from $5.9 million in Q4 2016 to $10.2 million in Q4 2017. The following table summarizes the Company's share of the comprehensive loss of Kamoa Holding for the three months ended December 31, 2017 and for the same period in 2016:

	Three months ended December 31, 2017	Three months ended December 31, 2016
	$'000	$'000
Interest expense	12,137	9,427
Exploration costs	9,989	4,539
Foreign exchange loss	4,336	(160)
Interest income	(588)	(111)
Loss for the period	25,874	13,695
Loss attributible to non-controlling interest	(5,281)	(1,796)
Loss for the period attributible to joint venture partners	20,593	11,899
Company's share of losses from joint venture (49.5%)	10,193	5,890

LIQUIDITY AND CAPITAL RESOURCES

The Company had $181.4 million in cash and cash equivalents as at December 31, 2017. At this date, the Company had consolidated working capital of approximately $181.9 million, compared to $364.8 million at December 31, 2016. The Platreef Project's restricted cash 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 $6.7 million on behalf of the Japanese consortium.

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 its projects. Although the Company has been successful in raising funds in the past, the Company's access to financing always is uncertain and there can be no assurance that additional funding will be available to the Company in the near future.

On December 8, 2015, Zijin, through a subsidiary company, acquired a 49.5% interest in Kamoa Holding for a total of $412 million to be settled in a series of payments. Ivanhoe received an initial $206 million from Zijin on December 8, 2015, and a further $41.2 million on each of March 23, 2016, July 8, 2016, October 25, 2016, February 8, 2017, and May 23, 2017. Since December 8, 2015, each shareholder in Kamoa Holding has been required to fund Kamoa Holding in an amount equivalent to its proportionate shareholding interest. The Company 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 Kamoa-Kakula Project, priorities are the continuation of decline construction at Kakula and the completion of a pre-feasibility study for Kakula. The Company expects to spend $64 million on further development at the Platreef Project; $62 million at the Kipushi Project; $12 million on regional exploration in the DRC; and $18 million on corporate overheads in 2018 – as well as its proportionate funding of the Kamoa-Kakula Project, expected to be $76 million for 2018.

Continuing strategic discussions concerning Ivanhoe Mines and its projects are ongoing with several significant mining companies and investors across Asia, Europe, Africa and elsewhere. Several investors that have expressed interest have no material limit on the provision of capital. There can be no assurance that the Company will pursue any transaction or that a transaction, if pursued, will be completed.

The Company has a mortgage bond outstanding on its offices in London, United Kingdom, of £3.2 million ($4.4 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 $24.8 million as at December 31, 2017, and a contractual amount due of $31.4 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 $6.6 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan.

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

	Payments Due By Period				
Contractual obligations as at December 31, 2017	**Total $'000**	**Less than 1 year $'000**	**1-3 years $'000**	**4-5 years $'000**	**After 5 years $'000**
Debt	35,711	-	-	4,357	31,354
Operating leases	1,819	491	1,009	319	-
Shaft 1 construction – Platreef Project	22,475	22,475	-	-	-
Total contractual obligations	**60,005**	**22,966**	**1,009**	**4,676**	**31,354**

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 Kamoa Holding joint venture in an amount equivalent to its proportionate shareholding interest.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

The following tables summarize related party 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:

	Year ended December 31, 2017	**Year ended December 31, 2016**
	$'000	$'000
Global Mining Management Corporation (a)	**2,256**	2,697
Ivanhoe Capital Aviation LLC (b)	**2,000**	1,800
GMM Tech Holdings Inc. (c)	**681**	167
HCF International Advisers (d)	**601**	487
Ivanhoe Capital Services Ltd. (e)	**465**	560
Ivanhoe Capital Pte Ltd (f)	**285**	258
Global Mining Services Ltd. (g)	**24**	114
Kamoa Copper SA (h)	**(3,746)**	(4,542)
Ivanhoe Mines Energy DRC Sarl (i)	**(383)**	(1,184)
Ivanhoe Capital Corporation (UK) Limited (j)	**(44)**	2
	2,139	359
Travel	**2,258**	2,081
Salaries and benefits	**2,154**	3,021
Consulting	**1,655**	594
Office and administration	**201**	389
Cost recovery and management fee	**(4,129)**	(5,726)
	2,139	359

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

As at December 31, 2017, trade and other payables included $0.93 million (December 31, 2016: $1.2 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing.

(a) Global Mining Management Corporation (Global) is a private company based in Vancouver. The Company and the Executive Chairman of the Company hold an indirect equity interest in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.

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

(c) 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.

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

(e) Ivanhoe Capital 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.

(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

As at December 31, 2017, the Company's total assets exceeds its total liabilities by $1,211.5 million and current assets exceeds current liabilities by $179.3 million. The Company has an accumulated profit of $18.3 million at December 31, 2017. The Company's total current assets exceeds the Company's total liabilities. 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 December 31, 2017, of $181.4 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, 2017, with earlier application permitted. The Company adopted these standards in the current period, which did not have a material impact on its consolidated financial statements.

- Amendment to IAS 7 – Cash flow statements on additional disclosure requirements.
- Amendment to IAS 12 – Income taxes on the requirements for recognising deferred tax assets on unrealised losses.
- Annual improvements 2014-2016. IFRS 12 - Disclosure of interests in other entities regarding clarification that the disclosures requirement are applicable to interest in entities classified as held for sale.

Accounting standards issued but not yet effective

- IFRS 2 – Share-based payments. (i)
- Amendment to IFRS 9 - Financial instruments. (i)
- IFRS 11 – Joint arrangements. (ii)
- IFRS 15 – Revenue from contracts with customers. (i)
- IFRS 16 - Leases. (ii)
- IAS 23 Borrowing Costs. (ii)
- IFRIC 22 - ‘Foreign currency transactions and advance consideration’. (i)
- Annual improvements 2014-2016. IFRS 1 - ’First-time adoption of IFRS’. (i)
- Annual improvements 2014-2016. IAS 28 - ’Investments in associates and joint ventures’. (i)

(i) Effective for annual periods beginning on or after January 1, 2018
(ii) 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	**December 31, 2016**	December 31, 2016
		$'000	$'000
Financial assets			
Financial assets at fair value through profit or loss			
Investment in listed entity	Level 1	**8,563**	2,720
Loans and receivables			
Promissary note receivable	Level 3	**13,610**	10,804
Financial liabilities			
Borrowings	Level 3	**29,204**	26,875

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

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

The Company has two promissory notes:

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

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

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited was originally determined assuming repayment occurs on August 31, 2022 and using an interest rate of 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:

	Year ended December 31, 2017	Year ended December 31, 2016
	$'000	$'000
Interest from loan to joint venture	**(27,394)**	(16,197)
Unwinding discount	**(1,538)**	(11,012)
Other interest income	**(3,682)**	(2,693)
	(32,614)	(29,902)

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

Financial risk management objectives and policies

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

Foreign exchange risk

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

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

	December 31, 2017	December 31, 2016
	$'000	$'000
Assets		
Canadian dollar	**2,597**	2,479
Australian dollar	**8,563**	2,720
South African rand	**46,030**	20,486
British pounds	**452**	695
Liabilities		
Canadian dollar	**(384)**	(1,000)
Australian dollar	**(57)**	(21)
South African rand	**(11,100)**	(7,384)
British pounds	**(180)**	(162)

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.

	Year ended December 31, 2017	Year ended December 31, 2016
	$'000	$'000
Canadian dollar	**110**	74
Australian dollar	**425**	(1)
South African rand	**(97)**	(97)

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	1 to 3 months	3 to 12 months	More than 12 months	**Total undiscounted cash flows**
	$'000	$'000	$'000	$'000	**$'000**
As at December 31, 2017					
Trade and other payables	21,154	1,452	940	40	**23,586**
Non-current borrowings	-	-	-	35,711	**35,711**
As at December 31, 2016					
Trade and other payables	13,903	366	88	783	**15,140**
Current income tax liabilities	1	-	-	-	**1**
Non-current borrowings	-	-	-	34,270	**34,270**

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 profit for the year ended December 31, 2017 would have increased or decreased by $2.6 million.

DESCRIPTION OF CAPITAL STOCK

As at March 19, 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 791,338,002 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 3,500,000 options to one officer in 2018 to date. As at March 19, 2018, there were 23,973,500 options issued in terms of the Equity Incentive Plan exercisable into 23,973,500 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 March 19, 2018, there were 5,285,622 RSUs which may vest into 5,285,622 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operation of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design and operating effectiveness of the Company's DC&P and ICFR as of December 31, 2017 and, in accordance with the requirements established under National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, the CEO and CFO have concluded that these controls and procedures have been designed and operate to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

As at December 31, 2017, management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this MD&A, the Company's disclosure controls and procedures were effective.

The Company's CEO and CFO have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design and operation of the Company's ICFR as of December 31, 2017 and have concluded that these controls and procedures have been designed and operated effectively to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design and operation of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected.

As at December 31, 2017, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective.

During the year ended December 31, 2017, 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 2017 Development Plan dated January 10, 2018, prepared by OreWin Pty Ltd; Amec Foster Wheeler E&C Services Inc. and Amec Foster Wheeler Australia Pty Ltd (collectively Amec Foster Wheeler); MDM (Technical) Africa Pty Ltd; Stantec Consulting International LLC and SRK Consulting (South Africa) Pty Ltd, covering the company's Kamoa-Kakula Project;

- The Platreef 2017 Feasibility Study Technical Report dated September 4, 2017, prepared by DRA Global, OreWin Pty. Ltd., 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 Pty Ltd, The MSA Group (Pty) Ltd, SRK Consulting (South Africa) (Pty) Ltd and MDM (Technical) Africa Pty Ltd, covering the company's Kipushi Project.

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

ADDITIONAL INFORMATION

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