Condensed consolidated interim financial statements of

Ivanhoe Mines Ltd.

June 30, 2014
(Stated in U.S. dollars)

(Unaudited)

Ivanhoe Mines Ltd.
June 30, 2014

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Ivanhoe Mines Ltd.

Condensed consolidated interim statements of comprehensive loss

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

(Unaudited)

	Notes	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
		$	$	**$**	$
Expenses					
Share-based payments	11, 16	**85,428**	2,143	**87,989**	4,381
Exploration and project expenditure		**39,580**	41,281	**76,682**	73,412
Salaries and benefits		**3,312**	2,918	**6,452**	5,636
Office and administration		**1,309**	1,656	**2,551**	3 098
Professional fees		**814**	733	**1,550**	1,442
Travel		**589**	694	**1,528**	1 509
Legal		**128**	102	**455**	572
Foreign exchange (gain)/loss		**(1,752)**	(235)	**806**	229
Other expenditure		**513**	402	**889**	764
Loss from operating activities		**129,921**	49,694	**178,902**	91,043
Other income		**(3)**	(15)	**(11)**	(50)
Interest income		**(160)**	(933)	**(443)**	(1,787)
Finance costs	14	**1,124**	319	**1,482**	542
Mark-to-market loss on revaluation of warrants	11	**5,152**	-	**5,152**	-
Loss before income taxes		**136,034**	49,065	**185,082**	89,748
Income tax expense					
Current		**-**	-	**-**	75
LOSS FOR THE PERIOD		**136,034**	49,065	**185,082**	89,823
Other comprehensive loss					
Items that may subsequently be reclassified to loss:					
Exchange (gains)/losses on translation of foreign operations		**(280)**	1,937	**(521)**	3,569
Other comprehensive (gain)/loss for the period, net of tax		**(280)**	1,937	**(521)**	3,569
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**135,754**	51,002	**184,561**	93,392
Loss attributable to:					
Owners of the Company		**129,755**	42,447	**172,726**	78,267
Non-controlling interest		**6,279**	6,618	**12,356**	11,556
		136,034	49,065	**185,082**	89,823
Total comprehensive loss attributable to:					
Owners of the Company		**129,474**	43,804	**172,224**	81,671
Non-controlling interest		**6,280**	7,198	**12,337**	11,721
		135,754	51,002	**184,561**	93,392
Basic and diluted loss per share	15	**0.21**	0.08	**0.29**	0.15
Weighted average number of basic and diluted shares outstanding	15	**609,978,274**	529,061,248	**597,206,409**	529,004,215

Ivanhoe Mines Ltd.

Condensed consolidated interim statements of financial position as at

(stated in thousands of U.S. dollars)
(Unaudited)

	Notes	**June 30, 2014**	December 31, 2013
		$	$
ASSETS			
Non-current assets			
Property, plant and equipment	4	**44,761**	35,433
Mineral properties	5	**6,940**	6,940
Other assets		**8,502**	5,092
Total non-current assets		**60,203**	47,465
Current assets			
Trade and other receivables	7	**6,981**	5,691
Prepaid expenses		**12,409**	10,367
Short-term deposits	8	**80,389**	80,264
Cash and cash equivalents	8	**185,763**	143,789
Total current assets		**285,542**	240,111
Total assets		**345,745**	287,576
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	**1,033,946**	900,866
Warrant reserve	11	**7,949**	7,949
Share option reserve	11	**115,307**	27,695
Currency translation reserve	12	**(6,903)**	(7,405)
Accumulated deficit		**(785,360)**	(612,634)
Equity attributable to owners of the Company		**364,939**	316,471
Non-controlling interest	13	**(101,570)**	(89,233)
Total equity		**263,369**	227,238
Non-current liabilities			
Financial Liability	11(d)	**21,106**	-
Non-current borrowings	9	**20,581**	19,892
Deferred tax liabilities		**2,082**	2,082
Total non-current liabilities		**43,769**	21,974
Current liabilities			
Current borrowings	9	**4,015**	3,905
Trade and other payables	10	**34,528**	34,390
Current tax liabilities		**64**	69
Total current liabilities		**38,607**	38,364
Total liabilities		**82,376**	60,338
Total equity and liabilities		**345,745**	287,576

Continuing operations (Note 1)
Commitments and contingencies (Note 19)

(Signed) Oyvind Hushovd
Oyvind Hushovd, Director

(Signed) William Lamarque
William Lamarque, Director

Ivanhoe Mines Ltd.

Consolidated statements of changes in equity

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

	Share capital									
	Number of shares	Amount	Number of warrants	Warrant reserve	Share option reserve	Currency translation reserve	Accumulated deficit	Equity attributable to owners	Non-controlling interest	Total
		$		$	$	$	$	$	$	$
Balance at January 1, 2013	**528,641,979**	**793,657**	**13,941,940**	**7,949**	**20,066**	**(3,356)**	**(252,182)**	**566,134**	**47,465**	**613,599**
Loss for the period	-	-	-	-	-	-	(78,267)	(78,267)	(11,556)	(89,823)
Other comprehensive income	-	-	-	-	-	(3,404)	-	(3,404)	(165)	(3,569)
Total comprehensive loss	-	-	-	-	-	(3,404)	(78,267)	(81,671)	(11,721)	(93,392)
Transactions with owners										
Changes in non-controlling interest in subsidiary (Note 13)	-	-	-	-	-	-	9,218	9,218	(27,535)	(18,317)
Accretion of common share investment funded on behalf of non-controlling interest	-	-	-	-	-	-	-	-	(64)	(64)
Share based payments charged to operations (Note 11)	-	-	-	-	4,381	-	-	4,381	-	4,381
Options exercised (Note 11)	842,733	1 020	-	-	(599)	-	-	421	-	421
Balance at June 30, 2013	**529,484,712**	**794,677**	**13,941,940**	**7,949**	**23,848**	**(6,760)**	**(321,231)**	**498,483**	**8,145**	**506,628**
Balance at January 1, 2014	**584,423,212**	**900,866**	**13,941,940**	**7,949**	**27,695**	**(7,405)**	**(612,634)**	**316,471**	**(89,233)**	**227,238**
Loss for the period	-	-	-	-	-	-	(172,726)	(172,726)	(12,356)	(185,082)
Other comprehensive income	-	-	-	-	-	502	-	502	19	521
Total comprehensive loss	-	-	-	-	-	502	(172,726)	(172,224)	(12,337)	(184,561)
Transactions with owners										
Share based payments charged to operations (Note 11, 16)	-	-	-	-	87,989	-	-	87,989	-	87,989
Shares issued, net (Note 11)	112,500,767	131,860	-	-	-	-	-	131,860	-	131,860
Options exercised (Note 11)	634,000	1,220	-	-	(377)	-	-	843	-	843
Balance at June 30, 2014	**697,557,979**	**1,033,946**	**13,941,940**	**7,949**	**115,307**	**(6,903)**	**(785,360)**	**364,939**	**(101,570)**	**263,369**

Ivanhoe Mines Ltd.

Consolidated statements of cash flows

(stated in thousands of U.S. dollars)

(Unaudited)

	Notes	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
		$	$	**$**	$
Cash flows from operating activities					
Loss before income taxes		**(136,034)**	(49,065)	**(185,082)**	(89,748)
Items not involving cash					
Share-based payments	11, 16	**85,428**	2,143	**87,989**	4,381
Depreciation and amortization		**1,073**	1,016	**2,490**	1,890
Unrealized foreign exchange loss		**(2,017)**	(107)	**(247)**	271
Loss (gain) on disposal of property, plant and equipment		**3**	(15)	**22**	(21)
Mark-to-market loss on revaluation of warrants		**5,152**	-	**5,152**	-
Interest income and finance costs		**964**	(614)	**1,039**	(1,245)
		(45,431)	(46,642)	**(88,637)**	(84,472)
Change in non-cash working capital items	17	**(1,264)**	(4,057)	**(3,193)**	(6,357)
Interest received		**160**	420	**443**	723
Interest paid		**(37)**	(62)	**(75)**	(118)
Net cash used in operating activities		**(46,572)**	(50,341)	**(91,462)**	(90,224)
Cash flows from investing activities					
Property, plant and equipment acquired		**(6,558)**	(4,823)	**(11,481)**	(6,666)
Other assets acquired		**(866)**	(2,975)	**(3,407)**	(3 045)
Proceeds from sale of property, plant and equipment		**2**	74	**76**	81
Increase in investment in short-term deposits		**(107)**	(61)	**(125)**	(80)
Net cash used in investing activities		**(7,529)**	(7,785)	**(14,937)**	(9,710)
Cash flows from financing activities					
Issue of units, net of issue costs	11(a)	**147,056**	-	**147,056**	-
Receipt of borrowings		**-**	1,529	**-**	1,264
Transaction costs paid on change in non-controlling interest in subsidiary		**-**	(589)	**-**	(589)
Options exercised		**798**	421	**843**	421
Net cash generated by financing activities		**147,854**	1,361	**147,899**	1,096
Effect of foreign exchange rate changes on cash		**2,115**	(1,275)	**474**	(2,436)
Net cash in (out) flow		**95,868**	(58,040)	**41,974**	(101,274)
Cash and cash equivalents, beginning of period		**89,895**	216,596	**143,789**	259,830
Cash and cash equivalents, end of period		**185,763**	158,556	**185,763**	158,556
Cash and cash equivalents consists of					
Cash		**183,411**	120,769	**183,411**	120,769
Short-term fixed deposits		**2,352**	37,787	**2,352**	37,787
		185,763	158,556	**185,763**	158,556

1. Basis of presentation and continuing operations

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

The registered and records office of the Company are located at Suite 654-999 Canada Place, Vancouver, British Columbia, V6C 3E1.

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are also prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has incurred losses since inception and has an accumulated deficit of $785.4 million at June 30, 2014. Continuation of the Company as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties. Although the Company has been successful in raising funds in the past, there can be no assurance that it will be able to raise sufficient funds in the future, in which case, the Company may be unable to meet its obligations as they come due in the normal course of business. In the event the Company was unable to continue as a going concern, then material adjustments would be required to the carrying value of the assets and liabilities in the statement of financial position.

2. Significant accounting policies

(a) Statement of compliance

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

These condensed consolidated interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards (“IFRS”) for complete financial statements for year end reporting purposes. Results for the period ended June 30, 2014, are not necessarily indicative of future results. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its most recent annual consolidated financial statements as at and for the year ended December 31, 2013 except for the adoption of the new and amended accounting policies mentioned in Note 3.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2013.

2. Significant accounting policies (continued)

(b) Significant accounting estimates

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

Significant estimates used in the preparation of these condensed consolidated interim financial statements include, but are not limited to, the fair value of assets and liabilities acquired in business combinations, the assumptions used in accounting for share-based payments and fair value assessment of the recoverability of assets.

(c) Significant accounting judgements

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

Significant accounting judgements are, amongst other things, the determination of the functional currency as well as the translation of foreign operations from their currencies to the Company's presentation currency.

As part of its process in determining the classification of its interests in other entities, the Company applies judgment in interpreting these interests such as (i) the determination of the level of control or significant influence held by the Company (ii) the standard's applicability to the operations, (iii) the legal structure and contractual terms of the arrangement, (iv) concluding whether the Company has rights to assets and liabilities or to net assets of the arrangement, and (v) when relevant, other facts and circumstances.

(d) Future accounting changes

- IFRS 7 (Amendment): Outlines the disclosures when applying IFRS 9, the new financial instruments standard. (i)
- IFRS 9: New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and liabilities. (ii)
- IFRS 15: Establishes principles to apply in order to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. (iv)
- IAS 19 (Amendment): Clarification on the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. (iii)
- IFRSs (Amendment) Annual Improvements to IFRSs 2010-2012. (iii)
- IFRSs (Amendment) Annual Improvements to IFRSs 2011-2013. (iii)

(i) Effective for annual periods beginning on or after January 1, 2015
(ii) The IASB tentatively decided to set January 1, 2018 as the effective date for the mandatory application of IFRS 9.
(iii) Effective for annual periods beginning on or after July 1, 2014
(iv) Effective for annual periods beginning on or after January 1, 2017

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

2. Significant accounting policies (continued)

(d) Future accounting changes (continued)

The Company has not yet adopted these new and amended standards and is currently assessing the impact of adoption.

3. Application of new and revised standards

(a) Newly adopted accounting standards

The following standards became effective for annual periods beginning on or after January 1, 2014. The Company adopted these standards in the current period which did not have a material impact on its consolidated financial statements.

- IAS 32 (Amendment): Clarification of the application of the requirements of offsetting financial assets and financial liabilities.
- IAS 36 (Amendment): Clarification of the recoverable amount disclosures for nonfinancial assets.
- IAS 39 (Amendment): Clarification of the novation of derivatives and continuation of hedge accounting.
- IFRIC 21: Levies.

4. Property, plant and equipment

	Land	Office equipment	Furniture and fixtures	Motor vehicles	Plant, equipment and buildings	Assets under construction	Total
	$	$	$	$	$	$	$
Cost							
Balance as at December 31, 2012	5,657	3,238	1,295	5,700	16,822	-	32,712
Additions	-	1,709	558	905	10,167	4,794	18,133
Disposals	-	(55)	-	(100)	(579)	-	(734)
Foreign exchange translation	(913)	(519)	(84)	(219)	(8)	(62)	(1,805)
Balance as at December 31, 2013	4,744	4,373	1,769	6,286	26,402	4,732	48,306
Additions	-	573	70	784	4,635	5,419	11,481
Disposals	-	(7)	(4)	(129)	(1)	-	(141)
Foreign exchange translation	155	(14)	5	(1)	260	71	476
Balance as at June 30, 2014	**4,899**	**4,925**	**1,840**	**6,940**	**31,296**	**10,222**	**60,122**
Accumulated depreciation and impairment							
Balance as at December 31, 2012	616	1,612	439	3,043	3,496	-	9,206
Depreciation	-	1,051	208	815	2,132	-	4,206
Disposals	-	(57)	(7)	(55)	(44)	-	(163)
Foreign exchange translation	3	(266)	(27)	(53)	(33)	-	(376)
Balance as at December 31, 2013	619	2,340	613	3,750	5,551	-	12,873
Depreciation	-	552	127	332	1,479	-	2,490
Disposals	-	(5)	(1)	(36)	(1)	-	(43)
Foreign exchange translation	35	(6)	3	(4)	13	-	41
Balance as at June 30, 2014	**654**	**2,881**	**742**	**4,042**	**7,042**	**-**	**15,361**
Carrying value							
December 31, 2013	4,125	2,033	1,156	2,536	20,851	4,732	35,433
June 30, 2014	**4,245**	**2,044**	**1,098**	**2,898**	**24,254**	**10,222**	**44,761**

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

4. Property, plant and equipment (continued)

Assets pledged as security

Buildings with a carrying amount of $10.0 million (December 31, 2013 - $9.3 million) have been pledged to secure borrowings of the Company (see note 9). The buildings have been pledged as security for bank loans under a mortgage. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

5. Mineral properties

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

	June 30, 2014	December 31, 2013
	$	$
Platreef property, South Africa	**6,940**	6,940
	6,940	6,940

Kipushi impairment - 2013

During the year ended December 31, 2013, the Company recorded an impairment charge of $334.3 million, upon completion of its annual assessment of the carrying value of its cash generating units (CGUs). The impairment charge included $252.3 million which related to Kipushi mineral properties, $67.4 million which related to goodwill recognized upon acquisition of Kipushi, $25.1 million which related to the long term loan receivable from Gécamines and $1.5 million which related to a common share investment funded on behalf of a non-controlling interest. The advances payable to Gécamines had been assessed as zero as at December 31, 2013 and resulted in a reduction of the impairment by $12.1 million. A tax recovery of $75.7 million was recorded as a result of the impairment charge on the Kipushi mineral properties.

Significant judgements and assumptions are required in making estimates of determining the recoverable amount (fair value less costs to sell). This is particularly so in the assessment of long life assets. It should be noted that the valuations are subject to variability in key assumptions including, but not limited to, long-term commodity prices, capital expenditures, discount rates, transport costs and the cost of production and operating costs.

The assumptions made included, but were not limited to, the following:

- A life of mine of 15 years;
- A zinc price of $0.98 per pound;
- A copper price of $2.99 per pound; and
- Discount rates ranging from 7.5% to 8%.

A change in one or more of the assumptions used to estimate recoverable amount could result in an increase in a CGU's recoverable amount. The Company concluded that, as at June 30, 2014, there were no significant changes to the assumptions used above.

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

6. Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The buildings have a carrying value of $10.0 million (2013: $9.3 million) and are included in Property, Plant and Equipment (note 4).

The Company has a 25% interest in the RK1 consortium (“RK1”) through its subsidiaries Gardner and Barnard Mining (UK) Limited (“GBUK”) and RKR Mining (UK) Ltd. and their subsidiaries, the remainder of which is held 50% by Aquarius Platinum Limited and 25% by Sylvania Resources Limited, operating at the Aquarius Kroondaal platinum mine on the western limb of the Bushveld Complex in South Africa’s North West Province. The RK1 Consortium is managed and operated by a subsidiary of Aquarius Platinum Limited and processes PGE bearing tailings dumps and tailing streams of neighbouring chromite mines in the Kroondal area at its chromite tailings retreatment plant. The treatment plant is currently undergoing care and maintenance.

7. Trade and other receivables

	June 30, 2014	December 31, 2013
	$	$
Trade receivables	**769**	128
Refundable taxes	**5,092**	4,452
Advances	**1,070**	1,044
Other	**50**	67
	6,981	5,691

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

8. Cash and cash equivalents and short term deposits

As at June 30, 2014, the cash and cash equivalents of $185.8 million (December 31, 2013 - $143.8 million) included $46.8 million (December 31, 2013 - $81.5 million) which are subject to contractual restrictions for the Platreef property and were not available for the Company’s general corporate purposes. The short-term deposits of $80.4 million (December 31, 2013 - $80.3 million) are subject to the same contractual restrictions.

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

9. Borrowings

	June 30, 2014	December 31, 2013
	$	$
Unsecured - at amortised cost		
(a) Loans from other entities	**19,099**	18,450
Secured - at amortised cost		
(b) Citi bank loan	**4,015**	3,905
(c) Citi bank loan	**1,482**	1,442
	24,596	23,797
Current	**4,015**	3,905
Non-current	**20,581**	19,892
	24,596	23,797

(a) On June 6, 2013, the Company became party to a $28.0 million loan payable to ITC Platinum Development Limited, through its subsidiary Ivanplats (Pty) Ltd, formerly Platreef Resources (Pty) Ltd (“Platreef”) (see note 13). The loan is repayable only once Platreef has residual cashflow, which is defined in the loan agreement as gross revenue generated by Platreef, less all operating costs attributable thereto, including all mining development and operating costs. The loan attracts interest of LIBOR plus 2% calculated monthly in arrears. Interest is not compounded. Using prevailing market interest rates for an equivalent loan of LIBOR plus 7% at June 6, 2013, the fair value of the loan was estimated at $17.7 million. The difference of $9.3 million on initial recognition between the contractual amount due and the fair value of the loan was the benefit derived from the low-interest loan. An interest expense of $0.6 million (2013: $0.1 million) was recognised during the six months ended June 30, 2014 and an interest expense of $0.3 million (2013: $0.1 million) was recognised during the three months ended June 30, 2014.

(b) The Citi bank loan of $4.0 million (£2.36 million) is secured by the Rhenfield property acquired during May, 2007 (see note 4), is repayable on demand and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears.

(c) The Citi bank loan of $1.5 million (£0.87 million) is a five year mortgage bond, in which the first three years only interest will be payable. The loan is secured by the Rhenfield property purchased in June, 2013 (see note 4) and incurs interest at a rate of LIBOR plus 2.5% payable monthly in arrears.

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

10. Trade and other payables

	June 30, 2014	December 31, 2013
	$	$
Trade payables	**6,797**	11,712
Indirect taxes payable	**7,722**	10,715
Trade accruals	**12,217**	4,416
Other payables	**7,792**	7,547
	34,528	34,390

During the year ended December 31, 2013, the Company agreed on a settlement of claims against the Company and its assets. The total amount payable in terms of the settlement agreement was $10 million, of which $6 million is still outstanding and included in other payables. The outstanding amount is payable upon the execution of the Platreef mining right or on December 31, 2014, whichever comes first.

11. Share capital

(a) *Shares issued*

The Company is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares (together with the Class A Shares, the "common shares") and an unlimited number of Preferred Shares. As at June 30, 2014, 689,217,674 Class A Shares, 8,340,305 Class B Shares and nil Preferred Shares were issued and outstanding.

In June 2014, the Company concluded a public offering for 83,334,000 units, each consisting of one Class A common share and one Class A common share purchase warrant, which were sold at a price of C$1.50 per unit for gross proceeds of C$125 million ($114 million). In addition, the underwriters exercised their over-allotment option in full, resulting in the company issuing a further 12,500,100 units and increasing the total gross proceeds received by the company to C$144 million ($132 million). Issue costs amounted to $7 million which were allocated pro-rata to equity and share purchase warrant derivative liability, with the portion allocated to share purchase warrant derivative liability being expensed in the period.

The Company completed a concurrent private placement of an additional 16,666,667 units, on the same terms and conditions as the public offering, to raise additional gross proceeds of C$25 million ($23 million). As a result of the exercise by the underwriters of their over-allotment option in its entirety, the option to purchase an additional 2,500,000 units in terms of this concurrent private placement exists and would expire on July 10, 2014, if not exercised before expiry.

The Company allocated $16.0 million to financial liabilities based on the fair value of the warrants (note 11(d)).

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

11. Share capital (continued)

(b) Options

Share options are granted at an exercise price equal to the estimated value of the Company's common shares on the date of the grant. As at June 30, 2014, 38,775,000 share options have been granted and exercised, and 29,370,000 have been granted and are outstanding.

All share options granted prior to December 31, 2012, vest in five equal stages with the first stage vesting on the date of the grant, and the remainder in four equal annual stages commencing on the first anniversary of the date of the grant. The Company established a new equity incentive plan for all options granted after December 31, 2012. Options granted under this plan vest in four equal parts, commencing on the one year anniversary of the date of grant and on each of the three anniversaries thereafter. The maximum term of options awarded is five years.

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

		June 30, 2014		December 31, 2013
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Balance, beginning of period	**31,479,000**	**2.36**	21,497,000	2.21
Granted	**700,000**	**1.30**	11,520,000	2.54
Exercised	**(634,000)**	**1.33**	(1,356,000)	1.54
Expired	**(500,000)**	**1.33**	-	-
Forfeited	**(1,675,000)**	**2.34**	(182,000)	2.96
Balance, end of period	**29,370,000**	**2.38**	31,479,000	2.36

The weighted average grant-date fair value of share options granted during 2014 was $0.66 (2013: $1.28). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	Six months ended June 30, 2014	June 30, 2013
Risk free interest rate	**1.17%**	1.17%
Expected volatility (i)	**69.41%**	69.31%
Expected life	**3.75 years**	3.75 years
Expected dividends	**$Nil**	$Nil
Forfeiture rate	**1.0%**	1.0%

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

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

11. Share capital (continued)

(b) Options (continued)

An expense of $0.5 million for the options granted during the year to date will be amortized over the vesting period, of which $0.1 million was recognized in the six months ending June 30, 2014. The total share based payment expense for the three months ended June 30, 2014 was $85.4 million (2013: $2.1 million), inclusive of the share based payment charge relating to the B-BBEE transaction of $83.4 million (2013: $Nil). The total share based payment expense for the six months ended June 30, 2014 was $87.0 million (2013: $4.4 million), inclusive of the share based payment charge relating to the B-BBEE transaction of $83.4 million (2013: $Nil).

The following table summarizes information about share options outstanding and exercisable as at June 30, 2014:

	Options outstanding		Options exercisable	
Expiry date	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		$		$
August 12, 2014	625,000	1.33	625,000	1.33
August 22, 2014	95,000	1.33	95,000	1.33
August 29, 2014	75,000	2.46	75,000	2.46
August 31, 2014	200,000	2.46	200,000	2.46
November 10, 2014	1,250,000	1.80	1,250,000	1.80
March 1, 2015	100,000	1.80	100,000	1.80
April 8, 2015	500,000	1.80	500,000	1.80
May 28, 2015	625,000	1.80	625,000	1.80
May 31, 2015	400,000	3.00	400,000	3.00
August 30, 2015	50,000	2.46	40,000	2.46
September 9, 2015	3,425,000	1.80	2,650,000	1.80
February 17, 2016	7,330,000	2.40	5,864,000	2.40
February 24, 2017	125,000	3.00	75,000	3.00
March 22, 2017	100,000	3.00	60,000	3.00
April 1, 2017	1,000,000	3.00	600,000	3.00
April 20, 2017	2,500,000	3.00	1,500,000	3.00
January 11, 2018	1,800,000	4.90	450,000	4.90
February 1, 2018	200,000	4.81	50,000	4.81
February 6, 2018	100,000	4.90	25,000	4.90
April 1, 2018	530,000	4.45	132,500	4.45
May 17, 2018	30,000	2.44	7,500	2.44
August 14, 2018	100,000	1.44	-	1.44
August 16, 2018	750,000	1.45	-	1.45
December 13, 2018	6,760,000	1.86	-	1.86
March 31, 2019	200,000	1.57	-	1.57
June 16, 2019	500,000	1.57	-	1.57
	29,370,000	2.38	15,324,000	2.36

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

11. Share capital (continued)

(c) Bonus shares

In December 2013, a total of 783,500 common shares were issued to senior executives as a performance reward in the form of bonus shares, with a deemed market value of $1,457,316. No bonus shares were granted during the six months ended June 30, 2014.

(d) Warrants

The Company has two types of warrants, warrants issued prior to the Company's IPO (Pre-IPO warrants) and warrants issued subsequent to the Company's IPO which are denominated in Canadian dollars (Post-IPO warrants).

As at June 30, 2014, the Company has 13,941,940 Pre-IPO warrants outstanding exercisable into 15,336,133 common shares. Each warrant entitles the holder to purchase 1.1 common shares for every warrant held at the IPO price for a period of two years following the IPO. These warrants became exercisable into common shares on October 23, 2012, the date of the offering, and will expire on October 22, 2014 if not exercised by this date.

The Company's Post-IPO warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. During the six months ended June 30, 2014, there was a derivative loss of $5.2 million. The following table provides detail on the movement of the Post-IPO warrant liability:

	Number of warrants	Amount
		$
Balance as at January 1, 2014	-	-
Warrants issued on June 10, 2014	112,500,767	15,954
Mark-to-market loss on revaluation of warrants	-	5,152
Balance as at June 30, 2014	**112,500,767**	**21,106**

The Company uses quoted prices in active markets to determine the fair value of the Canadian dollar denominated warrants.

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

12. Currency translation reserve

	June 30, 2014	December 31, 2013
	$	$
Balance at the beginning of the year	**(7,405)**	(3,356)
Exchange differences arising on translation of the foreign operations	**502**	(4,049)
Balance at the end of the period	**(6,903)**	(7,405)

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

13. Non-controlling interests

	June 30, 2014	December 31, 2013
	$	$
Balance at beginning of the year	**(89,233)**	47,465
Share of comprehensive loss for the period	**(12,337)**	(110,575)
Common share investment in Kipushi funded on behalf of non-controlling interest	**-**	(134)
Decrease in non-controlling interest arising from change in percentage ownership in Beales SARL and Platreef Resources (Pty) Ltd	**-**	(27,535)
Impairment of common share investment funded on behalf of non-controlling interest	**-**	1,546
Balance at end of the period	**(101,570)**	(89,233)

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

13. Non-controlling interests (continued)

On June 6, 2013, the Company exchanged 8% of its interest in Platreef for 8% of its interest in Ivanplats Holding SARL (formerly Beales SARL), holding company of Platreef, for a loan payable to ITC Platinum Development Limited of $28 million (see note 9). The transaction increased the Company's effective shareholding of Ivanplats Holding SARL to 97%, while the effective shareholding in Platreef remained 90%. An amount of $27.5 million, being the proportionate share of the carrying amount of the net assets of Ivanplats Holding SARL, has been transferred from non-controlling interest to retained earnings. The difference between the decrease in non-controlling interest of $27.5 million and the value of the loan payable on the date of the exchange of $17.7 million (see note 9), has been credited to retained earnings together with the transaction costs of $0.6 million.

14. Finance costs

The finance costs of the Company are summarized as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Transaction costs on issue of warrants	**758**	**-**	**758**	-
Interest on non-current borrowings	**339**	88	**670**	88
Interest on current borrowings	**27**	27	**53**	50
Interest on advances payable to Gecamines	-	202	-	402
Other financing costs	-	2	**1**	2
	1,124	319	**1,482**	542

15. Loss per share

The basic loss per share is computed by dividing the loss attributable to the owners of the Company by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. All outstanding stock options and share purchase warrants were anti-dilutive for the three and six months ended June 30, 2014 and 2013.

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

16. Related party transactions

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

Name	Country of Incorporation	% equity interest as at June 30, 2014	% equity interest as at December 31, 2013
Ivanhoe Mines (Barbados) Limited	Barbados	**100%**	100%
Ivanplats Holding SARL	Luxembourg	**98%**	97%
Ivanplats Finance Limited	Ireland	**100%**	100%
Rhenfield Limited	British Virgin Islands	**50%**	50%
Gabon Holding Company Ltd.	Barbados	**100%**	100%
Kamoa Copper SA	Democratic Republic of Congo	**95%**	95%
Ivanhoe (Zambia) Ltd.	Zambia	**100%**	100%
Kamoa Holding Limited	Barbados	**100%**	100%
Kipushi Holding Limited	Barbados	**100%**	100%
Ivanhoe DRC Holding Ltd.	Barbados	**100%**	100%
Kipushi Corporation SARL	Democratic Republic of Congo	**68%**	68%
Ivanhoe Mines Energy DRC SARL	Democratic Republic of Congo	**100%**	100%
Ivanhoe Mines Exploration DRC SARL	Democratic Republic of Congo	**100%**	100%
Ivanhoe Mines DRC SARL	Democratic Republic of Congo	**100%**	100%
Africa Consolidated Mineral Exploration (Pty) Ltd.	South Africa	**100%**	100%
Ivanplats (Pty) Ltd.	South Africa	**64%**	90%
Ivanhoe Mines SA (Pty) Ltd.	South Africa	**100%**	100%
GB Mining & Exploration (SA) (Pty) Ltd.	South Africa	**100%**	100%
RK Mining (SA) (Pty) Ltd.	South Africa	**100%**	100%
Ivanhoe Mines UK Limited	United Kingdom	**100%**	100%
Ivanplats Holding Company (Pty) Ltd.	Australia	**100%**	100%
RK1 Consortium	South Africa	**25%**	25%
Ivanplats Syerston (Pty) Ltd.	Australia	**100%**	100%
Ivanplats Uranium (Pty) Ltd.	Australia	**100%**	100%
Ivanhoe Gabon SA	Gabon	**100%**	100%
Ivanplats Services (Pty) Ltd.	Australia	**100%**	100%

In conjunction with the Mining Right Application for Ivanplats (Pty) Ltd, formerly Platreef Resources (Pty) Ltd ("Platreef"), and in compliance with South African ownership requirements under the Mining Charter, the Company implemented its broad-based black economic empowerment (B-BBEE) structure for Platreef on June 26, 2014. The Company transferred 26% of Platreef to a B-BBEE special purpose vehicle (B-BBEE SPV) for the benefit of communities, employees and entrepreneurs in and around the Platreef project.

The Company considered the substance of the transaction as opposed to merely applying legal form. The substantial risks and rewards associated with the 26% ownership of the Platreef shares have not been transferred to the B-BBEE SPV on the effective date, irrespective of the fact that transfer of the legal title of the shareholding has occurred. The transfer was merely to facilitate the legal compliance with the Mineral and Petroleum Resources Development Act of South Africa in order for Platreef to obtain a mining right. The substantial risks and rewards associated with ownership of the Platreef interests still in substance remain with the Company.

The acquisition of the rights to the Platreef shares only becomes effective in substance, once the funding arrangements have been settled, the pledge and cession agreement lapses and the B-BBEE shareholders obtain the full rights associated with the ownership of Platreef shares.

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

16. Related party transactions (continued)

In substance the B-BBEE transaction entered into by the Company and the B-BBEE Shareholders has the characteristic of a hypothetical written call option, with attached dividend and voting rights.

The B-BBEE transaction therefore constitutes a share-based payment arrangement given that the B-BBEE Shareholders received an option to acquire an effective 26% ownership interest in Platreef, via the shareholding in B-BBEE SPV, (representing equity instruments within the Company) in return for a non-market related purchase consideration received from the B-BBEE Shareholders in order to provide Platreef with the required B-BBEE credentials to enable Platreef to obtain its mining right.

The share-based payment expense relating to the B-BBEE transaction was determined by using a Monte Carlo simulation of the underlying share, together with its dividends, to estimate the closing share price at vesting date, as well as the remaining funding balance.

Of the share-based payment expense recognised for the three months ending June 30, 2014, $83.4 million related to the B-BBEE transaction, with the remaining $2.0 million (Q2 2013: $2.1 million) being the expense for options granted to employees recognised over the vesting period.

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

	Three months ended June 30,		**Six months ended June 30,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Global Mining Management Corporation (a)	**986**	962	**1,971**	2,317
Ivanhoe Capital Aviation LLC (b)	**300**	300	**600**	600
Global Mining Services Ltd. (c)	**106**	203	**249**	309
Ivanhoe Capital Services Ltd. (d)	**127**	154	**234**	314
HCF International Advisors (e)	**84**	122	**184**	200
Ivanhoe Capital Pte Ltd (f)	**61**	73	**93**	73
Ivanhoe Capital Corporation (UK) Ltd (g)	**3**	42	**3**	88
I2MS.net PTE LTD (h)	**-**	13	**-**	162
	1,667	1,869	**3,334**	4,063
Salaries and benefits	**1,179**	1,336	**2,350**	2,799
Office and administration	**28**	71	**88**	388
Travel	**359**	293	**688**	605
Consulting	**100**	169	**207**	271
	1,667	1,869	**3,334**	4,063

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

As at June 30, 2014, trade and other payables included $0.1 million (December 31, 2013: $0.2 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.

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

16. Related party transactions (continued)

(a) Global Mining Management Corporation ("Global") is a private company based in Vancouver. The Company holds an equity interest in Global, and has each of a director and significant shareholder in common therewith. Global provides administration, accounting and other services to the Company on a cost-recovery basis.

(b) Ivanhoe Capital Aviation LLC ("Aviation") is a private company 100% owned by a director of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.

(c) Global Mining Services Ltd. ("Mining") is a private company incorporated in Delaware 100% owned by Global. Mining provides administration and other services to the Company on a cost-recovery basis.

(d) Ivanhoe Capital Services Ltd. ("Services") is a private company 100% owned by a director of the Company. Services provide for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.

(e) HCF International Advisers ("HCF") is a corporate finance adviser specialising in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. HCF has a director in common with the Company and provides financial advisory services to the Company on an arm's length basis.

(f) Ivanhoe Capital Pte Ltd. ("Capital") is a private company 100% owned by a director of the Company. Capital provides administration, accounting and other services in London on a cost-recovery basis.

(g) Ivanhoe Capital Corporation (UK) Ltd. ("UK") is a private company 100% owned by a director of the Company. UK provides administration, accounting and other services in Singapore on a cost-recovery basis.

(h) I2MS.net PTE LTD ("I2MS") is a private company 100% owned by Turquoise Hill Resources Ltd., formerly Ivanhoe Mines Ltd. I2MS provides IT services to the Company on a cost-recovery basis. I2MS ceased to be a related party on May 10, 2013, when Turquoise Hill Resources Ltd. no longer had a director or significant shareholder in common with the Company.

17. Cash flow information

Net change in non-cash working capital items:

	Three months ended June 30,		**Six Months ended June 30,**	
	2014	2013	**2014**	2013
	$	$	**$**	$
Net increase in				
Trade and other receivables	**(1,528)**	(769)	**(1,290)**	(740)
Prepaid expenses	**(2,735)**	(3,248)	**(2,041)**	(9,043)
Net increase (decrease) in				
Trade and other payables	**2,999**	(40)	**138**	3,426
	(1,264)	(4,057)	**(3,193)**	(6,357)

18. Financial instruments

(a) Fair value of financial instruments

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

Financial instrument	Classification
Financial assets	
Cash and cash equivalents	Loans and receivables
Short-term deposits	Loans and receivables
Trade and other receivables	Loans and receivables
Financial liabilities	
Trade and other payables	Other liabilities
Borrowings	Other liabilities
Share purchase warrants	Fair value through profit and loss

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

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

The Company's financial instruments include cash and cash equivalents, short-term deposits, trade and other receivables, borrowings, share purchase warrants (Post-IPO) and trade and other payables.

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited (note 9 (a)) was originally determined assuming repayment occurs on August 31, 2022 and using an interest rate of LIBOR plus 7%. The carrying value of borrowings is not significantly different to their fair value.

The Company's Post-IPO warrants are valued using quoted prices in active markets and as such are classified as Level 1 of the fair value hierarchy. The share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. The fair value of the Company's remaining financial instruments were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity of these financial instruments.

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

18. Financial instruments (continued)

(b) Financial risk management objectives and policies

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

(i) Foreign exchange risk

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

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

	June 30, 2014	December 31, 2013
	$	$
Assets		
Canadian dollar	**34,283**	53,404
Australian dollar	**79**	90
South African rand	**31,372**	14,546
British pounds	**282**	521
Liabilities		
Canadian dollar	**(383)**	(396)
Australian dollar	**(152)**	(230)
South African rand	**(4,525)**	(2,498)
British pounds	**(174)**	-

Foreign currency sensitivity analysis

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

	Six months ended June 30,	
	2014	2013
	$	$
Decrease in loss for the period	**1,625**	1,072

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

18. Financial instruments (continued)

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

(ii) Credit risk

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

The Company reviews the recoverable amount of their receivables at each statement of financial position date to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Company considers that the credit risk is significantly reduced. The credit risk on cash equivalents is limited because the cash equivalents are composed of financial instruments issued by major banks and companies with high credit ratings assigned by international credit-rating agencies. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years.

The following table details the Company's aging of accounts receivable:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	**Total**
	$	$	$	$	**$**
As at June 30, 2014					
Trade and other receivables	-	6,981	-	-	**6,981**
	-	6,981	-	-	**6,981**
As at December 31, 2013					
Trade and other receivables	-	5,691	-	-	**5,691**
	-	5,691	-	-	**5,691**

(iii) Liquidity risk

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

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

18. Financial instruments (continued)

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

(iii) Liquidity risk (continued)

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**
	$	$	$	$	**$**
As at June 30, 2014					
Trade and other payables	-	34,528	-	-	**34,528**
Current income tax liabilities	64	-	-	-	**64**
Non-current borrowings	-	-	-	30,205	**30,205**
Current borrowings	4,015	-	-	-	**4,015**
As at December 31, 2013					
Trade and other payables	-	34,390	-	-	**34,390**
Current income tax liabilities	69	-	-	-	**69**
Non-current borrowings	-	-	-	29,848	**29,848**
Current borrowings	3,905	-	-	-	**3,905**

19. Commitments and contingencies

The tax affairs of GB Mining and Exploration SA (Pty) Ltd ("GBSA") and Gardner & Barnard UK Limited ("GBUK") were under investigation by the South African Revenue Authorities. As part of the consent award in the arbitration between the Company and the vendors of GBUK, the vendors of GBUK undertook to pay any tax liabilities as finally determined by a court of competent jurisdiction in South Africa for the period up to June 30, 2006 in respect of GBUK and its subsidiary, GBSA. The total assessment for the taxes prior to June 30, 2006 issued by the South African Receiver of Revenue ("SARS") amounted to R15 million ($1.4 million). The vendors objected to the assessment and appeal was successful for R11 million ($1.0 million), but dismissed for taxes payable of R4 million ($0.4 million). The vendor is planning to appeal the ruling on the R4 million ($0.4 million) in the Supreme Court of Appeal of South Africa. If the vendors' appeal is unsuccessful and the vendors default, the Company will be responsible to settle the taxes payable.

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

As at June 30, 2014, the Company's commitments that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	$	$	$	$	$
Operating leases	387	422	-	-	809
Advancement of loan to SNEL (i)	1,380	248,620	-	-	250,000
	1,767	249 042	-	-	250,809

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

19. Commitments and contingencies (continued)

(i) On March 21, 2014, a financing agreement was entered into between the Company and La Société Nationale d'Electricieé SARL ("SNEL") relating to the first stage upgrade of two existing hydroelectric power plants in the DRC to feed up to 113 MW into the national power supply grid and for the supply of electricity to the Company's DRC projects.

Under the agreement, the Company has agreed to provide a loan relating to the power upgrade, which is estimated to be $141 million (including a $4.5 million pre-finance loan), but is capped at a maximum commitment of $250 million. The term for repayment of accrued interest and future costs is estimated to be 15 years, beginning after the expiry of a two year grace period from the signing date of the agreement. The actual repayment period will ultimately depend on the amount actually financed and on the amounts deducted from electricity bills based on a fixed percentage of the actual bill as per the terms of the loan repayment. The interest rate is 6 month LIBOR + 3%.

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

20. Segmented information

At June 30, 2014, the Company has three reportable segments, being the Platreef property, Kamoa property and Kipushi properties.

A reportable segment is defined as a component of the Company:

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

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

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

	South Africa	DRC	Other	Total
	$	$	$	$
Non-current assets				
As at June 30, 2014	28,930	18,843	12,430	60,203
As at December 31, 2013	16,108	17,408	13,949	47,465

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

20. Segmented information (continued)

	Platreef Property	Kamoa Property	Kipushi Properties	Unallocated *(i)*	Consolidated total
	$	$	$	$	$
Segment assets					
As at June 30, 2014	**157,489**	**5,087**	**15,075**	**168,094**	**345,745**
As at December 31, 2013	185,559	5,478	14,293	82,246	287,576
Segment liabilities					
As at June 30, 2014	**26,315**	**14,042**	**10,627**	**31,392**	**82,376**
As at December 31, 2013	25,498	18,036	11,400	5,404	60,338
Segment losses					
Three months ended June 30, 2014	**9,710**	**11,088**	**10,466**	**104,770**	**136,034**
Three months ended June 30, 2013	6,696	18,554	16,020	7,795	49,065
Six months ended June 30, 2014	**19,453**	**22,384**	**22,011**	**121,234**	**185,082**
Six months ended June 30, 2013	11,693	33,003	27,327	17,800	89,823
Capital expenditures					
Three months ended June 30, 2014	**4,407**	**294**	**1,285**	**572**	**6,558**
Three months ended June 30, 2013	791	191	658	3,183	4,823
Six months ended June 30, 2014	**7,962**	**529**	**2,031**	**959**	**11,481**
Six months ended June 30, 2013	1 264	818	1 192	3,392	6,666
Exploration and project expenditure					
Three months ended June 30, 2014	**9,258**	**12,101**	**11,397**	**6,824**	**39,580**
Three months ended June 30, 2013	5,727	16,001	14,794	4,759	41,281
Six months ended June 30, 2014	**16,444**	**22,133**	**21,734**	**16,371**	**76,682**
Six months ended June 30, 2013	9,242	29,121	25,995	9,054	73,412
Interest income					
Three months ended June 30, 2014	**57**	**-**	**-**	**103**	**160**
Three months ended June 30, 2013	202	-	546	185	933
Six months ended June 30, 2014	**200**	**-**	**-**	**243**	**443**
Six months ended June 30, 2013	271	-	1,129	387	1,787
Finance costs					
Three months ended June 30, 2014	**329**	**3**	-	**792**	**1,124**
Three months ended June 30, 2013	89	-	201	29	319
Six months ended June 30, 2014	**649**	**3**	-	**830**	**1,482**
Six months ended June 30, 2013	89	-	401	52	542
Depreciation					
Three months ended June 30, 2014	**132**	**315**	**389**	**237**	**1,073**
Three months ended June 30, 2013	138	329	317	232	1,016
Six months ended June 30, 2014	**263**	**616**	**1,141**	**470**	**2,490**
Six months ended June 30, 2013	239	630	598	423	1,890

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

21. Subsequent events

Robert Friedland, fully exercised his option to purchase an additional 2.5 million units for gross proceeds to the Company of C$3.75 million in July 2014.

22. Approval of the financial statements

The condensed consolidated interim financial statements of Ivanhoe Mines Ltd., for the three and six months ended June 30, 2014 were approved and authorized for issue by the Board of Directors on August 12, 2014.

IVANHOE MINES

NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2014

DATED: AUGUST 12, 2014

INTRODUCTION

This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Ivanhoe Mines Ltd. ("Ivanhoe" or the "Company"), for the three and six months ended June 30, 2014, which have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") and the audited consolidated financial statements of Ivanhoe for the years ended December 31, 2013 and 2012, which were prepared in accordance with International Financial Reporting Standards ("IFRS"). On August 28, 2013, the Company changed its name to Ivanhoe Mines Ltd. from Ivanplats Limited. All dollar figures stated herein are in U.S. dollars, unless otherwise specified. References to "C$" mean Canadian dollars.

The effective date of this MD&A is ***August 12, 2014***. Additional information relating to the Company is available on SEDAR, including its Annual Information Form. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. See "*Forward-Looking Statements*" and "*Risk Factors*".

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws, including without limitation, the timing and results of: (i) a pre-feasibility study ("PFS") at the Kamoa Project; (ii) statements regarding the expected time it will take for construction of the Kamoa box cut; (iii) statements regarding the expectation that the development of the first set of Kamoa twin declines is expected to begin upon completion of the box cut; (iv) statements regarding the declines having been designed to intersect the high-grade copper mineralization in the Kansoko Sud area; (v) statements regarding underground mining to use mechanized room-and-pillar and drift-and-fill methods; (vi) plans to start the first underground mine-access decline at the Kamoa Project in 2014; (vii) the completion of a PFS at the Platreef Project by the second half of 2014; (viii) the commencement of development works of the main production shaft (Shaft #2) at the Platreef Project in Q1 2015; (ix) the collection of a mineralized bulk sample at the Platreef Project by the second half of 2016 (x) efforts to upgrade historical resource estimates at the Kipushi Project; and (xi) the de-watering program at the Kipushi Project. Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect the Company's current expectations regarding future events, performance and results and speak only as of the date of this MD&A.

As well, the results of the preliminary economic assessments of the Kamoa Project and the Platreef Project constitute forward-looking information, and include future estimates of internal rates of return, net present value, future production, estimates of cash cost, proposed mining plans and methods, mine life estimates, cash flow forecasts, metal recoveries, and estimates of capital and operating costs. Furthermore, with respect to this specific forward looking information concerning the development of the Kamoa and Platreef Projects, the Company has based its assumptions and analysis on certain factors which are inherently uncertain. Uncertainties include among others: (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, 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 availability and productivity of skilled labour; (xiii) 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. The estimation of Mineral Resources is inherently uncertain and involves subjective judgments about many relevant factors. 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 may ultimately prove to be inaccurate. Mineral Resource estimates may have to be re-estimated based on: (i) fluctuations in copper, nickel, 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 (vi) the possible failure to receive required permits, approvals and licenses.

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

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

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors set forth below in the "Risk Factors" section beginning on page 27 and elsewhere in this MD&A.

REVIEW OF OPERATIONS

The Company 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, subject to any amounts it may earn from its investment in the RK1 Consortium, which are not material to its operations. The Company expects to fund all of its exploration and development activities through debt and equity financing until operating revenues commence. The Company's material properties consist of:

- The Kamoa copper discovery in a previously unknown extension of the Central African Copperbelt in the Democratic Republic of Congo's southern province of Katanga. (See "*Kamoa Project*".)

- The Platreef discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of the Bushveld Complex in South Africa. (See "*Platreef Project*".)

- The historic, high-grade Kipushi zinc, copper and germanium mine, also on the Copperbelt in the D.R. Congo's Katanga province, now being drilled and upgraded by Ivanhoe. Kipushi was operated and maintained by previous owners between 1924 and 2011, when Ivanhoe acquired its majority interest in the mine. (See "*Kipushi Project*".)

Ivanhoe is evaluating other opportunities as part of its objective to become a broadly based, international mining company.

Kamoa Project

Kamoa is world's largest undeveloped, high-grade copper discovery

The Kamoa Project is a newly discovered, very large, stratiform copper deposit with adjacent prospective exploration areas within the Central African Copperbelt, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of the Katangan provincial capital of Lubumbashi. Ivanhoe holds its 95% interest in the Kamoa Project through a subsidiary company, Kamoa Copper SA (formerly African Minerals Barbados Limited SPRL). A 5%, non-dilutable interest in Kamoa Copper SA was transferred to the DRC government on September 11, 2012, for no consideration, pursuant to the DRC Mining Code. Ivanhoe also has offered to sell an additional 15% interest to the DRC government on commercial terms to be negotiated.

Kamoa is the world's largest undeveloped, high-grade copper deposit. On January 17, 2013, an updated mineral resource estimate was announced that increased Kamoa's Indicated Mineral Resources to a total of 739 million tonnes grading 2.67% copper and containing 43.5 billion pounds of copper. This was an increase of 115% over the previous estimate in September 2011 of 348 million tonnes grading 2.64% copper and containing 20.2 billion pounds of copper. Both estimates used a 1.0% copper cut-off grade and a minimum vertical mining thickness of three metres.

In addition to the Indicated Resources, the updated estimate included Inferred Mineral Resources of 227 million tonnes grading 1.96% copper and containing 9.8 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum vertical mining thickness of three metres.

The January 2013 Kamoa resource estimate was prepared by AMEC, based on core from 555 holes drilled to December 10, 2012, in accordance with CIM Guidelines and directed by AMEC's Technical Director Dr. Harry Parker.

At a higher, 2.0% copper cut-off grade, Kamoa's Indicated Resources total an estimated 550 million tonnes grading 3.04% copper and containing 36.9 billion pounds of copper. At the 2.0% cut-off, Kamoa also has 93 million tonnes of Inferred Resources grading 2.64% copper, which contain an estimated 5.4 billion pounds of copper.

Construction underway of first box cut for planned underground mine

A contract for construction of the box cut for the initial portal to planned decline ramps that will provide underground access to the proposed Kamoa mine was awarded to Lubumbashi-based Mining Company Katanga Sprl (MCK), which has extensive local experience in contract mining and earthworks and has worked on other significant Katanga copper mining projects, including Kinsevere, Kipoi and Kolwezi.

Construction of the box cut is expected take approximately five months, after which development of the first set of twin declines can commence. The declines have been designed to intersect the high-grade copper mineralization in the Kansoko Sud area, approximately 150 metres below surface. Ivanhoe's drilling program in this area has defined a thick, near-surface zone of high-grade copper mineralization, where a recent drill hole, for which assays were received in April 2014, intercepted 15.7 metres (true width) of 7.04% copper, at a 1.5% total copper cut-off.

Underground mining to use mechanized room-and-pillar and drift-and-fill methods

Given the favourable geological characteristics of the Kamoa Deposit as derived from the December 2012 mineral resource – including its relatively undeformed, continuous mineralization – it is considered amenable to large-scale, mechanized, room-and-pillar and drift-and-fill mining. The overall dip and geometry of the resource make it conducive to room-and-pillar mining in the shallow portions of the deposit, which will transition to drift-and-fill mining in the deeper or steeper sections. These methods are the accepted industry standards for mining deposits such as Kamoa.

Infill drilling of the planned initial mining area from the preliminary economic assessment (PEA) has confirmed the overall grade and thickness of the December 2012 resource estimate in these areas and provided invaluable refinement within localized areas. While traditionally modelled on a 1% total copper cut-off to define a selective mineralized zone (SMZ), the deposit has shown that grade continuity also exists at an elevated 1.5% total copper vertical cut-off, and that a 2.0% total copper vertical cut-off may be feasible in certain areas. Applying higher cut-offs in defining the SMZ will allow for implementation of higher-grade, narrower mining options, which should improve overall mine economics. Defining the SMZ at higher vertical cut-offs also has created more expansive, contiguous zones of high-grade mineralization.

Progress on pre-feasibility study, with initial development planned at Kansoko Sud

In line with the phased approach to project development outlined in the 2013 updated Kamoa PEA, the Kamoa PFS is progressing on the basis of an initial three-million-tonne-per-annum (3 Mtpa) mine and concentrator. Development plans will be refined following completion of the PFS.

Reviews of the resource model, combined with results from recent infill drilling at Kansoko Sud, have confirmed grade continuity, which allows the resource model to be constrained at a higher cut-off grade. The focus in planning the early years of mine production continues to be on the near-surface and high-grade material from Kansoko Sud to maximize margins. The 3 Mtpa mine and concentrator can be split into modules to potentially better match the underground ramp-up and further reduce the required pre-production development capital. This will be examined in more detail as part of the pre-feasibility study to provide flexibility to the development of the Kamoa Project.

Phase 6 of the metallurgical testwork program is being conducted at the XPS laboratory in Sudbury, Canada, and the Mintek laboratory in Johannesburg, South Africa. Phase 6A testwork considers the first four years of mining, during which flotation concentrate will be sold. The phase 6B testwork considers the next 15 years of mining, from year five onward, when blister copper would be produced. This work is expected to be completed in Q3 2014.

Diamond drilling during the second quarter of 2014 was focused on infill and exploration drilling. Six drill rigs were in operation at the start of the quarter, which was reduced to four rigs by the end of June, including two truck-mounted rigs owned by Ivanhoe. A total of 10,030 metres of diamond drilling was completed, with 37 holes drilled to completion. The drilling included 6,326 metres of in-fill drilling on the Kansoko Sud and Makalu areas, 3,336 metres of exploration drilling on the Kakula and Kansoko Nord areas and 368 metres of metallurgy drilling in the Kansoko Centrale area.

By the end of the second quarter, diamond drilling was focussed entirely on in-fill drilling in the Kansoko Sud early mining area and on exploration drilling in the Kakula area.

In addition to the diamond drilling, four hydrology test holes were drilled in the southern well field. Each hole was 251 metres deep, for a combined total 1,004 metres. Five six-metre-deep holes were drilled in the Kamoa Nord and Kansoko East areas to test the permeability of the soil for potential tailings storage and access roads.

Planned additional drilling in 2014

Planned diamond drilling for the remainder of 2014 will continue to target the initial, high-grade development area in Kansoko Sud and the early-stage exploration drilling in the Kakula area. The hydrology testing has confirmed that there is sufficient water to warrant the commencement of production-well drilling.

Agreement signed to upgrade existing hydroelectric power plants

In March 2014, a financing agreement was signed between Ivanhoe and the DRC's national electricity company, La Société Nationale d'Electricité (SNEL). Ivanhoe is working with SNEL to upgrade two existing hydroelectric power plants – Mwadingusha and Koni – to recover up to 113 megawatts of capacity to be made available to the national power supply grid. SNEL will provide the Kamoa Project with up to 100 megawatts from the grid, which would be sufficient to operate the initial phase of the Kamoa mine. A third hydroelectric power plant – Nzilo 1 – would follow under the same financing agreement. Nzilo 1 will have a capacity of approximately 108 megawatts upon completion, entitling Kamoa to receive an additional 100 megawatts from the grid. The upgraded technology planned to be applied will increase the original design capacity of these power plants by up to 10%.

A combined total of 200 megawatts from the grid would provide sufficient power for Kamoa's 300,000 tonnes per year smelter and the associated future mine expansions.

Platreef Project

The Platreef Project, in South Africa's Limpopo province, is 64%-owned by Ivanhoe and 10%-owned by a Japanese consortium of Itochu Corporation; ITC Platinum, an Itochu affiliate; Japan Oil, Gas and Metals National Corporation; and Japan Gas Corporation. The Japanese consortium's 10% interest in the Platreef Project was acquired in two tranches for a total investment of $290 million. The remaining 26% ownership interest is held by Ivanhoe's broad-based, black economic empowerment (B-BBEE) partners.

The Platreef Project includes the underground Flatreef Deposit of thick, platinum-group elements, nickel, copper and gold mineralization in the Northern Limb of the Bushveld Complex, approximately 280 kilometres northeast of Johannesburg.

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

Since 2007, Ivanhoe has focused its exploration activities on defining and advancing the down-dip extension of its original Platreef discovery, now known as the Flatreef Deposit, which potentially is amenable to highly mechanized, underground mining methods. The Flatreef area lies entirely on the Turfspruit and Macalacaskop properties.

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

An independent preliminary economic assessment (PEA) was released in March 2014 that reflected a phased approach to development of the Platreef Project. Initiating production with a four-million-tonne per year first phase would establish an operating platform to support future expansions. Subsequent phases would see production expanded to eight million tonnes per year, and then to 12 million tonnes per year.

Highlights of the Platreef PEA

- A large, mechanized, underground mine is planned to be developed through a phased approach.
- Three run-of-mine production scenarios were examined: 4 million tonnes per year (Mtpa); a base case of 8 Mtpa; and 12 Mtpa.
- An initial 4 Mtpa scenario would establish an operating platform.
- Expansions – to the base-case 8 Mtpa scenario, and also to the 12 Mtpa scenario – could be accelerated as the market dictates.
- Opportunities exist for additional phases of development beyond 12 Mtpa, subject to further study.

The scenarios describe a staged approach, where there would be opportunity to expand the operation depending on demand, smelting and refining capacity and capital availability. As the 4 Mtpa production scenario (Phase 1) is developed and placed into production, there is opportunity to modify and optimize the subsequent phases, allowing for changes to the timing or expansion capacity to suit the conditions at the time.

Phase 1 would include the construction of a concentrator and other associated infrastructure to establish an operating platform to support the start of production at a nominal plant capacity of 4 Mtpa by 2020. Phase 2 would include a ramp-up to a plant capacity of 8 Mtpa by 2024; Phase 3 envisages a further ramp-up to a steady-state plant capacity of 12 Mtpa by 2028.

Key features of the 8 million tonnes/year base-case scenario

- Annual production target of 785,000 ounces of platinum, palladium, rhodium and gold. (At an expanded operating scenario of 12 million tonnes per year, the annual production target would be 1.1 million ounces of platinum, palladium, rhodium and gold (3PE+Au)).
- Platreef, with the highest concentration of base metals among Africa's producers of platinum-group metals, would rank at the bottom of the cash-cost curve, at an estimated $341 per ounce of 3PE+Au, net of by-products.
- Estimated pre-production capital requirement of approximately $1.7 billion, including $381 million in contingencies.
- $1.6 billion after-tax net present value, at an 8% discount rate.
- 14.3% after-tax internal rate of return.

The Platreef preliminary economic assessment technical report has been filed on SEDAR at www.sedar.com and on the Ivanhoe Mines website at www.ivanhoemines.com.

Mining Right granted, execution pending

A Mining Right Application (MRA) for the Platreef Project was lodged with the South African government's Department of Mineral Resources (DMR) in June 2013 and was approved on May 30, 2014. The mining right, which remains subject to execution by the Mineral Resources Minister, will permit the Company to mine and process minerals from the mining area for an initial period expected to be up to 30 years, and will be renewable for an unlimited number of consecutive periods each of up to 30 years.

Ivanhoe recently implemented its proposed B-BBEE structure, which includes communities, employees and entrepreneurs, who together own 26% of the Platreef Project.

The Company has suspended all physical exploration activities and Shaft #1 site work for the Platreef Project pending execution of the mining right.

Development work focused on resources in Flatreef underground discovery

The Flatreef Mineral Resource, with a strike length of 6.5 kilometres, predominantly lies within a flat to gently dipping portion of the Platreef mineralized belt at relatively shallow depths of approximately 700 to 1,100 metres below 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 grade shells used to constrain mineralization in the Flatreef Indicated Mineral Resource area have average true thicknesses of approximately 24 metres at a cut-off grade of 2.0 grams per tonne (g/t) of 2PE+Au (platinum-palladium-gold). The Indicated Mineral Resource grade at equivalent 2.0 gram-per-tonne 3PE cut-off is 4.1 g/t 3PE+Au (platinum-palladium-rhodium-gold), 0.34% nickel and 0.17% copper. Flatreef's Indicated Mineral Resources of 214 million tonnes contain an estimated 28.5 million ounces of platinum, palladium, gold and rhodium, 1.6 billion pounds of nickel and 0.8 billion pounds of copper.

At the same cut-off of 2.0 g/t 3PE+Au, the latest Flatreef estimate includes Inferred Mineral Resources of

415 million tonnes grading 3.5 g/t 3PE+Au, 0.33% nickel and 0.16% copper, containing an estimated additional 47.2 million ounces of platinum, palladium, gold and rhodium, 3.0 billion pounds of nickel and 1.5 billion pounds of copper. Inferred Mineral Resource estimates, under CIM guidelines, do not have demonstrated economic viability and may never achieve the confidence to be Mineral Reserve estimates or to be mined.

Development of Shaft #1

Surface construction work for Shaft #1 was suspended on May 26, 2014, and will resume once the mining right has been executed. The concrete-lined, 7.25-metre-diameter Shaft #1 is planned to reach 800 metres below surface and enable the collection of a mineralized bulk sample, expected in the second half of 2016, to complete the Company's development assessment of the Flatreef. South Africa-based Aveng Mining, the shaft-sinking contractor, is responsible for the excavation of the box-cut access for the shaft collar and vent plenum. Offsite upgrading is continuing of stage and hoisting equipment to be installed in the shaft headframe.

Shaft #1, including some initial lateral, underground development work, is expected to be fully funded from dedicated funds remaining in Ivanhoe's treasury from the $280 million received in 2011 for the sale of an 8% interest in the Platreef Project to the Itochu-led Japanese consortium.

Ivanhoe awarded the contract for design and engineering of Shaft #2, the main production shaft, to South Africa-based Murray & Roberts Cementation in June 2014. This will enable the Company to start Shaft #2 development works in Q1 2015, subject to necessary approvals and funding.

Completion of a PFS – currently focused on the Phase 1, 4 Mtpa production case – is targeted for the second half of 2014. Studies will continue on the Phase 2 base-case 8 Mtpa and Phase 3 12 Mtpa production scenarios.

Metallurgical testwork is underway at the Mintek laboratory in Johannesburg. The main focuses of the current phase of work are the improvement of concentrate quality and simplification of the flowsheet.

Exploration and development drilling

Platreef's 2014 exploration drilling program was suspended on May 26, 2014, pending the government's execution of the project's mining right. A project review in the quarter prompted a reconsideration of the drilling program's annual objective. A total of 39,712 metres in 39 holes had been drilled against the originally planned 93,000 metres for all of 2014. The revised 2014 drilling program now is expected to complete an additional 12,500 metres for the year; the remaining 41,000 metres of the original 2014 program have been deferred, including the remainder of the drilling program on the Ga-Madiba target. The reduced drilling is not expected to impact Phase 1.

A total of 15 holes, totalling 16,534 metres, were completed during the quarter up to May 26. The completed holes were in zones 1, 2 and 3, adjacent to the Zone 1 Indicated Resource area. A further eight holes, totalling 3,886 metres, were in progress prior to suspension of the drilling program.

Kipushi Project

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

Project development and infrastructure

Work began in early March 2014 on the planned underground diamond-drilling program at the Kipushi Project, a major advance made possible by the ongoing dewatering program directed by Ivanhoe during the past two and a half years following its acquisition of a 68% interest in Kipushi in November 2011.

The mine, which had been placed on care and maintenance in 1993, flooded in early 2011 due to a lack of pump maintenance over an extended period. Water reached 851 metres below surface at its peak. A major milestone was reached in December 2013 when Ivanhoe restored access to the mine's principal haulage level at 1,150 metres below the surface.

Since then, crews have been upgrading underground and surface infrastructure to support the drilling program. Recent improvements include the fabrication of the main ventilation fan for Shaft #4, the replacement of the headframe's top sheave wheel on Shaft #2, the removal of the counterweight and man cage on Shaft #5 for upgrading and the construction of a water dam on the cascades at the 1,112-metre-level to establish a horizontal pump station to Shaft #5.

Two rigs have been conducting underground drilling at the mine, de-watering is ongoing and access to the important 1,272-metre-level hanging-wall drift was achieved in June 2014, which has enabled Ivanhoe to begin the drilling program's phase of twinning the historical drilling.

Exploration and development drilling

Ivanhoe's 2014 underground drilling program is scheduled to complete approximately 100 holes, totalling more than 20,000 metres. The program is designed to confirm and update Kipushi's estimated historical resources and to further expand the resources along strike and at depth. More than 4,000 metres of drilling was completed during the first half of 2014.

A total of 2,745 metres, including 15 drill holes, were completed in Q2. Exploration drilling focused on the Série Récurrente (Recurring Series) zone, testing areas to the east and below the historical measured and indicated resources. Three drilling fans were completed from the -1,251-metre-level. The fans were completed with a total of 13 drill holes and 1,965 metres. The Serie Recurrent drill sections are shown on the figure below. In addition to the Série Récurrente drilling, two additional holes were drilled from the 1,220-metre-level to test the fault zone north of the Big Zinc and to provide an understanding of the complete stratigraphic succession.

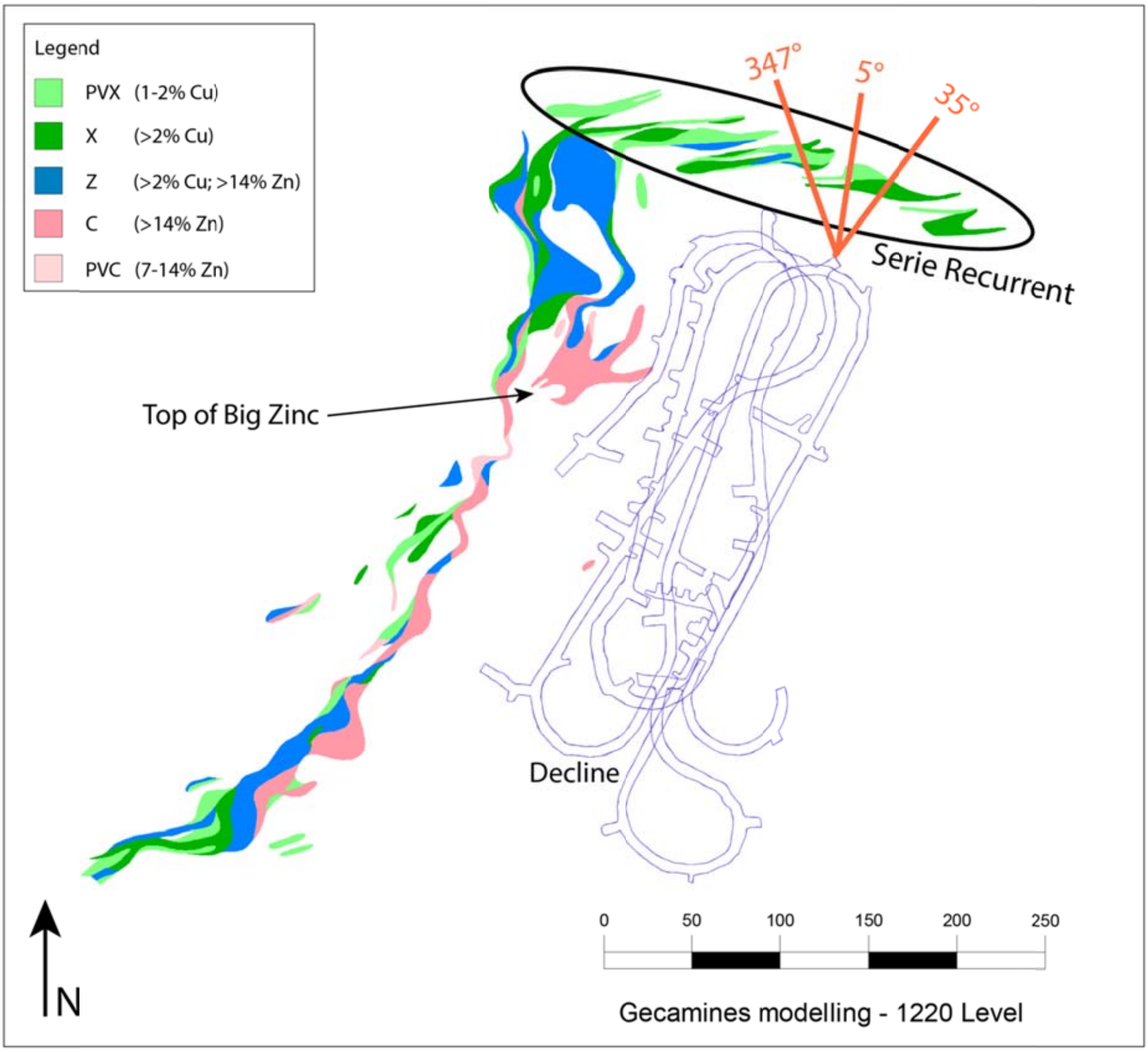

Figure KIP1: Plan showing the drill-fans at -1,251-metre-level in the main decline.

Assay results for the first eight holes were received at the end of the quarter and released on July 14. Highlights from Q1 2014 drilling include:

- Three holes drilled to validate historical models of the down-plunge continuity of Big Zinc mineralization returned zinc grades of 40.9% over 348.5 metres, 44.8% over 339.4 metres and 33.3% over 305.8 metres. The down-plunge geometry of the holes does not allow for estimation of true widths.
- Internal zones of exceptionally rich mineralization in the first two holes, KPU001 and KPU002, returned zinc grades of 60.4% over 35.1 metres, 56.3% over 18.0 metres, and 56.6% over 71 metres. These internal zones also returned germanium grades of 87.2, 120.4 and 111.9 grams per tonne (g/t), respectively.
- An internal zone rich in copper, silver and germanium in the third hole, KPU003, graded 6.1% copper, 44.5% zinc, 144 g/t silver and 66.9 g/t germanium over 31 metres from 197 metres. Historical resource estimates at Kipushi did not include silver and germanium.

- KPU003 also discovered a zone grading 58.6% zinc and 293.8 g/t germanium over 22.3 metres, approximately 180 metres below the historical Measured and Indicated Resources. This exceptional grade intersection may represent an extension to the Big Zinc or the start of a new zinc- and germanium-rich zone, and will be followed up by ongoing drilling.
- In addition, two holes from Ivanhoe's exploratory drilling program targeting the Série Récurrente zone at the north end of the Kipushi Deposit returned very high copper and silver grades. Hole KPU008 intersected 11.4 metres (estimated true width of 11.2 metres) grading 17% copper and 89.6 g/t silver.

Kipushi's 68 years of production history

Following its start-up in 1924 as the Prince Léopold Mine, Kipushi produced a total of 6.6 million tonnes of zinc and 4.0 million tonnes of copper – from 60 million tonnes grading 11% zinc and approximately 7% copper – until political instability prompted the suspension of operations in 1993. The mine also produced 278 tonnes of germanium between 1956 and 1978.

In addition to the recorded production of copper, zinc, lead and germanium, Gécamines mine-level plans for Kipushi also report the presence of precious metals, specifically silver and rhenium. There is no formal record of precious metal production on the property.

Historical resources

IMC Group Consulting, which prepared the current Kipushi Technical Report, considers the historical estimate prepared by Techpro Mining and Metallurgy (Techpro) in 1997 to be the most reliable. Techpro reported the following resources:

Resource Category	Tonnes	Copper %	Zinc %
Measured	8,899,979	2.53	9.99
Indicated	8,029,127	2.09	24.21
Total	16,929,106	2.32	16.76
Inferred	9,046,352	1.93	23.32
Totals shown above include the following Big Zinc resources:			
Measured	793,086	1.16	33.52
Indicated	3,918,366	0.68	39.57
Measured & Indicated	4,711,452	0.76	38.55

IMC is of the opinion that the Techpro estimate generally is fair and reasonable for demonstrated measured plus indicated resources and that inferred mineral resources largely represent the projection of Kipushi's Fault zone mineralization from the 1,500-metre level to the 1,800-metre level.

A Qualified Person has not done sufficient work to classify the historical estimates as current Mineral Resources and Ivanhoe Mines is not treating such estimates as current Mineral Resources. The Techpro estimate was prepared in accordance with the JORC Code. Ivanhoe Mines will need to validate previous work through new drilling, sampling, assaying and other procedures to produce a mineral resource that is current for CIM purposes.

Other exploration projects

Katanga Province, DRC

Regional exploration field activities commenced in Q2 with the onset of the dry season. Licences due for relinquishment and renewal in 2015 are the focus of the 2014 fieldwork. Three field teams were active during Q2 2014 with exploration mapping, auger drilling, soils and stream sampling, as well as ground magnetic surveying. Drilling using the Company's truck-mounted rigs will commence in Q3.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table summarizes selected financial information for the prior eight quarters. Other than its share of revenue from the RK1 Consortium, Ivanhoe had no operating revenue in any financial reporting period and did not declare or pay any dividend or distribution in any financial reporting period.

	3 Months ended			
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
	$'000	$'000	$'000	$'000
Exploration and project expenditure	39,580	37,102	60,738	39,793
General administrative expenditure	4,913	9,318	11,567	6,259
Shared-based payments	85,428	2,561	2,029	1,898
Impairment of mineral property, goodwill and other	-	-	334,338	-
Legal settlement	-	-	-	10,000
Finance costs	1,124	358	559	543
Deferred tax recovery	-	-	(75,701)	-
Total comprehensive loss attributable to:				
Owners of the Company	129,474	42,750	240,262	51,787
Non-controlling interest	6,280	6,057	92,606	6,248
Loss per share (basic and diluted)	0.21	0.07	0.41	0.10

	3 Months ended			
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
	$'000	$'000	$'000	$'000
Exploration and project expenditure	41,281	32,131	31,314	29,368
General administrative expenditure	6,270	6,980	8,441	4,140
Shared-based payments	2,143	2,238	1,446	1,446
Finance costs	319	223	2,069	8,653
Total comprehensive loss attributable to:				
Owners of the Company	43,804	37,372	37,949	38,368
Non-controlling interest	7,198	5,018	4,771	3,315
Loss per share (basic and diluted)	0.08	0.07	0.07	0.09

DISCUSSION OF RESULTS OF OPERATIONS

Review of the Three Months ended June 30, 2014 vs. June 30, 2013

The Company's total comprehensive loss for Q2 2014 of $135.8 million was $84.7 million higher than for the same period in 2013 ($51.0 million). The increase mainly was due to an increase in shared-based payments of $83.3 million and an increase in the mark-to-market loss on revaluation of warrants of $5.2 million.

The Company implemented its B-BBEE structure on June 26, 2014, as part of its Mining Right Application for its Platreef Project. The Company transferred 26% of the Platreef Project to a B-BBEE special purpose vehicle (B-BBEE SPV) for the benefit of communities, employees and entrepreneurs in and around the Platreef Project.

When accounting for the B-BBEE transaction, the Company considered the substance of the transaction as opposed to merely applying legal form as required by IFRS 1. The substantial risks and rewards associated with the 26% ownership of the Platreef shares have not been transferred to the B-BBEE SPV on the effective date, irrespective of the fact that transfer of the legal title of the shareholding has occurred. The transfer was to facilitate legal compliance with Section 22 of the Mineral and Petroleum Resources Development Act (South Africa), 2002 in order that the Platreef Project may obtain a mining right. The substantial risks and rewards associated with ownership of the Platreef shares still, in substance, remain with Ivanhoe.

The acquisition of the rights to the Platreef shares only becomes effective, in substance, once the funding arrangements have been settled, the pledge and cession agreement lapses and the B-BBEE shareholders obtain the full rights associated with the ownership of Platreef shares.

In substance the B-BBEE transaction entered into by the Company and the B-BBEE Shareholders has the characteristic of a hypothetical written call option, with dividend and voting rights attached.

The B-BBEE transaction therefore constitutes a share-based payment arrangement given that the B-BBEE Shareholders received an option to acquire an effective 26% ownership interest in the Platreef Project, via their shareholding in B-BBEE SPV (by way of equity instruments within Ivanhoe), in return for a non-market related purchase consideration received from the B-BBEE Shareholders in order that the Platreef Project achieve the required Black Economic Empowerment credentials, thereby enabling it to obtain its mining right.

The share-based payment expense relating to the B-BBEE transaction was determined by using a Monte Carlo simulation of the option value of the underlying share, together with its dividends, to estimate the closing share price at vesting date, as well as the remaining funding balance.

Of the share-based payment expense recognized for the three months ending June 30, 2014, $83.4 million related to the B-BBEE transaction, with the remaining $2.0 million (Q2 2013: $2.1 million) being the expense for options granted to employees recognized over the vesting period.

The Company's warrants issued in June 2014, are classified and accounted for as a financial liability at fair value, with changes in fair value included in net earnings. A mark-to-market loss on revaluation of these warrants of $5.2 million was recognized in Q2 2014 and transaction costs of $0.8 million were allocated to the issuance of the warrants and expensed as finance costs.

Exploration and project expenditures for the three months ending June 30, 2014, were $1.7 million less than for the same period in 2013. Expenditure at the Kamoa Project and Kipushi Project decreased by $3.5 million and $2.9 million respectively when compared to the same period in 2013, while expenditure at the Platreef Project increased by $3.5 million as a result of the Section 93 directive from the DMR that halted exploration activity in Q2 2013.

The main classes of expenditure on the Company's material projects in Q2 2014 and 2013 are set out in the following table:

	Three months ended June 30, 2014	Three months ended June 30, 2013
	$'000	**$'000**
Kamoa Project		
Salaries and benefits	3,915	2,130
Drilling	3,254	5,430
Studies	1,951	5,760
Travel	399	449
Other expenditure	4,381	3,588
Total project expenditure	13,900	17,357
Platreef Project		
Studies	1,957	2,850
Drilling	2,156	-
Salaries and benefits	1,511	761
Assaying and sampling	150	53
Other expenditure	3,472	2,063
Total project expenditure	9,246	5,727
Kipushi Project		
Salaries and benefits	3,910	2 935
Contracting work	1,763	3,828
Electricity	1,719	3,824
Drilling	1,214	-
Equipment rental	853	193
Repair and maintenance	321	665
Travel	185	385
Other expenditure	3,104	4,174
Total project expenditure	13,069	16,004

Review of the Six Months ended June 30, 2014 vs. June 30, 2013

The Company's total comprehensive loss for the six months ended June 30, 2014, of $184.6 million was $91.2 million higher than for the same period in 2013 ($93.4 million). The increase mainly was due to an increase in the shared-based payment expense of $83.6 million as a result of the Platreef B-BBEE transaction, an increase in exploration and project expenditures of $3.3 million and the increase in mark-to-market loss on revaluation of warrants of $5.2 million.

The increase in exploration and project expenditures was due largely to increases in expenditure of $9.4 million at the Platreef Project. Expenditure at the Kamoa Project decreased by $4.8 million when compared to the same period in 2013, while expenditure at the Kipushi Project decreased by $2.0 million.

The main classes of expenditure on the Company's material projects in the six months ending June 30, 2014 and 2013 are set out in the following table:

	Six months ended June 30, 2014	**Six months ended June 30, 2013**
	$'000	**$'000**
Kamoa Project		
Salaries and benefits	7,304	4,746
Drilling	6,513	8,652
Studies	3,466	8,548
Travel	754	1,247
Other expenditure	7,594	7,284
Total project expenditure	25,631	30,477
Platreef Project		
Studies	5,571	3,082
Drilling	4,741	892
Salaries and benefits	2,673	1,580
Assaying and sampling	273	97
Other expenditure	5,386	3,591
Total project expenditure	18,644	9,242
Kipushi Project		
Salaries and benefits	7,826	3,282
Electricity	3,403	6,614
Contracting work	2,956	8,389
Drilling	2,348	-
Repair and maintenance	1,138	696
Equipment rental	1,000	1,660
Travel	406	854
Other expenditure	6,091	5,710
Total project expenditure	25,168	27,205

Financial position as at June 30, 2014, vs. December 31, 2013

The Company's total assets increased to $345.7 million as at June 30, 2014, from $287.6 million as at December 31, 2013. This mainly was due to a $42.0 million increase in cash and cash equivalents.

The Company generated cash inflow from financing activities during the six months ending June 30, 2014, of $148 million. This was a result of the public offering and a concurrent private placement that Ivanhoe completed in June for a total issuance of 112,500,767 units. Each unit consisted of one Class A common share and one Class A common share purchase warrant, which were sold at a price of C$1.50 per unit and raised total gross proceeds of C$169 million (net proceeds of $147 million). Subsequent to June 30, 2014, a further 2,500,000 units were sold in connection with the concurrent private placement following the exercise by Robert Friedland of an additional option granted to him.

The Company utilized $91.5 million of its cash resources in its operations and earned interest income of $0.4 million on cash balances in the year to date. A total of $14.9 million was spent to acquire property, plant and equipment and other non-current assets.

Of the $14.9 million spent to acquire non-current assets, $3.0 million related to initial costs to secure electricity for the Platreef Project, while $5.4 million related to the cost incurred on the Platreef Project's Shaft #1 during the year to date. The remainder of the additions to property, plant and equipment mainly related to the procurement of assets required at the other projects.

The Company's total liabilities increased from $60.3 million as at December 31, 2013, to $82.4 million as at June 30, 2014. This mainly was due to the financial liability that arose with the issuance of the purchase warrants in Q2 2014 that had a fair value of $21.1 million at June 30, 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company closed a non-brokered private placement for C$108 million ($105 million) in Q4 2013 and completed a public offering and concurrent private placement for gross proceeds of C$169 million ($154 million) in Q2 2014. In addition, Robert Friedland also fully exercised his option to purchase an additional 2.5 million units for net proceeds to the Company of C$3.75 million in July 2014.

The Company had $185.8 million in cash and cash equivalents and $80.4 million in short-term deposits as at June 30, 2014. Certain of the Company's cash and cash equivalents and short-term deposits, having an aggregate value of $127.1 million, are subject to contractual restrictions as to their use and are reserved for the Platreef Project.

As at June 30, 2014, the Company had consolidated working capital of approximately $246.9 million, compared to $201.7 million at December 31, 2013. The Platreef Project working capital is restricted and amounted to $129.7 million at June 30, 2014, and $161.6 million at December 31, 2013. Excluding the Platreef Project working capital, the resultant working capital was $117.2 million at June 30, 2014, and $40.1 million at December 31, 2013. The Company believes it has sufficient resources to cover its short-term cash requirements. However, the Company's access to financing is always uncertain and there can be no assurance that additional funding will be available to the Company in the near future.

The Company has a three-year mortgage bond and a five-year mortgage bond outstanding on its offices in London, United Kingdom, of £2.4 million ($4.0 million) and £0.9 million ($1.5 million) respectively. The first is fully repayable during May 2015, secured by the property and incurs interest at a rate of LIBOR plus 2.25% payable monthly in arrears, with the latter also secured by the property, incurring interest at a rate of LIBOR plus 2.5% payable monthly in arrears in which the first three years only interest will be payable.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of $19.1 million as at June 30, 2014, and a contractual amount due of $28.7 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 $9.6 million between the contractual amount due and the fair value of the loan is the benefit derived from the low-interest loan.

On March 21, 2014, a financing agreement was entered into between the Company and La Société Nationale d'Electricieé SARL (SNEL) relating to the upgrade of two existing hydroelectric power plants in the DRC to feed up to 113 MW into the national power supply grid and for the supply of electricity to the Company's DRC projects. Under the agreement, the Company has agreed to provide a loan relating to the power upgrade, which is estimated to be $141 million (including a $4.5 million pre-finance loan), but is capped at a maximum commitment of $250 million. The term for repayment of the loan and payment of accrued interest and future costs is estimated to be 15 years, beginning after the expiry of a two year grace period from the signing date of the agreement. The actual repayment period ultimately will depend on the amount actually financed and on the amounts deducted from electricity bills based on a fixed percentage of the actual bill as per the terms of the loan repayment. The interest rate is six-month LIBOR + 3%. The Company is given a priority electricity right by which SNEL commits to make available to the Company, as per an agreed power requirements schedule, sufficient energy from its grid to meet the energy needs of the Company's DRC projects, and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the Company's production and mine expansion scenarios.

The Company has actual and implied commitments 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 June 30, 2014	**Total $'000**	**Less than 1 year $'000**	**1-3 years $'000**	**4-5 years $'000**	**After 5 years $'000**
Debt	34,220	4,015	371	1,112	28,722
Operating Leases	809	387	422	-	-
Advancement of loan to SNEL	250,000	1,380	248,620	-	-
Total Contractual Obligations	**285,029**	**5,782**	**249,413**	**1,112**	**28,722**

USE OF PROCEEDS

The proceeds received from the non-brokered private placement that closed on October 4, 2013, for C$108 million ($105 million) have been used for the advancement of, and pre-development activities at, the Kamoa and Kipushi Projects, and for general corporate purposes. To date the funds have been completely used as follows:

	$'million
Funds received from non-brokered private placement closed on October 4, 2013	105
Advancement of, and pre-development activities at:	
The Kamoa Project	(42)
The Kipushi Project	(36)
Funds used for regional exploration	(8)
Funds used for general corporate purposes	(19)
Balance remaining	-

The below table describes how the proceeds from the public offering and concurrent private placement closed on June 10, 2014, have been used to date, against how the proceeds were expected to be used as disclosed in the final prospectus.

Principal Purpose	Use of proceeds Intended [1]	Use of proceeds Q2 2014	Total use to date
	$'million	$'million	$'million
Kamoa Project			
Box cut and decline	15	-	-
Power Supply	15	1	1
Project studies	11	3	3
Drilling	9	4	4
Subtotal	50	8	8
Kipushi Project			
Site costs (including dewatering)	28	5	5
Drilling & Studies	10	1	1
Refurbishing infrastructure	7	1	1
Subtotal	45	7	7
Other			
Regional Exploration and General & Administrative Expenses	37	7	7
Subtotal	37	7	7
TOTAL (exclusive of Over-Allotment Option and Private Placement Option)	132	22	22
Exploration and pre-development activities of the Projects and general corporate purposes	15	2	2
TOTAL NET PROCEEDS	147	24	24

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Global Mining Management Corporation (a)	**986**	962	**1,971**	2,317
Ivanhoe Capital Aviation LLC (b)	**300**	300	**600**	600
Global Mining Services Ltd. (c)	**106**	203	**249**	309
Ivanhoe Capital Services Ltd. (d)	**127**	154	**234**	314
HCF International Advisors (e)	**84**	122	**184**	200
Ivanhoe Capital Pte Ltd (f)	**61**	73	**93**	73
Ivanhoe Capital Corporation (UK) Ltd (g)	**3**	42	**3**	88
I2MS.net Pte Ltd (h)	**-**	13	**-**	162
	1,667	1,869	**3,334**	4,063
Salaries and benefits	**1,179**	1,336	**2,350**	2,799
Office and administration	**28**	71	**88**	388
Travel	**359**	293	**688**	605
Consulting	**100**	169	**207**	271
	1,667	1,869	**3,334**	4,063

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

As at June 30, 2014, trade and other payables included $0.1 million (December 31, 2013: $0.2 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 holds an equity interest in Global and the Executive Chairman has a significant shareholding in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.

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

(c) 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.

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

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

(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) Ivanhoe Capital Corporation (UK) Ltd. (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.

(h) I2MS.net PTE LTD (I2MS) is a private company 100% owned by Turquoise Hill Resources Ltd. I2MS provided IT services to the Company on a cost-recovery basis. I2MS ceased to be a related party on May 10, 2013, when Peter Meredith ceased to be a director and the Executive Chairman ceased to be a significant shareholder of Turquoise Hill Resources Ltd.

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, 2013. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period presented and reported amounts of expenses during said reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates that, by their nature, are uncertain. The impact of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(i) Impairment Analysis of Assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective assets.

Changes in any of the assumptions used to determine impairment testing could materially affect the results of the analysis.

During Q4 2013, the Company reviewed the carrying value of its assets and recognized an impairment loss of $334.3 million on the Kipushi mineral property, goodwill and related long term loan receivable and advances payable. The Company concluded that, as at June 30, 2014, there were no significant changes to the assumptions used.

(ii) *Income Taxes*

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the statements of financial position and their corresponding tax values, generally using the substantively enacted or enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource-related pools and other deductions. A deferred tax asset is only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

A deferred tax liability is generally recognized for all taxable temporary differences. The Company recognizes net deferred tax liabilities as it believes it does not control the timing of the reversal of these temporary differences even though management has made the judgment that the reversal is not expected to occur in the foreseeable future.

(iii) *Mineral Property and Exploration Costs*

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 a positive pre-feasibility study of the property has been completed, at which time subsequent costs incurred on the property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain. Management uses several criteria in its assessment of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, scoping studies, accessible facilities, existing permits and life of mine plans.

(iv) *Business Combinations*

Determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. If an acquired set of assets and liabilities includes goodwill, the set of assets and liabilities is presumed to be a business.

(v) Functional Currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions, which determine the primary economic environment.

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, 2014, 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.

- IAS 32 (Amendment): Clarification of the application of the requirements of offsetting financial assets and financial liabilities.
- IAS 36 (Amendment): Clarification of the recoverable amount disclosures for nonfinancial assets.
- IAS 39 (Amendment): Clarification of the novation of derivatives and continuation of hedge accounting.
- IFRIC 21: Levies.

Accounting standards issued but not yet effective

- IFRS 7 (Amendment): Outlines the disclosures when applying IFRS 9, the new financial instruments standard. (i)
- IFRS 9: New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and liabilities. (ii)
- IFRS 15: Establishes principles to apply in order to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. (iv)
- IAS 19 (Amendment): Clarification on the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. (iii)
- IFRSs (Amendment) Annual Improvements to IFRSs 2010-2012. (iii)
- IFRSs (Amendment) Annual Improvements to IFRSs 2011-2013. (iii)

(i) Effective for annual periods beginning on or after January 1, 2015.
(ii) The IASB tentatively decided to set January 1, 2018 as the effective date for the mandatory application of IFRS 9.
(iii) Effective for annual periods beginning on or after July 1, 2014.
(iv) Effective for annual periods beginning on or after January 1, 2017

The Company has not yet adopted these new and amended standards and is currently assessing the impact of adoption.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

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

Financial instrument	Classification	**June 30, 2014**	December 31, 2013
		$'000	$'000
Financial assets			
Cash and cash equivalents	Loans and receivables	**185,763**	143,789
Short-term deposits	Loans and receivables	**80,389**	80,264
Trade and other receivables	Loans and receivables	**6,981**	5,691
Financial liabilities			
Trade and other payables	Other liabilities	**34,528**	34,390
Borrowings	Other liabilities	**24,596**	23,797
Share purchase warrants	Fair value through profit and loss	**21,106**	-

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 requires an entity to develop its own assumptions.

The Company's financial instruments include cash and cash equivalents, short-term deposits, trade and other receivables, borrowings, share purchase warrants and trade and other payables.

The fair value of borrowings is determined in accordance with generally accepted pricing models based on discounted cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited was originally determined assuming repayment occurs on August 31, 2022 and using an interest rate of LIBOR plus 7%.

The Company's share purchase warrants are valued using quoted prices in active markets and as such are classified as Level 1 of the fair value hierarchy. The share purchase warrants are classified and accounted for as a financial liability at fair value with changes in fair value included in net earnings. The fair value of the share purchase warrants is determined using quoted prices in active markets.

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

Financial risk management objectives and policies

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

Foreign exchange risk

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

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

	June 30, 2014	December 31, 2013
	$'000	$'000
Assets		
Canadian dollar	**34,283**	53,404
Australian dollar	**79**	90
South African rand	**31,372**	14,546
British pounds	**282**	521
Liabilities		
Canadian dollar	**(383)**	(396)
Australian dollar	**(152)**	(230)
South African rand	**(4,525)**	(2,498)
British pounds	**(174)**	-

Foreign currency sensitivity analysis

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

	Six months ended June 30,	
	2014	2013
	$'000	$'000
Decrease in loss for the period	**1,625**	1,072

Credit risk

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

The Company reviews the recoverable amount of their receivables at each statement of financial position date to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Company considers that the credit risk is significantly reduced. The credit risk on cash equivalents is limited because the cash equivalents are composed of financial instruments issued by major banks and companies with high credit ratings assigned by international credit-rating agencies. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years.

The following table details the Company's aging of accounts receivable:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	**Total**
	$'000	$'000	$'000	$'000	**$'000**
As at June 30, 2014					
Trade and other receivables	-	6,981	-	-	**6,981**
	-	6,981	-	-	**6,981**
As at December 31, 2013					
Trade and other receivables	-	5,691	-	-	**5,691**
	-	5,691	-	-	**5,691**

Liquidity risk

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

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

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	**Total undiscounted cash flows**
	$'000	$'000	$'000	$'000	**$'000**
As at June 30, 2014					
Trade and other payables	-	34,528	-	-	**34,528**
Current income tax liabilities	63	-	-	-	**63**
Non-current borrowings	-	-	-	30,205	**30,205**
Current borrowings	4,015	-	-	-	**4,015**
As at December 31, 2013					
Trade and other payables	-	34,390	-	-	**34,390**
Current income tax liabilities	69	-	-	-	**69**
Non-current borrowings	-	-	-	29,848	**29,848**
Current borrowings	3,905	-	-	-	**3,905**

DESCRIPTION OF CAPITAL STOCK

As at August 12, 2014, 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 together with the Class A Shares, the "**Common Shares**"), an unlimited number of preferred shares without par value, warrants and options. At this date 8,340,305 Class B Shares, 691,717,674 Class A Shares and nil preferred shares were issued and outstanding.

The Company granted 500,000 options to certain employees during Q2 2014, per the amended and restated employees' and directors' equity incentive plan (the Equity Incentive Plan). Prior to adoption of the Equity Incentive Plan, options were granted to certain directors, officers, employees and consultants pursuant to individual option agreements. As at August 12, 2014, there were 18,275,000 options, from individual stock option agreements exercisable into 18,275,000 Class A Shares and 11,045,000 options issued in terms of the Equity Incentive Plan exercisable into 11,045,000 Class A Shares.

The Company has warrants outstanding to several investors, each of which entitles the holder thereof to purchase equity securities in the capital of the Company. As at August 12, 2014: (i) 6,041,665 certificated warrants, issued on November 17 and 19, 2010, and January 7, 2011, are outstanding, exercisable into 6,645,831 Class B Shares; (ii) 7,900,275 warrants, issued pursuant to a warrant indenture dated November 12, 2009, are outstanding, exercisable into 8,690,302 Class B Shares and (iii) 115,000,767 warrants, issued on June 10 and July 10, 2014, are outstanding, exercisable into 115,000,767 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design effectiveness of the Company's DC&P and ICFR as of June 30, 2014 and, in accordance with the requirements established under National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, the CEO and CFO have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's CEO and CFO have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of June 30, 2014 and have concluded that these controls and procedures have been designed effectively to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design and operation of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected.

During the three and six months ended June 30, 2014, 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 risk factors are discussed in the Company's Annual Information Form filed with Canadian provincial regulatory authorities and available at www.sedar.com.

DISCLOSURE OF TECHNICAL INFORMATION

Disclosures of a scientific or technical nature in this MD&A has been reviewed and approved by Stephen Torr, who is considered, by virtue of his education, experience and professional association, a Qualified Person under the terms of NI 43-101. Ivanhoe has prepared a NI 43-101 compliant technical report for each of the Kamoa Project, the Platreef Project and the Kipushi Project, which are available under the Company's SEDAR profile at www.sedar.com. These technical reports include relevant information regarding the effective date and the assumptions, parameters and methods of the mineral resource estimates on the Kamoa Project and Platreef 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 Kamoa Project, Platreef Project and Kipushi Project.