

Consolidated financial statements of

Ivanhoe Mines Ltd.

December 31, 2018
(Stated in U.S. dollars)

Ivanhoe Mines Ltd.

Management's responsibility for financial reporting

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

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

Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. The result of the inherent limitations in all control systems means design and operation of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected.

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

(Signed) Lars-Eric Johansson

Lars-Eric Johansson,
President and Chief Executive Officer

(Signed) Marna Cloete

Marna Cloete,
Chief Financial Officer

March 26, 2019

Ivanhoe Mines Ltd.

December 31, 2018

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Independent auditor's report

To the Shareholders of Ivanhoe Mines Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Ivanhoe Mines Ltd. and its subsidiaries, (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our ethical responsibilities in accordance with the IESBA code.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090
Private Bag X36, Sunninghill, 2157, South Africa
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Chief Executive Officer: T D Shango
Management Committee: S N Madikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.



going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jean-Pierre van-Staden.

(Signed) PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Jean-Pierre van-Staden
Registered Auditor
Johannesburg, South Africa
March 28, 2019

Ivanhoe Mines Ltd.

Consolidated statements of comprehensive income for the year ended December 31, 2018

(stated in U.S. dollars)

	Notes	2018 \$'000	2017 \$'000
Expenses			
Exploration and project expenditure	5	11,487	40,503
Salaries and benefits		10,415	11,501
Share-based payments	20	6,871	4,908
Travel		4,840	3,723
Other expenditure		3,534	1,810
Professional fees		3,178	1,644
Office and administration		2,414	2,729
Foreign exchange loss (gain)		1,057	(2,527)
Legal		777	380
Reversal of impairment of mineral property and other items	5(b)	-	(286,283)
Loss (profit) from operating activities		44,573	(221,612)
Loss (gain) on fair valuation of financial asset	12	6,639	(5,843)
Finance costs	23	946	1,710
Finance income	22	(49,859)	(32,614)
Share of (profits) losses from joint venture	6	(19,615)	27,505
Other income	21	(1,928)	(3,538)
Profit before income taxes		(19,244)	(234,392)
Income tax (recovery) expense			
Current tax	15	122	84
Deferred tax	15	(330)	349
		(208)	433
PROFIT FOR THE YEAR		(19,452)	(233,959)
(Profit) loss attributable to:			
Owners of the Company		(26,098)	(170,218)
Non-controlling interests		6,646	(63,741)
		(19,452)	(233,959)
Other comprehensive loss (profit)			
Items that may subsequently be reclassified to loss (profit):			
Exchange losses (gains) on translation of foreign operations		33,047	(13,822)
Other comprehensive loss (profit) for the year, net of tax		33,047	(13,822)
TOTAL COMPREHENSIVE LOSS (PROFIT) FOR THE YEAR		13,595	(247,781)
Total comprehensive loss (profit) attributable to:			
Owners of the Company		3,892	(182,872)
Non-controlling interests	19	9,703	(64,909)
		13,595	(247,781)

Ivanhoe Mines Ltd.

Consolidated statements of financial position

as at December 31, 2018

(stated in U.S. dollars)

	Notes	December 31, 2018 \$'000	December 31, 2017 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	294,956	198,583
Mineral properties	5	261,297	260,287
Investment in joint venture	6	681,661	552,384
Long term loan receivable	7	36,471	34,065
Promissory notes receivable	10	12,713	11,313
Deferred tax asset	15	957	766
Other assets		7,413	8,385
Total non-current assets		1,295,468	1,065,783
Current assets			
Cash and cash equivalents	8	574,048	181,419
Prepaid expenses	9	7,664	8,416
Other receivables	11	5,497	4,750
Financial assets at fair value through profit or loss	12	1,924	8,563
Current tax assets		187	83
Promissory notes receivable	10	-	2,297
Total current assets		589,320	205,528
Total assets		1,884,788	1,271,311
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	1,764,710	1,141,514
Share option reserve	17	126,526	128,809
Foreign currency translation reserve	18	(38,845)	(8,855)
Accumulated profit		44,349	18,251
Equity attributable to owners of the Company		1,896,740	1,279,719
Non-controlling interests	19	(77,932)	(68,229)
Total equity		1,818,808	1,211,490
Non-current liabilities			
Borrowings	13	31,291	29,204
Advances payable	14	2,502	2,344
Deferred tax liability	15	2,082	2,082
Rehabilitation provision		314	38
Total non-current liabilities		36,189	33,668
Current liabilities			
Trade and other payables	16	26,442	23,548
Cash settled share based payment liability		3,349	2,605
Total current liabilities		29,791	26,153
Total liabilities		65,980	59,821
Total equity and liabilities		1,884,788	1,271,311

Continuing operations (Note 1)

Commitments and contingencies (Note 31)

(Signed) Peter Meredith

Peter Meredith, Director

(Signed) Livia Mahler

Livia Mahler, Director

Ivanhoe Mines Ltd.

Consolidated statements of changes in equity

(stated in U.S. dollars)

	Share capital		Share option reserve	Foreign currency translation reserve	Accumulated profit (deficit)	Equity attributable to owners	Non-controlling interests	Total
	Number of shares	Amount						
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at January 1, 2017	781,585,485	1,125,434	135,217	(21,509)	(151,967)	1,087,175	(130,913)	956,262
Net loss for the year	-	-	-	-	170,218	170,218	63,741	233,959
Other comprehensive profit	-	-	-	12,654	-	12,654	1,168	13,822
Total comprehensive loss	-	-	-	12,654	170,218	182,872	64,909	247,781
<i>Transactions with owners</i>								
Shares issued (Note 17(a))	30,000	128	-	-	-	128	-	128
Share-based payments charged to operations (Note 20)	-	-	4,174	-	-	4,174	-	4,174
Reversal of impairment of common share investment funded on behalf of non-controlling interest (Note 5(b))	-	-	-	-	-	-	(2,225)	(2,225)
Restricted share units vested (Note 17(c))	2,400,678	1,134	(1,134)	-	-	-	-	-
Options exercised (Note 17(b))	6,371,005	14,818	(9,448)	-	-	5,370	-	5,370
Balance at December 31, 2017	790,387,168	1,141,514	128,809	(8,855)	18,251	1,279,719	(68,229)	1,211,490
Net profit (loss) for the year	-	-	-	-	26,098	26,098	(6,646)	19,452
Other comprehensive loss	-	-	-	(29,990)	-	(29,990)	(3,057)	(33,047)
Total comprehensive profit (loss)	-	-	-	(29,990)	26,098	(3,892)	(9,703)	(13,595)
<i>Transactions with owners</i>								
Shares issued (Note 17(a))	217,829,575	611,647	-	-	-	611,647	-	611,647
Share-based payments charged to operations (Note 20)	-	-	6,133	-	-	6,133	-	6,133
Restricted share units vested (Note 17(c))	3,072,565	3,497	(3,497)	-	-	-	-	-
Deferred share units issued (Note 17(a))	108,803	189	-	-	-	189	-	189
Options exercised (Note 17(b))	3,682,722	7,863	(4,919)	-	-	2,944	-	2,944
Balance at December 31, 2018	1,015,080,833	1,764,710	126,526	(38,845)	44,349	1,896,740	(77,932)	1,818,808

Ivanhoe Mines Ltd.

Consolidated statements of cash flows years ended December 31, 2018

(stated in U.S. dollars)

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Profit before income taxes		19,244	234,392
Items not involving cash			
Transfer from other assets to working capital items		6,995	2,179
Share-based payments	20	6,871	4,908
Decrease (increase) in fair value of financial asset	12	6,639	(5,843)
Depreciation and amortization	4	4,256	4,397
Finance costs	23	946	1,710
Unrealized foreign exchange loss (gain)		498	(2,626)
Non-cash directors fees		189	-
Other taxes		30	-
Finance income	22	(49,859)	(32,614)
Share of (profits) losses from joint venture	6	(19,615)	27,505
Profit on disposal of property, plant and equipment		(129)	(2)
Reversal of impairment of mineral property, goodwill and other	5(b)	-	(286,283)
Promissory note fair value adjustment		-	(985)
		(23,935)	(53,262)
Interest received		7,074	3,681
Change in working capital items	27	3,173	11,332
Interest paid		(787)	(101)
Income taxes paid		(212)	(153)
Net cash used in operating activities		(14,687)	(38,503)
Cash flows from investing activities			
Property, plant and equipment acquired	4	(127,904)	(61,781)
Loan advanced to joint venture		(69,284)	(78,847)
Other assets acquired		(6,558)	(6,205)
Cash paid on behalf of joint venturer		(1,400)	(1,822)
Purchase of exploration licences		(1,010)	(1,010)
Proceeds from settlement of promissory note		2,297	-
Proceeds from sale of property, plant and equipment		206	3
Proceeds from cancellation of mining guarantee		-	29
Net cash used in investing activities		(203,653)	(149,633)
Cash flows from financing activities			
Shares issued, net of transaction costs		611,647	-
Options exercised		2,944	5,497
Proceeds from the partial sale of subsidiary, now jointly controlled		-	82,400
Transaction costs paid on partial sale of subsidiary, now jointly controlled		-	(4,685)
Net cash generated by financing activities		614,591	83,212
Effect of foreign exchange rate changes on cash		(3,622)	1,314
Net cash outflow		392,629	(103,610)
Cash and cash equivalents, beginning of year		181,419	285,029
Cash and cash equivalents, end of year		574,048	181,419

Supplemental cash flow information (Note 27)

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

1. Basis of presentation and going concern assumption

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

The registered and records office of the Company is located at Suite 654-999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1. The Company is listed on the Toronto Stock Exchange ("TSX") under the ticker symbol IVN. The shares of the Company are also traded on the OTCQX Best Market in the United States under the symbol IVPAF.

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

The Company has an accumulated profit of \$44.3 million at December 31, 2018. As at December 31, 2018, the Company's total assets exceeds its total liabilities by \$1,818.8 million and current assets exceeds current liabilities by \$559.5 million. The Company's total current assets exceeds the Company's total liabilities. The Company currently has no producing properties and expects to fund all of its exploration and development activities through debt and equity financing until operating revenues are generated.

2. Significant accounting policies

The significant accounting policies used in these consolidated financial statements are as follows:

(a) *Statement of compliance*

The Company's consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") and Interpretations of the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting year ended December 31, 2018. The Company has not adopted any new or amended standards which are not yet effective.

(b) *Basis of consolidation*

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

Control is achieved when the Company:

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(b) *Basis of consolidation (continued)*

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by other members of the group.

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

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The Company accounts for a change in the Company's share of comprehensive loss of the joint venture in the consolidated statement of comprehensive income. The carrying amount of the Company's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributed to the owners of the Company. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

(c) *Interests in joint operations*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Company has two joint operations, as described in Note 25.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(c) *Interests in joint operations (continued)*

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

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

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

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

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

(d) *Interests in joint ventures*

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

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(d) *Interests in joint ventures (continued)*

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

(e) *Foreign currencies*

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

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

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

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

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(e) *Foreign currencies (continued)*

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

(f) *Cash and cash equivalents*

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

(g) *Mineral properties*

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

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

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(h) *Financial instruments: Financial assets*

Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statements of comprehensive income.
- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(h) *Financial instruments: Financial assets (continued)*

Impairment

From January 1, 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables

Until December 31, 2017, all financial instruments are initially recorded at fair value. Financial assets were designated upon inception as either (i) held-to-maturity, (ii) at fair value through profit or loss, (iii) available-for-sale, or (iv) loans and receivables. The designation determined the method by which the financial assets were measured on the statement of financial position subsequent to inception and how changes in value were recorded.

(i) *Financial instruments: Financial liabilities*

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

(j) *Property, plant and equipment*

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

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

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(j) *Property, plant and equipment (continued)*

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

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

Freehold land is not depreciated.

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

(k) *Prepaid expenses and deposits*

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(l) *Borrowing costs*

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

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

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

(m) *Borrowings*

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(n) *Rehabilitation provision*

The Company recognizes provisions for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for rehabilitation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the provision, the corresponding asset is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the rehabilitation provision, the carrying amount of the provision is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(o) Taxation

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(p) *Share-based payments*

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

The fair value of share options is estimated as of the date of the grant using a Black-Scholes option valuation model and are recorded in profit and loss over their vesting periods. Share options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively. When the share options are ultimately exercised, the amount in the share-based payment reserve is moved to share capital.

The share-based payment expense relating to the B-BBEE transaction described in Note 20, 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. Cash settled share-based payments are remeasured at each reporting period.

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

(q) *Significant accounting estimates and judgements*

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

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

Recoverability of assets

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

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(q) *Significant accounting estimates and judgements (continued)*

Recoverability of assets (continued)

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

Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income.

Determination of functional currency

The Company has used its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and determined that the Company's functional currency is the U.S. dollar.

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

Technical feasibility and commercial viability of projects

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

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

Classification of Kamo Holding Limited as a joint venture

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(r) *Segment reporting*

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

(s) *Profit or loss per share*

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

(t) *Future accounting changes*

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended December 31, 2018. The Company has not yet adopted these new and amended standards.

- IFRS 16 – Leases. IFRS 16 was issued in January 2016 and will result in almost all leases being recognized on the statement of financial position by lessees, as the distinction between operating and finance leases has been removed. An asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. (i)

The Company has reviewed all of its leasing arrangements in light of the new lease accounting as required in IFRS 16. The standard will primarily affect the accounting for the Company's operating leases.

As at the reporting date, the Company has non-cancellable operating lease commitments of \$15.0 million. Of these commitments, approximately \$0.2 million relate to short-term leases and \$0.1 million to low value leases which will both be recognized on a straight-line basis as an expense in profit or loss.

For the remaining lease commitments the Company expects to recognize right-of-use assets of approximately \$11.4 million on January 1, 2019, lease liabilities of \$11.4 million (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018) and deferred tax assets of nil. Overall net assets and net current assets will not be impacted.

The Company expects that net profit after tax will increase by approximately \$0.7 million for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately \$0.7 million, as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows will decrease by approximately \$0.7 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the financial statements.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

2. Significant accounting policies (continued)

(t) Future accounting changes (continued)

- IFRS 13 – Business Combinations. The amendment to the definition of a business confirmed that a business must include inputs and a process and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs. Furthermore, the amendment narrowed the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than providing dividends or other economic benefits directly to investors or lowering costs. (ii)

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

- Annual improvements 2015-2017 Cycle: IFRS 3 – Business Combinations and IFRS 11 – Joint arrangements. The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business. (i)

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

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

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

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

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

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

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

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

(ii) Effective for annual periods beginning on or after January 1, 2020

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

3. Application of new and revised standards

(a) Newly adopted accounting standards

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

- IFRS 15 - Revenue from contracts with customers. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue.
- Amendments to IFRS 2 - Share-based payments. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled.
- Amendment to IFRS 9 - Financial instruments. The standard replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

On transition, the new expected credit loss impairment model on financial assets did not result in a material amount and therefore opening retained earnings was not adjusted.

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

The reclassification of financial assets and liabilities are summarized in the table below.

<u>Financial Instrument</u>	<u>Classification in terms of IAS 39</u>	<u>Classification in terms of IFRS 9</u>
Financial Assets		
Loan advanced to joint venture	Loans and receivables	Amortized cost
Long term loan receivable	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Financial assets at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
Cash and cash equivalents	Amortized cost	Amortized cost
Financial Liabilities		
Borrowings – Loans from other entities	Amortized cost	Amortized cost
Borrowings – Citi bank loan	Amortized cost	Amortized cost
Advances payable	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Financial liability	Amortized cost	Amortized cost

- IFRIC 22 - Foreign currency transactions and advance consideration. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency.
- Annual improvements 2014-2016. IFRS 1 - First-time adoption of IFRS.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

4. Property, plant and equipment

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Mining infrastructure	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2018								
Cost								
Beginning of the year	2,506	12,613	6,178	3,319	20,782	6,104	168,320	219,822
Additions	-	-	1,051	212	1,318	-	125,323	127,904
Borrowing costs capitalized	-	-	-	-	-	-	2,347	2,347
Disposals	-	-	(107)	-	(1,071)	-	-	(1,178)
Transfers	-	-	-	-	259	262	(521)	-
Foreign exchange translation	(361)	(909)	(670)	(164)	(190)	(923)	(27,277)	(30,494)
End of the year	2,145	11,704	6,452	3,367	21,098	5,443	268,192	318,401
Accumulated depreciation and impairment								
Beginning of the year	-	1,207	4,503	1,504	13,478	547	-	21,239
Depreciation	-	142	669	360	2,895	190	-	4,256
Disposals	-	-	(97)	-	(1,005)	-	-	(1,102)
Foreign exchange translation	-	(126)	(504)	(72)	(151)	(95)	-	(948)
End of the year	-	1,223	4,571	1,792	15,217	642	-	23,445
Carrying value								
Beginning of the year	2,506	11,406	1,675	1,815	7,304	5,557	168,320	198,583
End of the year	2,145	10,481	1,881	1,575	5,881	4,801	268,192	294,956

Assets under construction

Assets under construction includes development costs capitalized as property, plant and equipment which are costs incurred to obtain access and to provide facilities for extracting, treating, gathering, transporting and storing the minerals. Costs incurred at the Platreef and Kipushi Projects are deemed necessary to bring the projects to commercial production and are therefore capitalized (see Note 5).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

4. Property, plant and equipment (continued)

Assets pledged as security

Buildings with a carrying amount of \$9.4 million (December 31, 2017 - \$10.0 million) have been pledged to secure borrowings of the Company (see Note 13). The buildings have been pledged as security for bank loans under a mortgage. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

	Land	Buildings	Office equipment	Motor vehicles	Plant and equipment	Mining infrastructure	Assets under construction	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2017								
Cost								
Beginning of the year	2,278	11,379	5,210	2,070	16,637	4,020	100,441	142,035
Additions	-	99	543	1,145	4,010	1,564	54,420	61,781
Disposals	-	-	(5)	-	-	-	-	(5)
Foreign exchange translation	228	1,135	430	104	135	520	13,459	16,011
End of the year	2,506	12,613	6,178	3,319	20,782	6,104	168,320	219,822
Accumulated depreciation and impairment								
Beginning of the year	-	1,234	3,598	1,220	10,115	81	-	16,248
Depreciation	-	141	601	242	3,265	148	-	4,397
Disposals	-	-	(4)	-	-	-	-	(4)
Transfers	-	(283)	-	-	-	283	-	-
Foreign exchange translation	-	115	308	42	98	35	-	598
End of the year	-	1,207	4,503	1,504	13,478	547	-	21,239
Carrying value								
Beginning of the year	2,278	10,145	1,612	850	6,522	3,939	100,441	125,787
End of the year	2,506	11,406	1,675	1,815	7,304	5,557	168,320	198,583

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

5. Mineral properties and exploration expenditure

Mineral properties

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Platreef property, South Africa (a)	6,940	6,940
Kipushi Properties, Democratic Republic of Congo (b)	252,337	252,337
Other properties (d)	2,020	1,010
	261,297	260,287

Direct costs related to the acquisition of mineral properties are capitalized on a property by property basis. Development costs are capitalized as property, plant and equipment and are costs incurred to obtain access and to provide facilities for extracting, treating, gathering, transporting and storing the minerals. Development expenditures are capitalized to the extent that they are necessary to bring the property to commercial production.

(a) Platreef property

Construction of the planned Platreef mine is underway on the Company's discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of South Africa's Bushveld Complex approximately 11 km from Mokopane and 280 km northeast of Johannesburg, South Africa.

In November 2014 the mining right for the development and operation of the Company's Platreef mining project was notorially executed. The mining right, authorizes the Company to mine and process platinum-group metals, nickel, copper, gold, silver, cobalt, iron, vanadium and chrome at its Platreef discovery. The mining right was issued for an initial period of 30 years and may be renewed for further periods, each of which may not exceed 30 years at a time, in accordance with the terms of section 24 of the Mineral and Petroleum Resources Development Act.

The Company announced the positive results of the pre-feasibility study for the planned first phase of the Platreef Project's platinum-group metals, nickel, copper and gold mine in South Africa in January 2015 and the independent, definitive feasibility study (DFS) in July 2017.

A Japanese consortium of ITOCHU Corporation, Japan Oil, Gas and Metals National Corporation; and Japan Gas Corporation holds an effective 10% interest in the Platreef Project. The Company transferred an additional 26% of Platreef to a broad-based black economic empowerment (B-BBEE) special purpose vehicle in compliance with South African ownership requirements (see Note 20).

(b) Kipushi properties

The Kipushi Project is a past-producing, high-grade underground zinc-copper mine in the Central African Copperbelt, in Haut-Katanga Province, Democratic Republic of Congo ("DRC"). The Kipushi Project lies adjacent to the town of Kipushi and the border with Zambia, and about 30 km southwest of the provincial capital of Lubumbashi. Costs incurred at the Kipushi Project subsequent to the finalization of its pre-feasibility study in December 2017, have been capitalized as property, plant and equipment.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

5. Mineral properties and exploration expenditure (continued)

Mineral properties (continued)

(b) Kipushi properties (continued)

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

During the financial 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 Kipushi's CGU.

During the financial year ended December 31, 2017 the company completed its NI 43-101 compliant Pre-feasibility Study ("PFS") for the Kipushi Project. This PFS included updated estimates for the following key assumptions:

- Increased long term consensus on the zinc price;
- Optimization of the zinc processing methodology;
- Reduced capital expenditure estimates; and
- Reduced transport, treatment & refining cost estimates.

These updated estimates resulted in a significant increase in the estimated recoverable amount for the Kipushi Project. As a result, the Company recorded a reversal of the impairment charge of \$286.3 million in 2017.

The reversal of the impairment charge, which was recorded within a separate line in the consolidated statement of comprehensive income, included the following:

	December 31, 2017
	\$'000
Kipushi mineral properties	252,337
Long-term loan receivable (see Note 7)	34,065
Advances payable to Gecamines (see Note 14)	(2,344)
Common share investment funded on behalf of non-controlling interest (see Note 19)	2,225
	286,283

Significant judgments and assumptions are required in making estimates of the recoverable amount (value in use). 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.

Ivanhoe Mines Ltd.

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5. Mineral properties and exploration expenditure (continued)

(b) Kipushi properties (continued)

The assumptions made in 2017 included, but were not limited to, the following:

- A life of mine of 11 years;
- A zinc price of \$1.10 per pound;
- A copper price of \$3.02 per pound; and
- A real discount rate of 8%.

A change in one or more of the assumptions used to estimate the recoverable amount could result in a reduction or an increase in a CGU's recoverable amount. The assumptions made in 2017 are still deemed reasonable as at December 31, 2018. The estimated recoverable amount for the Kipushi Project would still exceed its carrying value if the assumed real discount rate is increased to 12% or if the assumed zinc price is reduced to \$0.90 per pound.

(c) Kamoa-Kakula properties

The Company is a joint venturer in the Kamoa-Kakula Project which is located within the Central African Copperbelt in Lualaba Province, DRC. The Kamoa-Kakula Project lies approximately 25 km west of the town of Kolwezi, and about 270 km west of the provincial capital of Lubumbashi (see Note 6).

(d) Other properties

The Company continues to evaluate other opportunities and most notably holds an extensive land package, totalling approximately 700 square kilometres, of prospective exploration licences in the Western Foreland area, west of the Kamoa-Kakula mining licence in the DRC. The Company began exploration drilling on the licences in the third quarter of 2017 and announced its Makoko Copper Discovery in October 2018.

Makoko is the first of multiple high-potential target areas identified by the Company's exploration team to be tested by drilling. In addition, the Company is exploring other targets identified in the Western Foreland area to test for high-grade copper.

Exploration and project expenditure

Exploration costs are expensed in the period incurred, until such time as the Company determines that a property is technically feasible and commercially viable, where after costs associated with development are capitalized as property, plant and equipment in the assets under construction category (see Note 4).

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5. Mineral properties and exploration expenditure (continued)

Exploration and project expenditure (continued)

The following table summarizes the exploration and project expenditure for the years ended December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Exploration and project expenditure		
Drilling	5,725	4,125
Office, administration and other expenditure	4,214	6,647
Salaries and benefits	1,073	13,898
Depreciation	234	4,125
Studies	209	3,136
Repairs and maintenance	28	1,596
Utilities	4	5,871
Community liaison	-	1,105
	11,487	40,503

Exploration and project expenditure for 2018 related almost entirely to the Company's Western Foreland exploration licences. \$36.7 million of the exploration and project expenditure in 2017 related to the Kipushi Properties. In 2018, exploration and project expenditure relating to the Kipushi properties have been designated as development costs and are capitalized as property, plant and equipment in the assets under construction category (see Note 4).

6. Investment in joint venture

Kamoa Holding Limited ("Kamoa Holding"), a joint venture between the Company and Zijin Mining Group Co., Ltd. ("Zijin"), holds a direct 80% interest in the Kamoa-Kakula Project. The Company holds an effective 39.6% interest in the project through its 49.5% shareholding in Kamoa Holding. The Kamoa-Kakula Project is the largest copper discovery ever made on the African continent, with adjacent prospective exploration areas within the Central African Copperbelt in the DRC.

On February 6, 2019, the Company announced the results of the Kakula 2019 pre-feasibility study (PFS) at the Kamoa-Kakula Project. The study assesses the potential development of the Kakula Deposit as a 6 Mtpa mining and processing complex, which the Kamoa-Kakula Project is currently developing. The Company also announced an updated independent preliminary economic assessment (PEA) for an expanded Kakula-Kamoa production rate of 18 Mtpa, supplied initially by a 6 Mtpa mine at Kakula, followed by two 6 Mtpa mines at Kansoko and Kakula West, and a world-scale direct-to-blister smelter.

The costs associated with mine development at the Kamoa-Kakula Project's Kansoko and Kakula sites are capitalized as development costs in Kamoa Holding, while the project continued to conduct exploration in 2017 and 2018. Expenditure attributable to exploration at Kamoa North, Kakula West and in the saddle area between Kakula West and Kakula was still expensed in 2018.

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6. Investment in joint venture (continued)

Company's share of comprehensive (profit) loss from joint venture

The following table summarizes the Company's share of Kamo Holding's comprehensive (profit) loss for the years ending December 31, 2018 and December 31, 2017.

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Interest expense	57,083	42,137
Exploration costs	19,921	26,631
Foreign exchange loss	168	4,333
Interest income	(3,742)	(1,747)
Reversal of VAT impairment	(15,557)	-
Loss before taxes	57,873	71,354
Deferred tax recovery	(110,416)	-
(Profit) loss for the period	(52,543)	71,354
Non-controlling interest	12,917	(15,788)
(Profit) loss for the period	(39,626)	55,566
Share of (profits) losses from joint venture (49.5%)	(19,615)	27,505

Following the release of the pre-feasibility study of the Kakula Copper mine in February 2019, the Company considers it probable that taxable profits will be available against which previously unrecognized deductible temporary differences can be utilized. As a consequence, a deferred tax asset of \$110.4 million was recognized in 2018.

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6. Investment in joint venture (continued)

Net assets of the joint venture

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

	December 31, 2018		December 31, 2017	
	100%	49.5%	100%	49.5%
	\$'000	\$'000	\$'000	\$'000
Assets				
Property, plant and equipment	423,183	209,476	317,180	157,004
Deferred tax asset	110,416	54,656	-	-
Other assets	87,775	43,449	58,185	28,802
Mineral property	802,021	397,000	802,021	397,000
Indirect taxes receivable	30,427	15,061	-	-
Prepaid expenses	14,791	7,321	10,479	5,187
Cash and cash equivalents	34,916	17,283	40,645	20,119
Liabilities				
Shareholder's loans	(968,173)	(479,246)	(746,182)	(369,360)
Rehabilitation provision	(2,394)	(1,185)	(2,394)	(1,185)
Accruals and payables	(17,990)	(8,905)	(17,507)	(8,666)
Non-controlling interest	(106,609)	(52,771)	(93,691)	(46,377)
Net assets of the joint venture	408,363	202,140	368,736	182,524

Investment in joint venture

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Company's share of net assets in joint venture	202,140	182,524
Loan advanced to joint venture	479,521	369,860
	681,661	552,384

The Company earns interest at USD 12 month LIBOR plus 7% on the loan advanced to the joint venture (see Note 22). If there is residual cash flow in Kamo Holding, such cash shall be required to be utilized for the repayment of the then outstanding loan amount of each lender, on a pro-rata basis. No repayment shall be required in the absence of residual cash flow.

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6. Investment in joint venture (continued)

Commitments in respect of joint venture

The Company is required to fund its Kamoia Holding joint venture in an amount equivalent to its proportionate shareholding interest. The following table summarizes the Company's proportionate share of the joint venture's commitments:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Advancement of loan	83,074	-	-	-	83,074
Road construction	4,193	-	-	-	4,193
Kakula decline development	3,881	-	-	-	3,881
Other commitments	16,396	-	-	-	16,396
	107,544	-	-	-	107,544

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

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

The loan advanced as at December 31, 2018 by the subsidiary of Kamoia Holding amounted to \$82.2 million (December 31, 2017: \$56.3 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 40% of the actual bill as per the loan repayment terms. Interest is earned at a rate of USD 6 month LIBOR + 3%.

The Kamoia-Kakula Project will be given a priority electricity right by which SNEL commits to make available as per an agreed power requirements schedule, sufficient energy from its grid to meet the energy needs of the project and following the upgrade, on an exclusivity and priority basis, up to 200 MW depending on the production and mine expansion scenarios.

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7. Long term loan receivable

The long term loan receivable from Gecamines of \$10 million was ceded to the Company on completion of the purchase of Kipushi on November 28, 2011, by the seller. An additional \$20 million was requested and advanced to Gecamines during November 2012.

The loan receivable is unsecured and earns interest at USD 12 month LIBOR plus 3%. Repayment will be made by offsetting the loan against future royalties and dividends payable to Gecamines from future profits earned in Kipushi. The fair value of the receivable at acquisition date has been estimated by the Company by calculating the present value of the future expected cash flows using an effective interest rate of 9.2%, which is deemed to be as follows:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Social development loan	36,471	34,065
	36,471	34,065

8. Cash and cash equivalents

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Cash and cash equivalents	574,048	181,419
	574,048	181,419

9. Prepaid expenses

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Other prepayments	2,211	890
Advance payment on shaft construction	2,168	4,158
Deposits	1,985	1,340
Consumable stores	1,300	2,028
	7,664	8,416

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

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(Stated in U.S. dollars unless otherwise noted)

10. Promissory note receivable

The Company has the following promissory note receivable:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Promissory note receivable from Crystal River (a)	12,713	11,313
A\$3 million promissory note receivable (b)	-	2,297
	12,713	13,610
Non-current promissory note	12,713	11,313
Current promissory note	-	2,297
	12,713	13,610

(a) The promissory note receivable with a carrying value of \$12.7 million is a non interest-bearing, 10 year promissory note, of which \$8.3 million was received by the Company as the purchase consideration for selling 1% of its share in Kamoā Holding (see Note 6). The remaining \$4.4 million is for subsequent funding provided to Kamoā Holding on Crystal River's behalf. The promissory note is payable on the earlier of December 8, 2025 or the next business day following the completion of the sale, transfer or disposition of the shares held by Crystal River in Kamoā Holding.

(b) The promissory note receivable with a carrying value of \$2.3 million at December 31, 2017 was a A\$3 million promissory note received as part of the consideration when the Company sold its Australian subsidiaries. The promissory note was settled in cash on March 29, 2018.

11. Other receivables

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Refundable taxes (a)	1,881	1,053
Administration consulting receivable from joint venture	1,675	1,344
Accounts receivable	1,515	816
Other	412	494
Advances	14	1,043
	5,497	4,750

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

12. Financial assets at fair value through profit or loss

The Company holds listed shares which have been classified as financial assets at fair value through profit or loss. The trading value of the listed shares as at December 31, 2018 is \$1.9 million (December 31, 2017: \$8.6 million).

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13. Borrowings

	December 31, 2018	December 31, 2017
	\$'000	\$'000
<i>Unsecured - at amortized cost</i>		
(a) Loans from other entities	27,194	24,847
<i>Secured - at amortized cost</i>		
(b) Citi bank loan	4,097	4,357
	31,291	29,204

- (a) On June 6, 2013, the Company, through its subsidiary Ivanplats (Pty) Ltd, ("Ivanplats") the owner of the Platreef Project, became party to a \$28.0 million loan payable to ITC Platinum Development Limited,. The loan is repayable only once Ivanplats has residual cashflow, which is defined in the loan agreement as gross revenue generated by Ivanplats, less all operating costs attributable thereto, including all mining development and operating costs. The loan incurs interest of USD 3 month LIBOR plus 2% calculated monthly in arrears. Interest is not compounded. Using prevailing market interest rates for an equivalent loan of USD 3 month LIBOR plus 7% at June 6, 2013, the carrying value of the loan as at December 31, 2018, is estimated at \$27.2 million (2017: \$24.8 million). The difference of \$5.4 million (2017: \$6.6 million) between the contractual amount due and the carrying value of the loan is the benefit derived from the low-interest loan. Interest of \$1.2 million (2017: \$0.9 million) was recognized during the year ended December 31, 2018 and was capitalized as borrowing costs together with the low interest loan accretion of \$1.1 million (2017: \$1.0 million).
- (b) The Citi bank loan of \$4.1 million (£3.23 million) is secured by the Rhenfield property (see Note 25). The loan is an interest only term loan repayable at August 31, 2020, and incurs interest at a rate of USD LIBOR plus 1.90% payable monthly in arrears.

14. Advances payable

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Advances payable to Gecamines	2,502	2,344
	2,502	2,344

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

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15. Income taxes

(a) Rate reconciliation

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

	December 31, 2018 \$'000	December 31, 2017 \$'000
Profit before income taxes	(19,244)	(234,392)
Statutory tax rate	27.00%	26.00%
Expected recovery of income taxes based on combined Canadian Federal and provincial statutory rates	5,196	60,942
Add (deduct):		
Tax effect of tax losses not recognized	11,973	(57,184)
Non-taxable income	(21,002)	(10,340)
Non-deductible expenses	6,700	9,315
Different effective tax rates in foreign jurisdictions	(7,292)	(3,206)
Amendments to prior year tax submissions	4,217	-
Effect of change in future tax rates	-	906
Income tax (recovery) expense	(208)	433

(b) Deferred tax balances

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

	2018 \$'000	2017 \$'000
<i>Deferred tax liability to be recovered after more than 12 months</i>		
Property, plant and equipment	(2,082)	(2,082)
Deferred income tax liability	(2,082)	(2,082)
<i>Deferred tax asset to be recovered after more than 12 months</i>		
Unrealised foreign exchange losses	907	694
<i>Deferred tax asset to be recovered within 12 months</i>		
Provisions and prepayments	50	72
Deferred income tax asset	957	766

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

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15. Income taxes (continued)

(c) Unrecognized and taxable temporary differences

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

	2018	2017
	\$'000	\$'000
Non-capital loss carryforwards	203,435	169,233
Investment in RK1	11,289	11,289
Foreign exploration expenses and share issuance costs	5,503	2,936
Capital assets	20,708	127
Unrecognized deductible temporary differences	240,935	183,585

The Company has foreign subsidiaries that have undistributed earnings of \$383.9 million (2017: \$299.9 million). The Company can control the timing of the repatriation and it is probable that these amounts will not be repatriated for the foreseeable future. Therefore, deferred tax has not been provided in respect of these earnings.

(d) Loss carryforwards

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

		Local currency	U.S. dollar equivalent
		'000	\$'000
South African rand	R	326,294	22,551 (a)
Congolese franc	CDF	63,657,652	40,533 (b)
Canadian dollar	C\$	115,073	84,414 2028 to 2038
Gabonese franc	XAF	6,951,258	12,126 (a)
British pound	£	4,726	6,002 (a)
Barbados	BBD	1,956	978 (c)
Euro	€	31,926	36,533 (a)
Namibian dollar	NAD	4,315	298 (a)
			203,435

(a) These losses can be carried forward indefinitely, subject to continuity of trading.

(b) These losses are accumulated and set-off against future taxable income when mining operations commence.

(c) These tax losses can be carried forward for 7 years.

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16. Trade and other payables

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Trade accruals	13,041	10,701
Trade payables	10,428	8,714
Other payables	2,829	3,733
Indirect taxes payable	144	438
	26,442	23,586

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

17. Share capital

(a) Shares issued

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

As at December 31, 2018, 1,015,080,833 (December 31, 2017: 790,387,168) Class A Shares, nil Class B Shares and nil Preferred Shares were issued and outstanding.

On September 19, 2018 the Company issued 196,602,037 common shares to CITIC Metal Africa Investments Limited upon the completion of a private placement at a price of C\$3.68 per unit for gross proceeds of C\$723 million (\$555 million). Issue costs amounted to \$3.4 million. A further 21,227,538 common shares were issued to Zijin as an anti-dilution subscription at the same price per unit yielding additional proceeds of C\$78 million (\$60 million).

During 2018, 108,803 (2017: 30,000) Class A Shares were issued to certain non-executive directors as settlement of deferred share units granted as part of their director compensation.

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17. Share capital (continued)

(b) Options

Share options are granted at an exercise price equal to the weighted average price of the shares on the TSX for the five days immediately preceding the date of the grant. As at December 31, 2018, 54,870,000 share options have been granted and exercised, and 19,900,000 have been granted and are outstanding. All outstanding share options vest in four equal parts, commencing on the one year anniversary of the date of grant and on each of the three anniversaries thereafter. The maximum term of options awarded is five years.

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

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at the beginning of year	22,348,500	1,36	32,050,000	1,54
Granted	6,000,000	2,22	-	-
Exercised	(6,293,500)	1,58	(9,576,500)	1,91
Expired	(2,130,000)	4,78	(75,000)	4,90
Forfeited	(25,000)	0,86	(50,000)	1,11
Balance at the end of the period	19,900,000	1,18	22,348,500	1,36

6,000,000 options were granted in 2018. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. An expense of \$6.9 million for the options granted during 2018 will be amortized over the vesting period, of which \$2.1 million was recognized in the year ended December 31, 2018.

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

	2018
Risk free interest rate	2.50%
Expected volatility ⁽ⁱ⁾	69.96%
Expected life	3.75 years
Expected dividends	\$Nil

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

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17. Share capital (continued)

(b) Options (continued)

The following table summarizes information about share options outstanding and exercisable as at December 31, 2018:

Expiry date	Options outstanding		Options exercisable	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		\$		\$
June 16, 2019	250,000	1,20	250,000	1,20
August 15, 2019	250,000	1,33	250,000	1,33
December 8, 2019	8,312,500	0,86	8,312,500	0,86
December 15, 2020	5,087,500	0,47	3,542,500	0,47
March 12, 2023	3,500,000	2,38	-	2,38
May 7, 2023	500,000	2,07	-	2,07
December 4, 2023	2,000,000	1,98	-	1,98
	19,900,000	1,18	12,355,000	0,76

(c) Restricted share units

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

RSUs vest in three equal parts, commencing on the initial vesting date established at grant and on each of the two anniversaries thereafter, subject to the satisfaction of any performance conditions.

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

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	4,457,947	6,814,942
RSUs issued	1,520,813	43,683
RSUs vested	(3,072,565)	(2,400,678)
RSUs cancelled	(27,997)	-
Balance at the end of the year	2,878,198	4,457,947

An expense of \$4.2 million for the RSUs granted during the year ended December 31, 2018 (December 31, 2017: \$0.1 million), using the fair value of a common share at time of grant, will be amortized over the vesting period (see Note 20). The weighted average fair value of a common share at time of RSUs granted in 2018 was \$2.82 (2017: \$3.35).

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18. Foreign currency translation reserve

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Balance at the beginning of the period	(8,855)	(21,509)
Exchange differences arising on translation of the foreign operations	(29,990)	12,654
Balance at the end of the period	(38,845)	(8,855)

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

19. Non-controlling interests

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Balance at beginning of the period	(68,229)	(130,913)
Share of comprehensive (loss) profit for the period	(9,703)	64,909
Reversal of impairment of common share investment funded on behalf of non-controlling interest	-	(2,225)
Balance at the end of the period	(77,932)	(68,229)

The total non-controlling interest at December 31, 2018 is \$77.9 million (2017: \$68.2 million), of which \$66.1 million (2017: \$61.1 million) is attributed to Ivanplats (Pty) Ltd and \$14.5 million (2017: \$9.2 million) is attributed to Kipushi Corporation SA. The remainder relates to the non-controlling interest attributable to Ivanplats Holding SARL.

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19. Non-controlling interests (continued)

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

Summarized balance sheet

	Ivanplats (Pty) Ltd		Kipushi Corporation SA	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Non-current assets	210,963	174,061	338,200	273,258
Non-current liabilities	(505,244)	(453,161)	(360,258)	(276,305)
Total non-current net liabilities	(294,281)	(279,100)	(22,058)	(3,047)
Current assets	7,379	37,442	7,144	3,679
Current liabilities	(9,331)	(9,879)	(8,672)	(7,512)
Current net (liabilities) assets	(1,952)	27,563	(1,528)	(3,833)
Net liabilities	(296,233)	(251,537)	(23,586)	(6,880)

Summarized income statement

	Ivanplats (Pty) Ltd		Kipushi Corporation SA	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Loss (profit) for the year	19,732	14,107	16,706	(202,724)
Other comprehensive loss	30,565	(11,685)	-	-
Total comprehensive loss (profit)	50,297	2,422	16,706	(202,724)
Total comprehensive loss (profit) allocated to non-controlling interests	5,030	242	5,346	(64,872)

20. Share-based payments

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
<i>Equity settled share-based payments</i>		
Share options (Note 17(b))	2,628	1,879
Restricted share unit expense (Note 17(c))	3,505	2,295
	6,133	4,174
<i>Cash settled share-based payments</i>		
B-BBEE transaction expense	738	734
	6,871	4,908

Of the share-based payment expense recognized for the year ended December 31, 2018, \$0.7 million (2017: \$0.7 million) related to the Platreef B-BBEE transaction, with the remaining \$6.1 million (2017: \$4.2 million) being the expense for options and restricted share units granted to employees recognized over the vesting period.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

21. Other income

Other income is summarized as follows:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Administration consulting income (a)	(2,392)	(2,412)
Other taxes	464	-
Other income	-	(141)
Promissory notes unwinding discount (b)	-	(985)
	(1,928)	(3,538)

(a) Administration consulting income is fees charged by the Company to the Kamoia Holding joint venture for administration services performed on behalf of the joint venture (see Note 6).

(b) The unwinding discount relates to the unwinding of the promissory notes receivable (see Note 10).

22. Finance income

Finance income is summarized as follows:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Interest from loan to joint venture (a)	(40,378)	(27,394)
Other interest income	(7,074)	(3,682)
Interest on long term loan receivable (b)	(2,407)	-
Unwinding discount (c)	-	(1,538)
	(49,859)	(32,614)

(a) The Company earns interest at a rate of USD 12 month LIBOR plus 7% on the loan advanced to the Kamoia Holding joint venture (see Note 6).

(b) The Company earns interest at a rate of USD 12 month LIBOR plus 3% on the long term loan receivable from Gecamines (see Note 7), although an effective interest rate of 9.2% was applied from initial recognition. Interest was not recognized during the year ended December 31, 2017 as the loan was impaired during that period.

(c) The unwinding discount relates to the unwinding of the purchase price receivable from Zijin, which arose when the Company sold a 50.5% stake in Kamoia Holding on December 8, 2015. The Company had received the last of five installments of the purchase price in May 2017.

23. Finance costs

The finance costs of the Company are summarized as follows:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Interest on non-current borrowings (Note 13)	776	1,707
Other financing costs	170	3
	946	1,710

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

24. (Profit) loss per share

The basic (profit) loss per share is computed by dividing the (profit) loss attributable to the owners of the Company by the weighted average number of common shares outstanding during the period. The diluted (profit) loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and restricted share units, in the weighted average number of common shares outstanding during the year, if dilutive.

	December 31, 2018	December 31, 2017
	\$'000	\$'000
<i>Basic (profit) loss per share</i>		
(Profit) loss attributable to owners of the Company	(26,098)	(170,218)
Weighted average number of basic shares outstanding	853,738,370	785,895,643
Basic (profit) loss per share	(0.03)	(0.22)
<i>Diluted (profit) loss per share</i>		
(Profit) loss attributable to owners of the Company	(26,098)	(170,218)
Weighted average number of diluted shares outstanding	870,363,991	808,803,191
Diluted (profit) loss per share	(0.03)	(0.21)

The weighted average number of shares for the purpose of diluted profit per share reconciles to the weighted average number of shares used in the calculation of basic profit per share as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Weighted average number of basic shares outstanding	853 738 370	785 895 643
Shares deemed to be issued for no consideration in respect of:		
- employee options	11 555 327	16 164 224
- restricted share units	5 070 294	6 743 324
Weighted average number of diluted shares outstanding	870 363 991	808 803 191

25. Joint operations

The Company has a 50% interest in Rhenfield Limited, a British Virgin Islands registered company. Rhenfield Limited purchased buildings in London, England which the Company uses for office space. The buildings have a carrying value of \$9.4 million (2017: \$10.0 million) and are included in property, plant and equipment (see Note 4).

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

26. Related party transactions

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

Name	Country of Incorporation	% equity interest as at		
		December 31, 2018	December 31, 2017	
Direct Subsidiaries				
Ivanhoe Mines (Barbados) Limited	Barbados	100%	100%	(i)
African Copperbelt Exploration Ltd.	Barbados	100%	100%	(i)
Gabon Holding Company Ltd.	Barbados	100%	100%	(i)
Ivanhoe Mines US LLC	United States of America	100%	100%	(i)
Ivanhoe Mines UK Limited	United Kingdom	100%	100%	(ii)
Ivanplats Holding SARL	Luxembourg	97%	97%	(i)
Indirect Subsidiaries				
Ivanhoe DRC Holding Ltd.	Barbados	100%	100%	(i)
Kipushi Holding Limited	Barbados	100%	100%	(i)
Ivanhoe Mines DRC SARL	Democratic Republic of Congo	100%	100%	(ii)
Ivanhoe Mines Exploration DRC SARL	Democratic Republic of Congo	100%	100%	(iii)
Lufupa SASU	Democratic Republic of Congo	100%	100%	(iii)
Magharibi Mining SAU	Democratic Republic of Congo	100%	-	(iii)
Kipushi Corporation SA	Democratic Republic of Congo	68%	68%	(iii)
Ivanhoe Gabon SA	Gabon	100%	100%	(iii)
Ivanplats Finance Limited	Ireland	97%	97%	(iv)
Ivanplats Finance Lux SARL	Luxembourg	97%	-	(iv)
Ivanhoe (Namibia) (Pty) Ltd.	Namibia	100%	100%	(iii)
Kamoa Services (Pty) Ltd.	South Africa	100%	100%	(ii)
GB Mining & Exploration (SA) (Pty) Ltd.	South Africa	100%	100%	(iv)
Ivanhoe Mines SA (Pty) Ltd.	South Africa	100%	100%	(ii)
Ivanplats (Pty) Ltd.	South Africa	64%	64%	(iii)
Kico Services (Pty) Ltd.	South Africa	100%	100%	(ii)
Ivanhoe (Zambia) Ltd.	Zambia	100%	100%	(iii)
Joint ventures				
Kamoa Holding Limited	Barbados	49.50%	49.50%	(i)
Joint operations				
Rhenfield Limited	British Virgin Islands	50%	50%	(iv)

(i) This company acts as an intermediary holding company to other companies in the Group.

(ii) This company provides administration, accounting and other services to the Group on a cost-recovery basis.

(iii) This company is incorporated with the intention of engaging in exploration, development and mining activities.

(iv) This is a special purpose entity that has been incorporated for a particular purpose.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

26. Related party transactions (continued)

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Global Mining Management Corporation (a)	3,926	2,256
Ivanhoe Capital Aviation LLC (b)	2,457	2,000
GMM Tech Holdings Inc. (c)	996	681
HCF International Advisers (d)	838	601
Ivanhoe Capital Services Ltd. (e)	481	465
Ivanhoe Capital Pte Ltd (f)	335	285
Global Mining Services Ltd. (g)	22	24
Ivanhoe Capital Corporation (UK) Limited (h)	8	(44)
Kamoa Copper SA (i)	(4,304)	(3,746)
Ivanhoe Mines Energy DRC Sarl (j)	(363)	(383)
	4,396	2,139
Salaries and benefits	3,244	2,154
Travel	2,925	2,258
Consulting	2,657	1,655
Office and administration	237	201
Cost recovery and management fee	(4,667)	(4,129)
	4,396	2,139

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

As at December 31, 2018, trade and other payables included \$1.21 million (2017: \$0.93 million) with regards to amounts due to parties related by way of director, officers or shareholder in common. These amounts are unsecured and non-interest bearing.

Amounts included in other receivables due from parties related by way of director, officers or shareholder in common as at December 31, 2018 amounted to \$0.19 million (2017: \$0.18 million).

- (a) Global Mining Management Corporation ("Global") is a private company based in Vancouver. The Company and a director of the Company hold an indirect equity interest in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.
- (b) Ivanhoe Capital Aviation LLC ("Aviation") is a private company owned indirectly by a director of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.
- (c) GMM Tech Holdings Inc. ("GMM Tech") is a private company incorporated in British Columbia, Canada and is 100% owned by Global. GMM Tech provides information technology services to the Company on a cost-recovery basis.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

26. Related party transactions (continued)

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

27. Cash flow information

Net change in working capital items:

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Net decrease (increase) in		
Other receivables	(747)	1,903
Prepaid expenses	752	983
Net decrease in		
Trade and other payables	3,168	8,446
	3,173	11,332

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

28. Financial instruments

(a) *Fair value of financial instruments*

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

Financial instrument	Level	December 31, 2018 \$'000	December 31, 2017 \$'000
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	1,924	8,563
<i>Amortized cost</i>			
Cash and cash equivalents	Level 1	574,048	181,419
Loan advanced to joint venture	Level 3	479,521	369,860
Promissory note receivable	Level 3	12,713	13,610
Long term loan receivable	Level 3	36,471	34,065
Financial liabilities			
<i>Amortized cost</i>			
Borrowings	Level 3	31,291	29,204
Trade and other payables	Level 3	26,442	23,586
Advances payable	Level 3	2,502	2,344
<i>Fair value through profit or loss</i>			
Financial liability	Level 3	3,349	2,605

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 long term loan receivable and promissory note receivable are evaluated based on parameters such as interest rates, specific country risk factors, creditworthiness of the creditor and the risk characteristics of the financed projects. Based on this evaluation, allowances are taken into account for the estimated losses of the receivable.

The fair value of borrowings are determined in accordance with generally accepted pricing models based on discounted future cashflow analysis. The fair value of the loan payable to ITC Platinum Development Limited (Note 13 (a)) is determined assuming an interest rate of USD 3 month LIBOR plus 7%. The carrying value of borrowings does not significantly differ from its fair value.

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 maturities.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

28. Financial instruments (continued)

(b) Financial risk management objectives and policies

The risks associated with the Company's financial instruments and the policies 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.

(i) Foreign exchange risk

The Company incurs certain of its expenses in currencies other than the U.S. dollar. The Company also has foreign currency denominated monetary assets and liabilities. As such, the Company is subject to foreign exchange risk as a result of fluctuations in exchange rates. The Company enters into derivative instruments to manage foreign exchange exposure as deemed appropriate.

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Assets		
Canadian dollar	180,321	2,597
South African rand	16,848	46,030
British pounds	5,257	452
Australian dollar	1,924	8,563
Liabilities		
South African rand	(7,325)	(11,100)
British pounds	(3,427)	(180)
Canadian dollar	(571)	(384)
Australian dollar	-	(57)

Foreign currency sensitivity analysis

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Canadian dollar	8,987	110
Australian dollar	96	425
South African rand	(85)	(97)

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

28. 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 financial assets at each statement of financial position date to ensure that adequate impairment losses are made for irrecoverable amounts. The Company has considered the requirement of IFRS 9 to recognize a loss allowance for expected credit losses on financial assets. The general approach was applied to these financial assets. Under the general approach the 12 month expected credit losses is calculated unless there has been a significant increase in credit risk in which case the lifetime credit losses are calculated.

The credit risk on cash equivalents is limited because the cash equivalents are composed of deposits with major banks who have investment grade credit ratings assigned by international credit rating agencies and have low risk of default. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the parties to settle the receivables. Repayment of the long term loan receivable will be made by offsetting the loan against future royalties and dividends payable to Gecamines which arise from future profits earned in Kipushi. The promissory note receivable will be repaid using proceeds from the sale of Crystal River's 1% stake in Kamo Holding. The loan advanced to the joint venture will be repaid as and when there is residual cash flow in Kamo Holding. Due to the excellent economics of the Kamo-Kakula's recently announced PFS and PEA, repayment of the loan is deemed to be highly probable.

Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years. There are no expected credit losses on financial assets.

(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.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

28. 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 \$'000	1 to 3 months \$'000	3 to 12 months \$'000	More than 12 months \$'000	Total un- discounted cash flows \$'000
As at December 31, 2018					
Trade and other payables	24,247	1,296	899	-	26,442
Non-current borrowings	-	-	-	36,656	36,656
As at December 31, 2017					
Trade and other payables	21,154	1,452	940	2	23,548
Non-current borrowings	-	-	-	35,711	35,711

(iv) Interest rate risk

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

If interest rates (including applicable LIBOR rates) had been 50 basis points higher or lower and all other variables were held constant the Company's loss for the year ended December 31, 2018 would have increased or decreased by \$3.4 million.

29. Capital risk management

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

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

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

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

30. Key management personnel compensation

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Short-term benefits	9,387	9,070
Share-based payments	4,936	3,815
	14,323	12,885

31. Commitments and contingencies

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

As at December 31, 2018, the Company's commitments that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Shaft 1 construction (Platreef project)	29,968	6,911	-	-	36,879
Shaft 2 construction (Platreef project)	1,816	-	-	-	1,816
Operating leases	454	789	-	-	1,243
	32,238	7,700	-	-	39,938

The Company contracted Moolmans (formerly known as Aveng Mining) for the sinking of shaft 1 at the Platreef Project. The contract will conclude once the shaft reaches the contracted depth of 982 metres below surface.

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

32. Segmented information

At December 31, 2018, the Company has four reportable segments, being the Platreef property, Kamoia Holding joint venture, Kipushi properties and the Company's treasury offices.

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

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

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

The reportable segments are principally engaged in the development of mineral properties in South Africa; exploration and development of mineral properties through a joint venture in the DRC; and the upgrading of mining infrastructure and refurbishment of a mine in the DRC respectively.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

32. Segmented information (continued)

The following is an analysis of the non-current assets by geographical area and reconciled to the Company financial statements:

	South Africa \$'000	DRC \$'000	Other \$'000	Total \$'000
Non-current assets				
As at December 31, 2018	212,599	1,023,342	59,527	1,295,468
As at December 31, 2017	175,435	826,568	63,780	1,065,783
			December 31, 2018	December 31, 2017
			\$'000	\$'000
Segment assets				
Kamoa Holding joint venture			681,661	552,384
Treasury (ii)			572,033	158,969
Kipushi properties			381,843	311,030
Platreef property			221,313	221,353
All other segments (i)			27,938	27,575
Total			1,884,788	1,271,311
Segment liabilities				
Platreef property			132,053	34,472
All other segments (i)			(82,785)	11,981
Kipushi properties			10,000	9,193
Treasury (ii)			6,712	4,175
Total			65,980	59,821
Segment losses (profits)				
Kamoa Holding Limited joint venture			(19,615)	27,505
All other segments (i)			10,439	5,872
Platreef properties			4,125	4,280
Kipushi properties			(2,079)	(249,914)
Treasury (ii)			(12,322)	(21,702)
Total			(19,452)	(233,959)
Capital expenditures				
Kipushi properties			69,085	11,649
Platreef properties			59,925	49,095
All other segments (i)			(1,106)	1,037
Total			127,904	61,781
Exploration expenditure				
All other segments (i)			11,487	6,304
Platreef properties			-	175
Kipushi properties			-	34,024
Total			11,487	40,503

- (i) The Company's other divisions that do not meet the quantitative thresholds of IFRS 8 Operating segments, are included in the segmental analysis under the all other segments.
- (ii) Treasury includes cash balances, the promissory note receivable and the financial asset at fair value through profit and loss.

Ivanhoe Mines Ltd.

Notes to the consolidated financial statements

December 31, 2018

(Stated in U.S. dollars unless otherwise noted)

33. Approval of the financial statements

The Consolidated Financial Statements of Ivanhoe Mines Ltd., for the year ended December 31, 2018, were approved and authorized for issue by the Board of Directors on March 26, 2019.

IVANHOE MINES

NEW HORIZONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2018

DATED: MARCH 26, 2019

INTRODUCTION

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

The effective date of this MD&A is **March 26, 2019**. Additional information relating to the Company is available on SEDAR. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. See "*Forward-Looking Statements*" and "*Risk Factors*".

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A constitute "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws. Such statements and information involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, its projects, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or information. Such statements can be identified by the use of words such as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate", "scheduled", "forecast", "predict" and other similar terminology, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. These statements reflect the Company's current expectations regarding future events, performance and results and speak only as of the date of this MD&A.

Such statements include without limitation, the timing and results of: (i) statements that one more station will be developed at a mine-working depth of 950 metres at Shaft 1; (ii) statements regarding Shaft 1 reaching the planned, final depth at 982 metres below surface in early 2020; (iii) statements regarding the timing of Shaft 2 development; (iv) statements regarding the operational and technical capacity of Shaft 1; (v) statements regarding the internal diameter and hoisting capacity of Shaft 2, including that the excavation of the box cut and construction of the hitch foundation is expected to be completed in Q2 2019, enabling the beginning of the pre-sink, that will extend 84 metres below surface; (vi) statements regarding the Company's plans to develop the Platreef Mine in three phases: an initial annual rate of four million tonnes per annum (Mtpa) to establish an operating platform to support future expansions; followed by a doubling of production to eight Mtpa; and then a third expansion phase to a steady-state 12 Mtpa; (vii) statements regarding the planned underground mining methods of the Platreef Project including long-hole stoping and drift-and-fill mining; (viii) statements regarding supply of treated water from the town of Mokopane's new Masodi treatment plant including that it will supply 5 million litres of treated water a day for 32 years; (ix) statements regarding the development of a single decline on the south side of the Kakula deposit to provide bottom access to Ventilation Shaft 2 enabling this shaft to be constructed by raise boring and the use of this decline as a second means of egress from the mine; (x) statements regarding the timing, size and objectives of drilling and other exploration programs for 2019 and future periods; (xi) statements regarding exploration on the Western Foreland exploration licences; (xii) statements regarding the timing and completion of a definitive feasibility study at the Kipushi Project in Q2 2019; (xiii) statements regarding the progressive re-commissioning of the turbines, fully refurbished and modernized with state-of-the-art control and instrumentation at Mwadingusha power station, will start in 2019 and be completed in Q3 2020 with an output increased to a capacity of approximately 72 MW of power; (xiv) statements regarding expected expenditure for 2019 of \$90 million on further development at the Platreef Project; \$57 million at the Kipushi Project; \$16 million on regional exploration in the DRC; and \$30 million on corporate overheads in 2019 – as well as its proportionate funding of the Kamoakakula Project, expected to be \$101 million for 2019; (xv) statements regarding Platreef projecting it to be Africa's lowest-cost producer of platinum-group metals; (xvi) statements regarding Ivanhoe plans to file an updated NI 43-101 technical report for the Kipushi Project covering the June 2018 Mineral

Resource estimate by the end of March 2019; (xvii) statements regarding the construction of a 1,050-metre-level-dam at the Kakula deposit to be commissioned in mid-2019; (xviii) statements with respect to adding additional rigs to accelerate the drill testing of the mineralizing structure at Kamo North; and (xix) statements regarding Ivanhoe's plans to provide an update on the Kamo North exploration program in the near future.

As well, all of the results of the pre-feasibility study for the Kakula copper mine and the updated and expanded Kamo-Kakula Project preliminary economic assessment, the feasibility study of the Platreef Project and the pre-feasibility study of the Kipushi Project, constitute forward-looking statements or information, and include future estimates of internal rates of return, net present value, future production, estimates of cash cost, proposed mining plans and methods, mine life estimates, cash flow forecasts, metal recoveries, estimates of capital and operating costs and the size and timing of phased development of the projects. Furthermore, with respect to this specific forward-looking information concerning the development of the Kamo-Kakula, Platreef and Kipushi Projects, the Company has based its assumptions and analysis on certain factors that are inherently uncertain. Uncertainties include: (i) the adequacy of infrastructure; (ii) geological characteristics; (iii) metallurgical characteristics of the mineralization; (iv) the ability to develop adequate processing capacity; (v) the price of copper, nickel, zinc, platinum, palladium, rhodium and gold; (vi) the availability of equipment and facilities necessary to complete development; (vii) the cost of consumables and mining and processing equipment; (viii) unforeseen technological and engineering problems; (ix) accidents or acts of sabotage or terrorism; (x) currency fluctuations; (xi) changes in regulations; (xii) the compliance by joint venture partners with terms of agreements, (xiii) the availability and productivity of skilled labour; (xiv) the regulation of the mining industry by various governmental agencies; (xv) the ability to raise sufficient capital to develop such projects; and (xvi) political factors.

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

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

Although the forward-looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are

made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Subject to applicable securities laws, the Company does not assume any obligation to update or revise the forward-looking statements contained herein to reflect events or circumstances occurring after the date of this MD&A.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors set forth below in the "Risk Factors" section beginning on page 54 and elsewhere in this MD&A.

REVIEW OF OPERATIONS

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

- **The Platreef Project.** Construction of the planned Platreef mine is now underway on the Company's discovery of platinum, palladium, nickel, copper, gold and rhodium on the Northern Limb of South Africa's Bushveld Complex. Ivanhoe Mines holds a 64% interest in Platreef, the South African beneficiaries of a broad-based, black economic empowerment structure have a combined 26% stake in the Platreef Project and the remaining 10% is owned by a Japanese consortium of ITOCHU Corporation, Japan Oil, Gas and Metals National Corporation; and Japan Gas Corporation. (See "*Platreef Project*")
- **The Kipushi Project.** The existing Kipushi Mine is located on the Central African Copperbelt in the Democratic Republic of Congo's (DRC) southern Haut-Katanga province, one of Africa's major mining hubs. The mine, which operated between 1924 and 1993, is approximately 30 kilometres southwest of the provincial capital, Lubumbashi, and less than one kilometre from the DRC-Zambia border. Ivanhoe Mines holds a 68% interest in Kipushi; the state-owned mining company, La Générale des Carrières et des Mines (Gécamines), holds the remaining 32% interest. (See "*Kipushi Project*")
- **The Kamoa-Kakula Project.** A joint venture between Ivanhoe Mines and Zijin Mining Group Co., Ltd., ("Zijin" or "Zijin Mining") within the Central African Copperbelt in the Democratic Republic of Congo's southern Lualaba province. Following the signing of an agreement with the DRC government in November 2016 to transfer an additional 15% interest in the Kamoa-Kakula Project to the government of the DRC, Ivanhoe Mines and Zijin Mining each hold an indirect 39.6% interest in the Kamoa-Kakula Project, Crystal River Global Limited (Crystal River) holds an indirect 0.8% interest and the DRC government holds a direct 20% interest. The Kamoa-Kakula Project is independently ranked as the world's fourth largest copper deposit by international mining consultant Wood Mackenzie. (See "*Kamoa-Kakula Project*")

PLATREEF PROJECT

The Platreef Project is owned by Ivanplats (Pty) Ltd (Ivanplats), which is 64%-owned by Ivanhoe Mines. A 26% interest is held by Ivanplats' historically-disadvantaged, broad-based, black economic empowerment (B-BBEE) partners, which include 20 local host communities with approximately 150,000 people, project employees and local entrepreneurs. A Japanese consortium of ITOCHU Corporation, Japan Oil, Gas and Metals National Corporation and Japan Gas Corporation, owns a 10% interest in Ivanplats, which it acquired in two tranches for a total investment of \$290 million.

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

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

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

Health and safety at Platreef

As at the end of 2018, the Platreef Project had reached a total of 887,097 lost-time, injury-free hours worked in terms of South Africa's Mine Health and Safety Act and Occupational Health and Safety Act. At the end of 2018, it had been nine months since the last lost-time injury occurred at the Platreef Project, which continues to strive toward its workplace objective of an environment that causes zero harm to employees, contractors, sub-contractors and consultants.

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

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

The Platreef DFS covers the first phase of development that would include construction of a state-of-the-art underground mine, concentrator and other associated infrastructure to support initial production of concentrate. As Phase 1 is being developed and commissioned, there would be opportunities to refine the timing and scope of subsequent phases of expanded production.

The 2017 DFS highlights include:

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

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

All figures are on a 100%-project basis unless otherwise stated. The DFS was prepared for Ivanhoe Mines by principal consultant DRA Global, with economic analysis led by OreWin, and specialized sub-consultants including Amec Foster Wheeler E&C Services (Amec Foster Wheeler), Stantec Consulting, Murray & Roberts Cementation, SRK Consulting, Golder Associates and Digby Wells Environmental.

Platreef Mineral Resources

The Platreef Project's Mineral Resource estimate was prepared by Ivanhoe Mines under the direction of Dr. Harry Parker, RM SME, of Amec Foster Wheeler. Dr. Parker and Timothy Kuhl, RM SME, also of Amec Foster Wheeler, have independently confirmed the Mineral Resource estimate and are the Qualified Persons for the estimate, which has an effective date of April 22, 2016.

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

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

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

Photo: The northern excavation at Shaft 1's 750-metre station, showing the large scale of the underground workings – ideal for safe, mechanized mining.



Shaft 1 now extends to a depth of 850 metres below surface

Shaft 1 reached the top of the high-grade Flatreef Deposit (T1 mineralized zone) at a depth of 780.2 metres below surface in Q3 2018 and has since been extended to the 850-metre-level with the 850-metre-level station development underway. The thickness of the mineralized reef (T1 & T2 mineralized zones) at Shaft 1 is 29 metres, with grades of platinum-group metals ranging up to 11 grams per tonne (g/t) 3PE (platinum, palladium and rhodium) plus gold, as well as significant quantities of nickel and copper. The 29-metre intersection yielded approximately 3,000 tonnes of ore, estimated to contain more than 400 ounces of platinum-group metals. The ore is stockpiled on surface for metallurgical sampling.

The 750-metre-level station, including the steelwork and concrete construction, was successfully completed in Q4 2018. The 750-metre-level and 850-metre-level stations will provide initial, underground access to the high-grade orebody, enabling mine development to proceed during the construction of Shaft 2.

As sinking of Shaft 1 advances, one more station will be developed at a mine-working depth of 950 metres. Shaft 1 is expected to reach its projected, final depth of 982 metres below surface in early 2020. Shaft 1 ultimately will become the primary ventilation shaft during the project's initial four-Mtpa production case.

Photo: Ongoing development work at Shaft 1's 850-metre-level mine access station, showing the northern top-cut excavation.



Photo: Spraying shotcrete over 6.5-metre anchor bolts and wire mesh to reinforce the brow at Shaft 1's 850-metre-level mine access station.



Shaft 2 early-works construction progressing

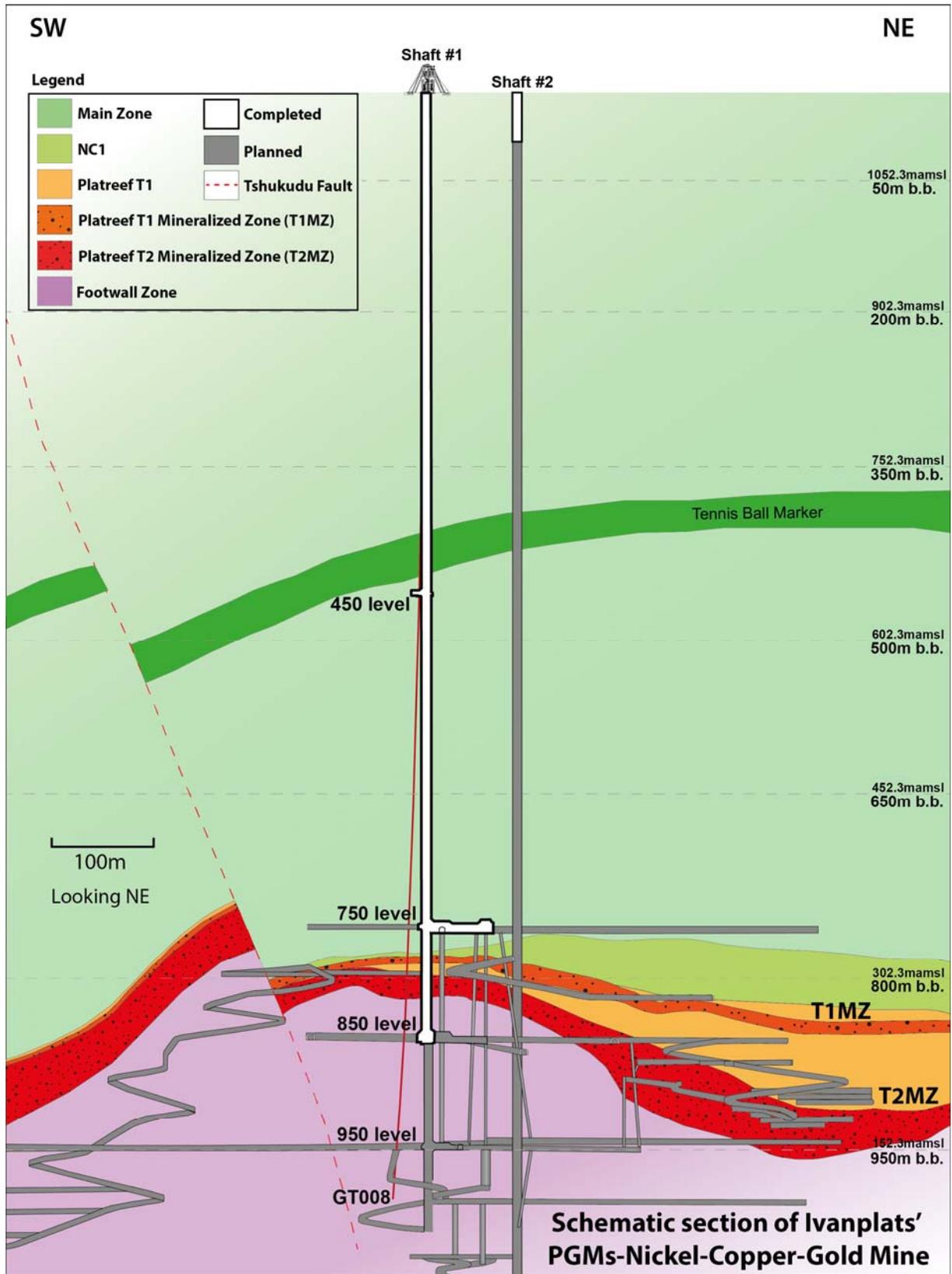
Shaft 2, to be located approximately 100 metres northeast of Shaft 1, will have an internal diameter of 10 metres. It will be lined with concrete and sunk to a planned, final depth of more than 1,104 metres below surface. It will be equipped with two, 40-tonne, rock-hoisting skips capable of hoisting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

The headgear for the permanent hoisting facility was designed by South Africa-based Murray & Roberts Cementation. Nine blasts were successfully completed in 2018 enabling the excavation of Shaft 2's box cut to a depth of approximately 29 metres below surface and the construction of the concrete hitch (shaft collar foundation) for the 103-metre-tall concrete headgear that will house the shaft's permanent hoisting facilities and support the shaft collar. Excavation of the box cut and construction of the hitch foundation is expected to be completed in Q2 2019, enabling the beginning of the pre-sink, that will extend 84 metres below surface.

Photo: Ongoing construction of the foundation that will support Shaft 2's 103-metre-tall concrete headframe.



Figure 1: Schematic section of the Platreef Mine, showing Flatreef's T1 and T2 thick, high-grade mineralized zones (red and dark orange), underground development work completed to date in shafts 1 and 2 (white) and planned development work (gray).



Underground mining to incorporate highly productive, mechanized methods

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

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

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

Platreef project financing continuing to advance

Ivanhoe continues to advance the arrangement of project financing for the development of the Platreef Project. Negotiation of a term sheet is progressing well with the Initial Mandated Lead Arrangers.

In addition, preliminary discussions are underway with leading South African financial institutions regarding the financing of the black economic empowerment partners' contribution to the development capital which would thereby reduce the amount that would otherwise have to be contributed by Ivanhoe on their behalf.

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

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

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

Ivanplats received its Integrated Water Use Licence in January 2019, which is valid for 30 years and enables the Platreef Project to make use of water as planned in the 2017 DFS.

Development of human resources and job skills

Work progressed on the implementation of Ivanhoe's Social and Labour Plan (SLP). The Company has pledged a total of R160 million (\$11 million) during the first five years, culminating in November 2019, of which R98 million (\$7 million) already had been spent by December 2018. The approved plan includes R67 million (\$5 million) for the development of job skills among local residents and R88 million (\$6 million) for local economic development projects.

Photo: A digital trainer from Ivanplats (right) demonstrates the use of the free Wi-Fi system to a local resident. The Ivanplats Maru a Mokopane initiative – a digital communication system – is designed for people living in Mokopane, Limpopo to learn more about the Platreef Project, and provides complimentary access to wireless internet.



KIPUSHI PROJECT

The Kipushi copper-zinc-germanium-lead mine, in the DRC, is adjacent to the town of Kipushi and approximately 30 kilometres southwest of Lubumbashi. It is located on the Central African Copperbelt, approximately 250 kilometres southeast of the Kamo-a-Kakula Project and less than one kilometre from the Zambian border. Ivanhoe acquired its 68% interest in the Kipushi Project in November 2011; the balance of 32% is held by the state-owned mining company, Gécamines.

Health, safety and community development

At the end of 2018, the Kipushi Project reached a total of 165,576 work hours free of lost-time injuries. One lost-time injury occurred in November 2018 when the Kipushi Project had reached 2,092,924 work hours – more than a year since a lost-time injury had previously occurred.

The Kipushi Project operates a potable-water station to supply the municipality with water. This includes power supply, disinfectant chemicals, routine maintenance, security and emergency repair of leaks to the primary reticulation. The Kipushi Project also installed and commissioned new overhead powerlines to the pump station. Other community development projects continued during Q4 2018 included the Kipushi women’s literacy project, the setup of a new sewing training centre, scholarships and more water boreholes drilled and equipped for community use.

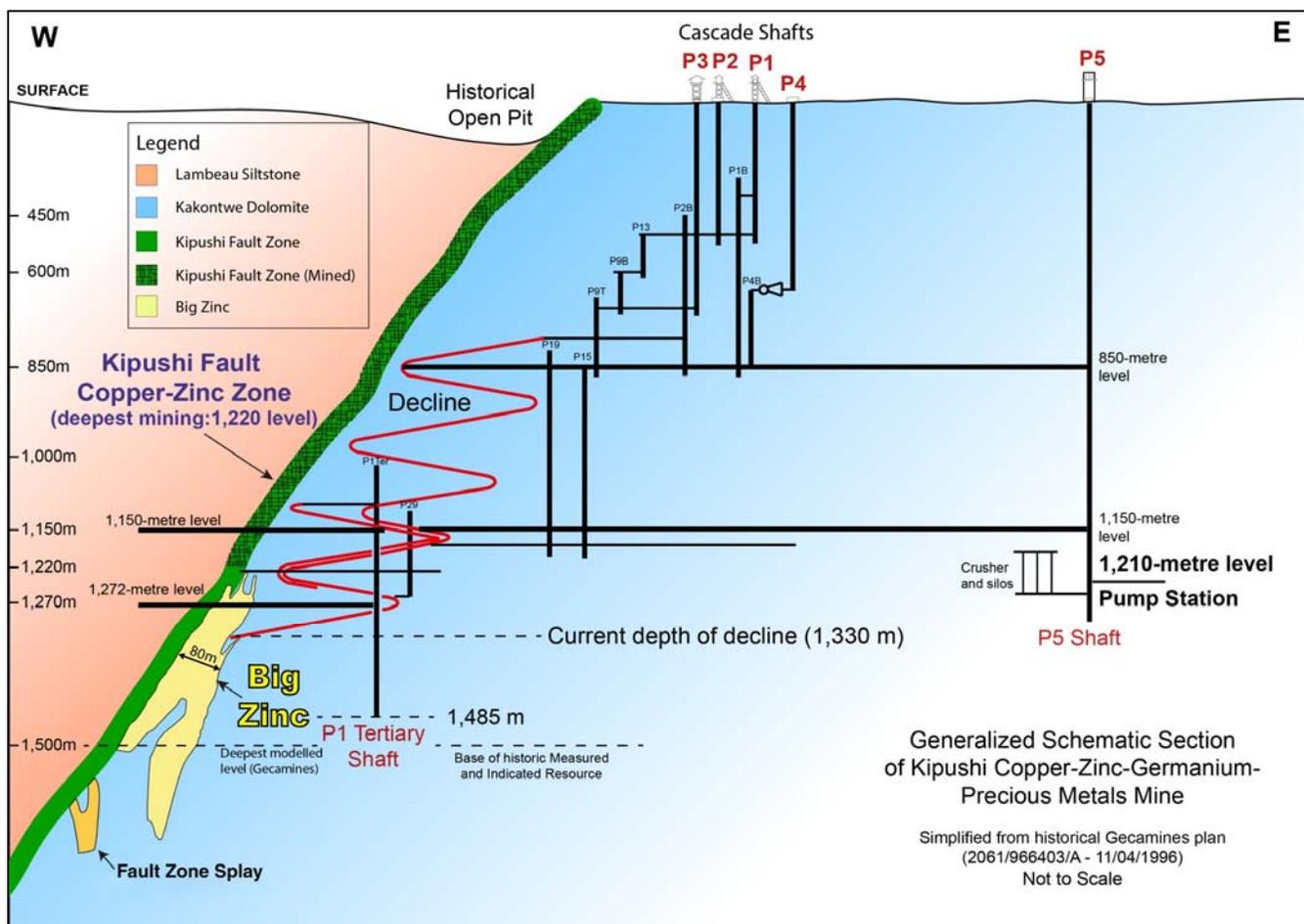
Kipushi Mineral Resources

The Kipushi Project's current Mineral Resource estimate was updated with an effective date of June 14, 2018, and was prepared by the MSA Group of Johannesburg, South Africa, in compliance with 2014 CIM Definition Standards. Ivanhoe plans to file an updated National Instrument 43-101 (NI 43-101) technical report for the Kipushi Project covering the June 2018 Mineral Resource estimate by the end of March 2019. The technical report will be filed on the company's website and under the company's SEDAR profile at www.sedar.com.

Zinc rich Measured and Indicated Mineral Resources, primarily in the Big Zinc Zone total 11.78 million tonnes at grades of 35.34% zinc, 0.80% copper, 23 g/t silver and 64 g/t germanium, at a 7% zinc cut-off – containing an estimated 9.2 billion pounds of zinc. Zinc-rich Inferred Mineral Resources total an additional 1.14 million tonnes at grades of 33.77% zinc, 1.24% copper, 12 g/t silver and 62 g/t germanium. The Inferred Mineral Resources are contained partly in the Big Zinc Zone and partly in the Southern Zinc Zone.

Copper-rich Measured and Indicated Mineral Resources contained in the adjacent Fault Zone, Fault Zone Splay and Série Récurrente Zone total an additional 2.29 million tonnes at grades of 4.03% copper, 2.85% zinc, 21 g/t silver and 19 g/t germanium, at a 1.5% copper cut-off – containing 144 million pounds of copper. Copper-rich Inferred Mineral Resources in these zones total an additional 0.44 million tonnes at grades of 3.89% copper, 10.77% zinc, 19 g/t silver and 55 g/t germanium.

Figure 2: Schematic underground section of the Kipushi Mine.



Pre-feasibility study for Kipushi completed in December 2017; definitive feasibility study expected in Q2 2019

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

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

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

All figures are on a 100%-project basis unless otherwise stated. Estimated life-of-mine average cash cost of \$0.48/lb of zinc is expected to rank Kipushi, once in production, in the bottom quartile of the cash-cost curve for zinc producers internationally.

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

The Kipushi Project's definitive feasibility study is progressing and is expected to be completed in Q2 2019.

Geology and exploration

Work is focused on additional information required for the ongoing feasibility study as well as planning the geological delineation drilling and grade control program for the underground mine development. The design criteria for the delineation drilling, targeted areas along the edge of the Big Zinc, which presently are inaccessible from the historic workings.

Project development and infrastructure

Significant progress has been made in modernizing the Kipushi Mine's underground infrastructure as part of preparations for the mine to resume commercial production. In Q4 2018, the Kipushi Project successfully hoisted previously mined ore from Shaft 5 to surface. This was the first time that ore had been hoisted to surface since the mine was placed on care and maintenance by Gécamines in 1993.

Photo: Kipushi's fully-assembled Sandvik jaw crusher, capable of crushing up to 1,085 tonnes of ore an hour.



Photo: Construction of the rock load-out facility on Kipushi's 1,150-metre level. Ore from the Big Zinc Deposit will be unloaded here, for crushing and hoisting to surface.



Earlier in 2018, the Kipushi Project successfully completed initial, pre-production testing as part of the equipment commissioning process for the new, large-capacity rock crusher that has been installed 1,150 metres below surface. The Sandvik jaw crusher has a maximum capacity of 1,085 tonnes an hour. The 54-tonne machine was re-assembled and installed in the crusher chamber after it was disassembled on surface and its pieces were lowered down Shaft 5, which is the Kipushi Mine's main production shaft.

Ivanhoe completed the upgrading of a significant amount of underground infrastructure at the Kipushi Project, including a series of vertical mine shafts to various depths, with associated head frames, as well as underground mine excavations and infrastructure. A series of crosscuts and ventilation infrastructure still is in working condition and has been cleared of old materials and equipment to facilitate modern mechanized mining. The underground infrastructure also includes a series of pumps to manage the influx of water into the mine and water levels are easily maintained at the bottom of the mine.

Shaft 5 is eight metres in diameter and 1,240 metres deep. It now has been upgraded and re-commissioned. The main personnel and material winder has been upgraded and modernized to meet international industry standards and safety criteria. The Shaft 5 rock-hoisting winder now is fully operational with new rock skips, new head- and tail-ropes and attachments installed. The two newly manufactured rock conveyances (skips) and the supporting frames (bridles) have been installed in the shaft to facilitate the hoisting of rock from the main ore and waste storage silos feeding rock on the 1,200-metre level.

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

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

Photo: Modern, new control room at Kipushi's Shaft 5.



Photo: New electrical panels installed underground at Kipushi.



Photo: High-volume water pipes to keep Kipushi's underground workings dry.



Figure 3: Kipushi Project's proposed site layout.



KAMOA-KAKULA PROJECT

The Kamoa-Kakula Project, a joint venture between Ivanhoe Mines and Zijin Mining, has been independently ranked as the world's fourth largest copper deposit by international mining consultant Wood Mackenzie, with adjacent prospective exploration areas within the Central African Copperbelt in the Democratic Republic of Congo, approximately 25 kilometres west of the town of Kolwezi and about 270 kilometres west of Lubumbashi.

Ivanhoe sold a 49.5% share interest in Kamoa Holding Limited (Kamoa Holding) to Zijin Mining in December 2015 for an aggregate consideration of \$412 million. In addition, Ivanhoe sold a 1% share interest in Kamoa Holding to privately-owned Crystal River for \$8.32 million - which Crystal River will pay through a non-interest-bearing, 10-year promissory note. Since the conclusion of the Zijin transaction in December 2015, each shareholder has been required to fund expenditures at the Kamoa-Kakula Project in an amount equivalent to its proportionate shareholding interest in Kamoa Holding.

A 5%, non-dilutable interest in the Kamoa-Kakula Project was transferred to the DRC government on September 11, 2012, for no consideration, pursuant to the 2002 DRC mining code. Following the signing of an agreement with the DRC government in November 2016, in which an additional 15% interest in the Kamoa-Kakula Project was transferred to the DRC government, Ivanhoe and Zijin Mining now each hold an indirect 39.6% interest in the Kamoa-Kakula Project, Crystal River holds an indirect 0.8% interest and the DRC government holds a direct 20% interest. Kamoa Holding holds an 80% interest in the project.

Kamoa-Kakula surpassed 12 million hours worked without a lost-time injury in 2018 , and recently broke the 13-million-hour mark

At the end of 2018, the Kamoa-Kakula Project had achieved a total of 12,305,545 work hours free of lost-time injuries. It has been approximately seven years since the last lost-time injury occurred at the project. During 2018 the project achieved three significant milestones in safety which include 10-, 11- and 12 million hours free of lost-time injuries. This outstanding achievement reflects the dedication to a safety-focused culture of the entire Kamoa-Kakula exploration and development teams.

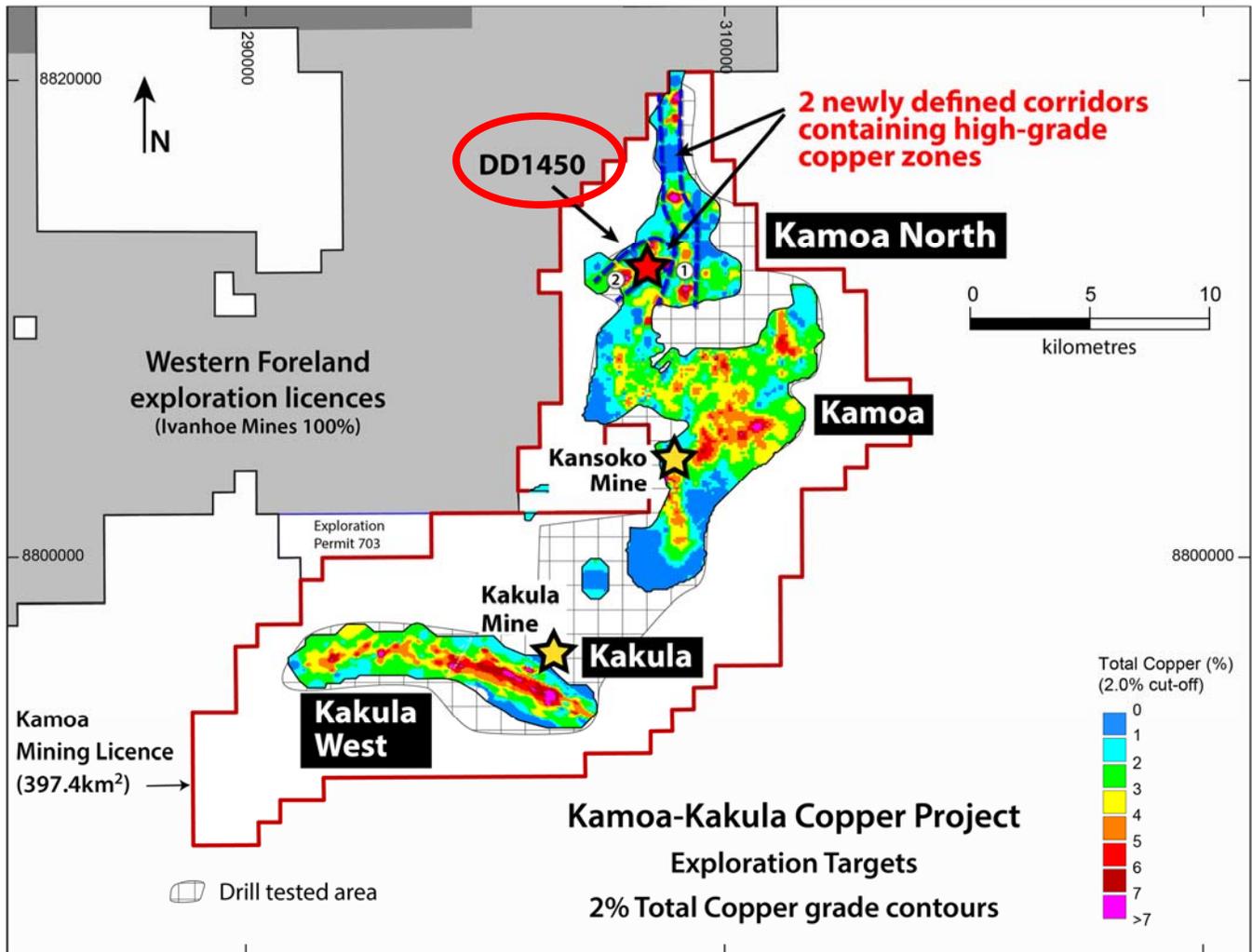
Photo: In March 2019, Kamo-Kakula celebrated achieving more than 13 million work hours free of lost-time injuries.



Photo: Members of Kamoia's drilling team marked the completion of the 1,500th exploration hole drilled at the Kamoia-Kakula Project.



Figure 4: Map of the Kamo-Kakula mining licence showing the Kakula and Kansoko mining areas, as well as Kakula West, Kamo North and drill hole DD1450, and a portion of Ivanhoe’s adjacent, 100%-owned Western Foreland exploration area.



PFS for Kakula and updated PEA for an expanded Kamo-Kakula production rate of 18 Mtpa announced

On February 6, 2019, Ivanhoe announced the results from the Kakula 2019 PFS. The study assesses the potential development of the Kakula Deposit as a 6 Mtpa mining and processing complex. The Kakula mill would be constructed in two smaller phases of 3 Mtpa each as the mining operations ramp-up to full production of 6 Mtpa. The life-of-mine production scenario provides for 119.7 million tonnes to be mined at an average grade of 5.48% copper, producing 9.8 million tonnes of high-grade copper concentrate, containing approximately 12.4 billion pounds of copper. All figures are on a 100%-project basis unless otherwise stated.

On March 22, 2019, Ivanhoe filed an updated NI 43-101 technical report for the Kamo-Kakula Copper Project covering the independent pre-feasibility studies for the development of the Kakula and Kansoko copper mines, and an updated, expanded preliminary economic assessment for the overall integrated development plan for the project. The report, titled Kamo-Kakula Integrated Development Plan 2019, is available on the company’s website and under the company’s SEDAR profile at www.sedar.com.

Highlights of the PFS, based on a consensus, long-term copper price of \$3.10/lb include:

- Very high-grade, stage-one production is projected to have a grade of 7.1% copper in the second year of production and an average grade of 6.4% copper over the initial 10 years of operations, resulting in estimated average annual copper production of 291,000 tonnes.
- Annual copper production is estimated at 360,000 tonnes in year four.
- Initial capital cost, including contingency, is estimated at \$1.1 billion.
- Average total cash cost of \$1.11/lb of copper during the first 10 years, inclusive of royalties.
- After-tax NPV, at an 8% discount rate, of \$5.4 billion.
- After-tax internal rate of return (IRR) of 46.9%, and a payback period of 2.6 years.
- Kakula is expected to produce a very high-grade copper concentrate in excess of 55% copper, with extremely low arsenic levels.

Ivanhoe also announced an updated independent PEA for an expanded Kakula-Kamoa production rate of 18 Mtpa, supplied initially by a 6 Mtpa mine at Kakula, followed by two 6 Mtpa mines at Kansoko and Kakula West, and a world-scale direct-to-blister smelter.

Highlights of the PEA, based on a consensus, long-term copper price of \$3.10/lb include:

- Very high-grade initial phase projected to have a grade of 7.1% copper in the second year of production and an average grade of 5.7% copper during the first 10 years of operations, resulting in estimated average annual copper production of 386,000 tonnes.
- Recovered copper production is estimated at 740,000 tonnes in year 12, which would rank the Kamoa-Kakula Project as the second largest copper producer in the world.
- Initial capital cost, including contingency, is \$1.1 billion, with subsequent expansions at Kansoko, Kakula West, and other mining areas, as well as the smelter, to be funded by cash flows from the Kakula Mine.
- Average total cash costs of \$0.93/lb of copper during the first 10 years, including sulphuric acid credits.
- After-tax NPV, at an 8% discount rate, of \$10.0 billion.
- After-tax IRR of 40.9% and a payback period of 2.9 years.

Figure 5: Kamo-Kakula 18 Mtpa PEA long-term development plan.

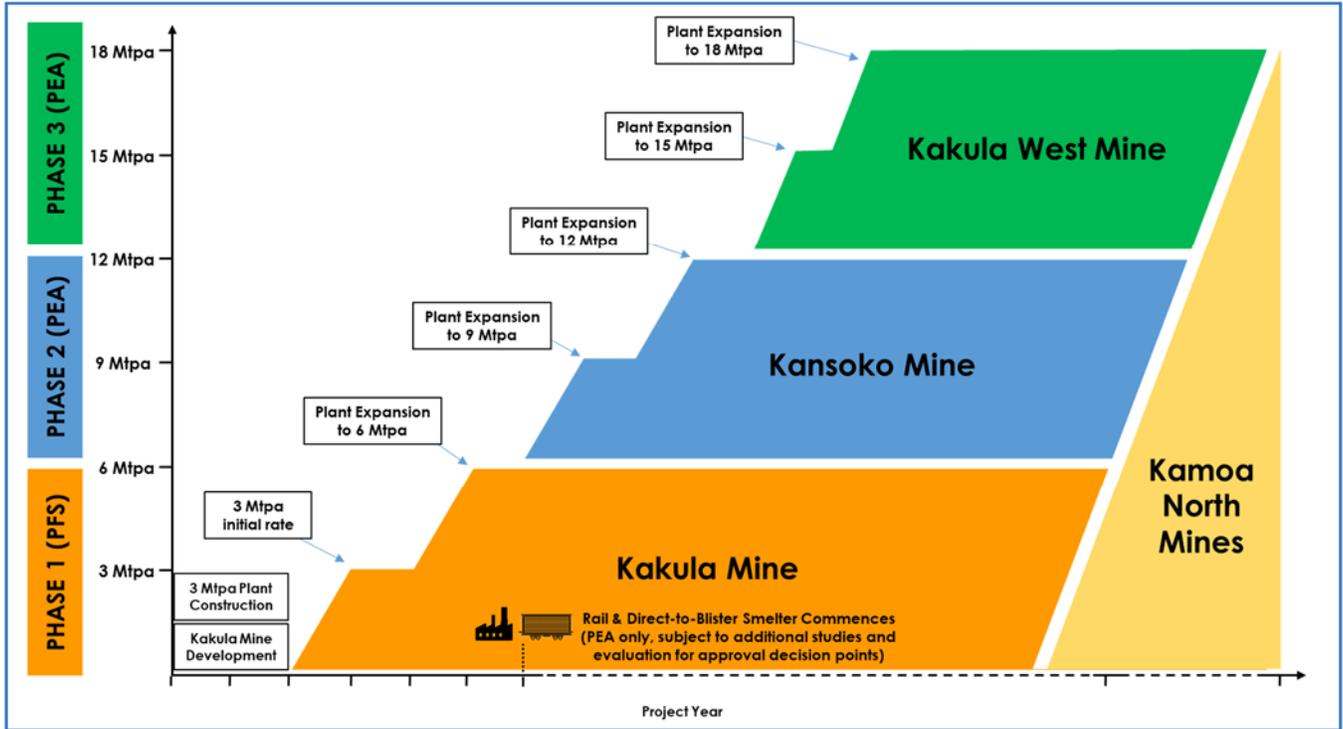
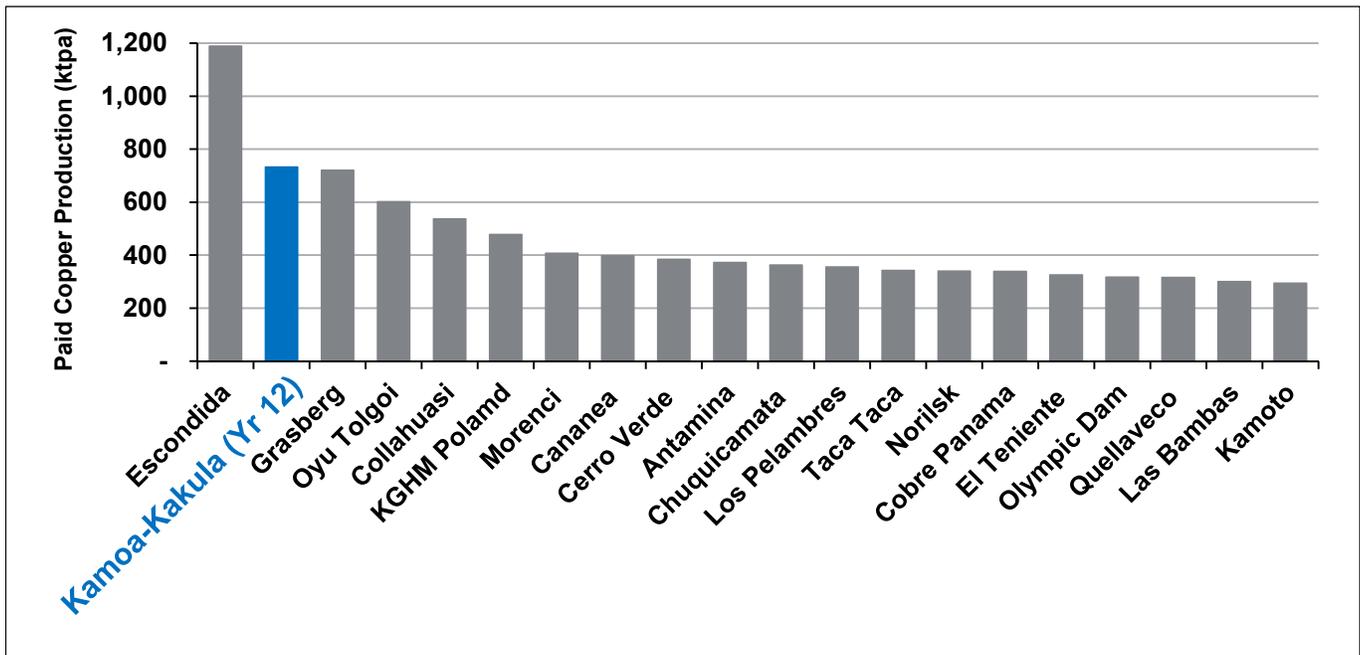


Figure by OreWin 2019.

Figure 6: Projected 18 Mtpa Kamo-Kakula PEA production (year-12 peak copper production shown) compared to the world’s projected top 20 producing mines in 2025 by paid copper production.



Note: Kamo-Kakula 2019 PEA production based on projected peak copper production (which occurs in year 12) of the 18 Mtpa alternative development option.
 Source: Wood Mackenzie (based on public disclosure, the Kakula 2019 PFS has not been reviewed by Wood Mackenzie).

Kamoa-Kakula Mineral Resources

Ivanhoe issued an updated Mineral Resource estimate for the Kamoa-Kakula Project on February 6, 2019. Details of the updated Mineral Resource estimate are contained in the March 2019, independent NI 43-101 technical report for the Kamoa-Kakula Project.

The updated Mineral Resource estimate includes an updated Kakula Mineral Resource estimate and was prepared by Ivanhoe Mines under the direction of Amec Foster Wheeler E&C Services Inc., of Reno, USA, in accordance with the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves. The Qualified Persons for the 2019 Kamoa-Kakula Mineral Resource estimate are Dr. Harry Parker, RM, SME and Gordon Seibel, RM, SME both of Amec Foster Wheeler E&C Services Inc.

Indicated Mineral Resources for the combined Kamoa-Kakula Project now total 1,387 million tonnes grading 2.64% copper, containing 80.6 billion pounds of copper at a 1.0% copper cut-off grade and a minimum thickness of three metres. Kamoa-Kakula also has Inferred Mineral Resources of 316 million tonnes grading 1.76% copper and containing 12.2 billion pounds of copper, also at a 1.0% copper cut-off grade and a minimum thickness of three metres.

The Kakula Mineral Resource estimate covers a mineralized strike length of 13.3 kilometres and is based on results from 323 holes completed by November 1, 2018. Indicated Mineral Resources total 628 million tonnes at a grade of 2.72% copper, containing 37.6 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Indicated Mineral Resources total 319 million tonnes at a 3.99% copper grade, containing 28.1 billion pounds of copper. At a 3% copper cut-off, Indicated Mineral Resources total 164 million tonnes at a grade of 5.50% copper, containing 19.9 billion pounds of copper.

Inferred Mineral Resources total 114 million tonnes at a grade of 1.59% copper, containing 4.0 billion pounds of copper at a 1% copper cut-off. At a 2% copper cut-off, Inferred Mineral Resources total 23 million tonnes at a 2.62% copper grade, containing 1.3 billion pounds of copper. At a 3% copper cut-off, Inferred Mineral Resources total 5.0 million tonnes at a grade of 3.52% copper, containing 0.4 billion pounds of copper.

The average true thickness of the selective mineralized zone (SMZ) at a 1% copper cut-off is 10.5 metres in the Indicated Mineral Resources area and 6.9 metres in the Inferred Mineral Resources area. At a higher 3% copper cut-off, the average true thickness of the SMZ is 4.9 metres in the Indicated Mineral Resources area and 3.9 metres in the Inferred Mineral Resources area.

The Kakula Mineral Resources are defined within a total area of 27.4 square kilometres at a 1% copper cut-off. At the same cut-off grade, the areal extent of Indicated Mineral Resources is 21.5 square kilometres and the areal extent of the Inferred Mineral Resources is 5.9 square kilometres.

Underground development progressing at the Kakula Deposit

Development of the twin access declines at the northern side of the Kakula Deposit started with the first blast on November 16, 2017. At the end of 2018, each of the twin declines at Kakula had been advanced more than 1,180 metres from the portal face toward the mineralized zone for a total advancement of 3,430 metres. Both declines currently are passing through the lower diamictite, approaching the high-grade mineralization. Construction of the 1,050-metre-level dam and the two access drifts also were initiated in Q4 2018.

Photo: Preparing an explosive charge underground at Kakula. The main twin declines intersected the northern edge of the mineralized reef in January 2019. Lateral underground mine development now is progressing toward the initial, high-grade mining area.



A system of 'through-ventilation' has been constructed with fresh air being pulled down the service decline and exhausted up the conveyor decline. This will allow the project to increase the underground work force to four development crews and will enable fresh air to be pushed further into the mine than had been possible with forced vent ducts from surface.

A single decline also is being developed on the south side of the Kakula Deposit to provide bottom access to Ventilation Shaft 2, enabling this shaft to be constructed by raise boring instead of sinking. This decline also will be used as a second means of egress from the mine.

The design for the main Kakula decline conveyor system and initial two truck tips at the bottom of the decline is well advanced. Most of the major procurement packages had been ordered by the end of 2018, including steel fabrication, conveyor drives, idlers and apron feeders. Construction is expected to start in late-March 2019 and it is scheduled to be operational by the end of 2019. This will reduce the truck traffic in the declines with consequent reduction in costs, congestion and ventilation requirements.

The contract for raise boring of Ventilation Shaft 1 was awarded in November 2018. The shaft will be 5.5 metres in diameter and 200 metres deep.

Photo: Construction is underway on a third decline tunnel on the southern side of the Kakula Deposit to provide access and ventilation to the high-grade copper.



Figure 7: Kakula 2019 PFS mine development plan prepared by Stantec.

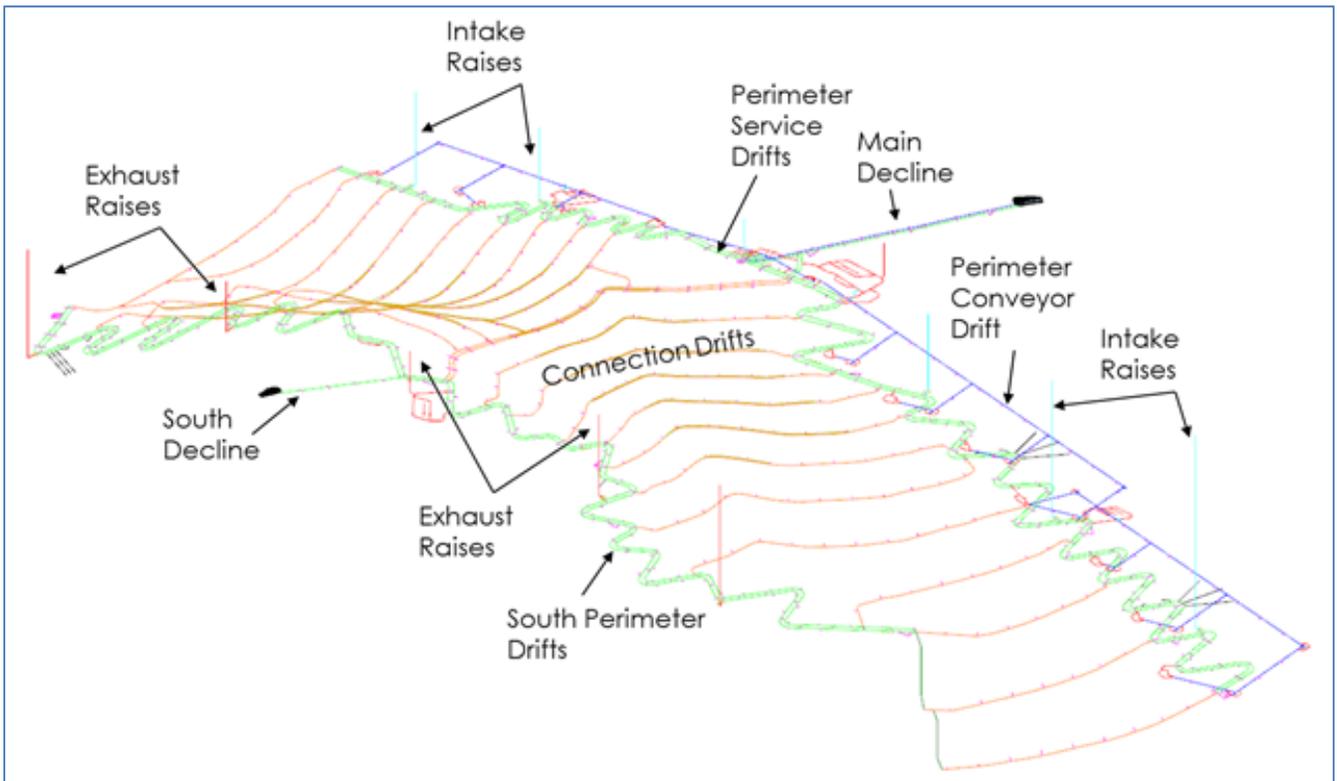


Photo: Contractors wiring up explosives for Ventilation Shaft 1 that will provide fresh air to Kakula's underground workings.



Exploration activities continue at Kakula and Kamo North

Exploration drilling in Q4 2018 was completed with eight contractor drill rigs and two company-owned drill rigs. The number of drill rigs was gradually reduced in December 2018 to allow for a shut down over the holiday period and for scheduled reduction in drilling for 2019. A total of 85,593 metres were drilled in 2018 from 272 diamond drill-holes.

Exploration drilling during Q4 2018 was split between Kakula and Kamo North, with 21,198 metres drilled for exploration purposes in 58 holes. The reduction from the previous quarter was due to geotechnical drilling for the decline and planned tailings storage facility site. A total of 36 holes, totalling 16,178 metres, were completed in Kamo North in which two rigs were drilling shallow holes.

Unprecedented exploration drilling results

On January 30, 2019, Ivanhoe released assay results from ongoing exploration drilling at Kamo North. Assays for 22 holes were released. The results included an unprecedented 22.3-metre intersection (true thickness) of 13.05% copper at a cut-off of 2% copper, in a shallow, flat-lying discovery at the Kamo North copper exploration area.

Drill hole DD1450 includes multiple one-metre intersections with copper grades higher than 20% copper, including a 40%-copper interval.

At a cut-off of 5% copper, DD1450's intersection is 15.92% copper over 16.8 metres (true thickness). Using a lower cut-off grade of 1% copper, the intersection is 10.29% copper over 29.4 metres (true thickness), beginning at a depth of only 190 metres below surface.

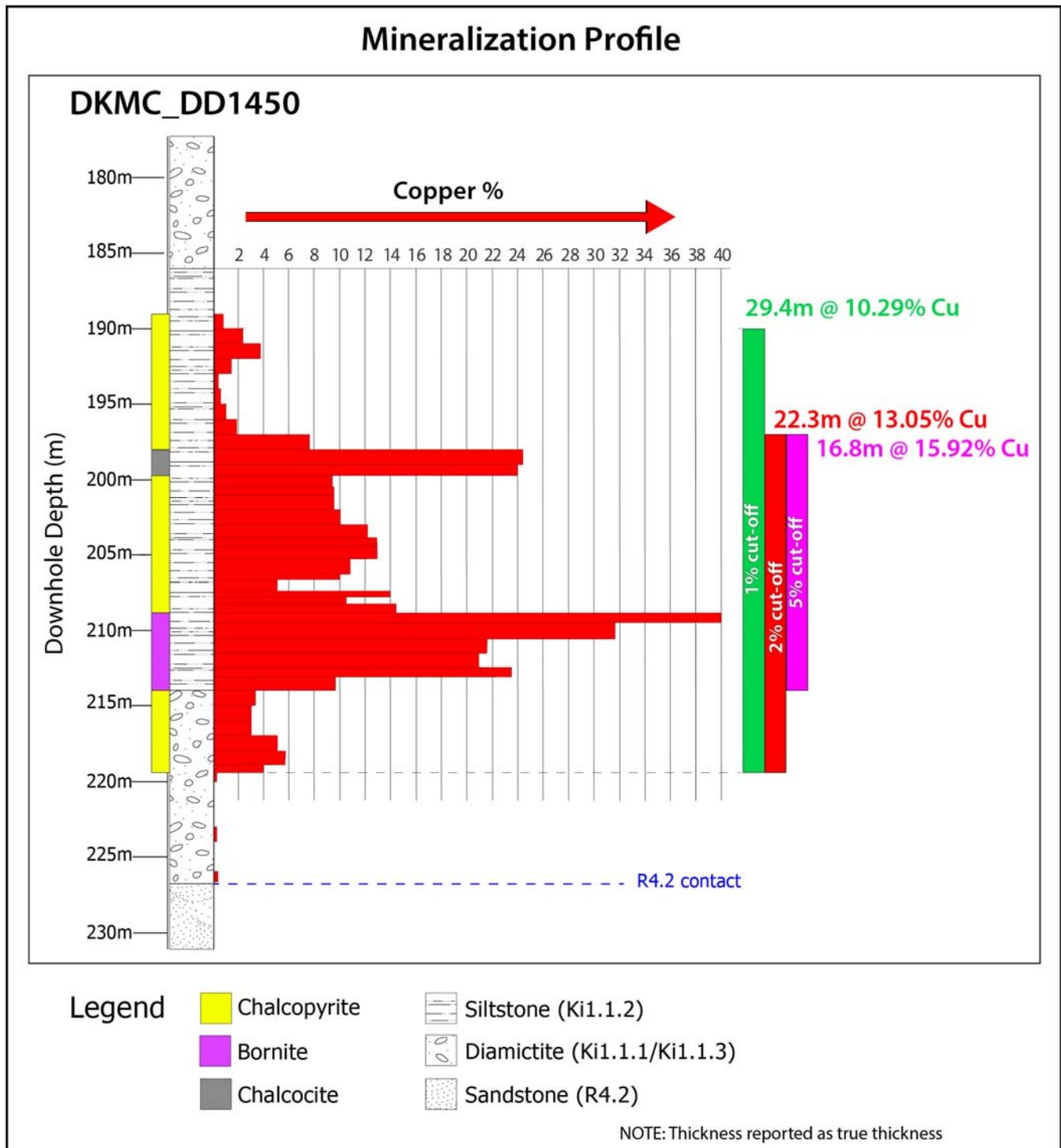
Photo: One of two rigs currently drilling in the Kamo North area. One rig is pursuing extensions of high-grade mineralization intersected in the far northern region of the Kamo-Kakula mining licence, while the other rig is targeting extensions of the ultra-high-grade copper intersected in drill hole DD1450.



Photo: David Edwards, Kamo-Kakula’s Geology Manager (right) identifies the location of the next drill hole at Kamo North to one of Kamo’s contract drillers.



Figure 8: Mineralization profile for drill hole DD1450 at Kamoia North, beginning at a depth of only 190 metres below surface.



Additional drilling is underway to test the strike and width of the east-west trending fault structure that hosts the bonanza-grade copper in hole DD1450. Nine holes now have been completed in the discovery area, and assays are pending for eight of the holes. Based on visual interpretation of massive bornite and chalcopyrite in the recent drill intersections, the new, high-grade zone of shallow, thick, flat-lying, copper mineralization has been extended over a strike length of at least 200 metres, a width of up to 80 metres, and drilled thickness of between 13 and 30 metres. The new discovery zone is approximately

170 to 200 metres below surface.

Discovery hole DD1450 is associated with an east-west trending fault structure that allowed copper-rich fluids to flow into the stratigraphy above the conventional, Kamoia-Kakula mineralized zone and into a pyrite-rich, siltstone zone called the Kamoia Pyritic Siltstone (KPS). The shallow depth, remarkable thickness and massive copper mineralization in the KPS discovery could prove extremely significant if targeted early from a future Kamoia North decline.

The controlling east-west striking fault responsible for the massive copper sulphide mineralization in the KPS is visible on airborne magnetic images and can be traced over a distance length at least 10 to 20 kilometres. It trends west of Kamoia-Kakula for a considerable distance onto the adjacent Western Foreland exploration licences that are 100%-owned by Ivanhoe Mines. Additional rigs will be added to accelerate the drill testing of this mineralizing structure. Assays for the outstanding drill holes have been expedited and Ivanhoe plans to provide an update on this important exploration program in the near future.

Kamoia-Kakula geologists also are exploring another zone of shallow, high-grade copper mineralization in the far northern region of the Kamoia-Kakula mining licence. This mineralized corridor trends north and south for more than nine kilometres before swinging to the northwest and is projected to continue onto the adjacent Western Foreland exploration licences.

Regional geophysical surveys

The preliminary results for the seismic survey were received in Q4 2018 and were reviewed to check the consistency of the data, look for geological features and decide the best parameters for further data processing. Processing continued in Q1 2019.

Ongoing upgrading work enables Mwadingusha hydropower station to supply clean electricity to the national grid

Ongoing upgrading work at the Mwadingusha hydropower plant in the DRC has significantly progressed with the major equipment being delivered on site. The power station was shut down to replace sections of penstocks that were found to be in an advanced stage of corrosion. The progressive re-commissioning of the turbines, fully refurbished and modernized with state-of-the-art control and instrumentation will start in 2019 and be completed in Q3 2020. The refurbished plant will deliver an output increased by 10% to a capacity of approximately 72 megawatts (MW) of power.

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

The Kansoko Mine, Kakula Mine and Kamoia camp have been connected to the national hydroelectric power grid since the completion of a 12-kilometre, 120-kilovolt, dual-circuit power line between Kansoko and Kakula in December 2017. The design of permanent, 11-kilovolt reticulation to the vent shafts and mine has started, which includes substations, overhead lines and surface cables.

Photo: Construction has commenced on a 220-kilovolt electrical substation at the Kakula Mine that will allow the mine to be powered by clean, sustainable hydro-generated electricity from the country's national power grid.



Photo: Surveying and construction is underway on a new, 20-kilometre by-pass road linking the Kamo-Kakula Project to the Kolwezi airport, located approximately six kilometres south of Kolwezi. When completed, this new road will significantly improve the transportation corridor between Kolwezi and Kamo-Kakula.



Continued focus on community and sustainability

The Kamo-Kakula Sustainable Livelihoods Program is committed to sustainable development in the communities within the project's footprint. The main objective of the livelihoods program is to enhance food security and the living standards of the people who reside within the project's footprint. The program is mainly implemented through fish farming and food crops, including farming of maize (corn) and vegetables, plus poultry production and beekeeping.

Additional non-farming related activities for 2018 included education and literacy programs, the completion of a community water program, the continuation of the brick-making program and the creation of unskilled job opportunities.

The resettlement and fencing for the 16-kilometre mine perimeter fence was completed in October 2018. A total of 45 households were successfully resettled in newly constructed houses in the Muvunda village and a new school was constructed in Muvunda.

Photo: Farmers weeding newly-planted cabbage at one of the new community farms established near the Kamo-Kakula Project. Two fish-farming ponds are in the background, where local community members raise tilapia until they are big enough to harvest. The initiatives are part of Kamo-Kakula's Sustainable Livelihoods Program to support and expand food production in nearby communities.



DRC WESTERN FORELAND EXPLORATION PROJECT

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

During Q4 2018, exploration drilling continued with three rigs. A total of 7,339 metres in 19 diamond drill holes were completed during the quarter, bringing the total to 29,271 metres in 66 holes.

Drilling continued at Makoko throughout the quarter, with 13 holes completed. Ivanhoe commissioned a Toyota Landcruiser mounted drill rig during September 2018 that is being used to test for geochemical anomalies and prospective stratigraphy along the margin of the Western Foreland, where access is difficult. Seven of the 13 completed Makoko holes were drilled by the Landcruiser rig for a total of 821 metres.

Processing of seismic data has been ongoing through the quarter with additional processing completed at Velseis Integrated Seismic Technologies in Brisbane, Australia. The 2D sections are being combined with detailed ground gravity data, airborne magnetics and drilling data to create a predicted geological interpretation from Kakula to Makoko. This work is providing an intricate insight into the behaviour of the mineralizing system in the Western Foreland area.

Photo: A drill rig in action at the Makoko Discovery.



Makoko Copper Discovery

On October 1, 2018, Ivanhoe announced the Makoko Copper Discovery on its 100%-owned Western Foreland exploration licences, near Kamoia-Kakula in the DRC. The Makoko Discovery is Ivanhoe's third major copper discovery in the DRC and shows characteristics identical to Ivanhoe's tier-one Kamoia-Kakula discoveries.

Selected drill holes at the Makoko Discovery include:

- DD004 (the Makoko discovery hole) intersected 3.94 metres (true width) of 5.46% copper, at a 2.0% copper cut-off, and 3.94 metres (true width) of 5.46% copper at a 1.0% copper cut-off, from a downhole depth of 306 metres.
- DD010 intersected 3.21 metres (true width) of 6.78% copper, at a 2.0% copper cut-off, and 3.95 metres (true width) of 5.81% copper at a 1.0% copper cut-off, from a downhole depth of 441 metres.
- DD017 intersected 3.19 metres (true width) of 6.49% copper at a 2.0% copper cut-off, and 4.64 metres (true width) of 4.88% copper, at a 1.0% copper cut-off, from a downhole depth of 471.7 metres.
- DD025 intersected 3.00 metres (true width) of 7.61% copper at a 2.0% copper cut-off, and 3.00 metres (true width) of 7.61% copper, at a 1.0% copper cut-off, from a downhole depth of 406 metres.
- DD046 intersected 7.44 metres (true width) of 7.81% copper at a 2.0% copper cut-off, and 9.39 metres (true width) of 6.51% copper, at a 1.0% copper cut-off, from a downhole depth of 523.51 metres.

The initial discovery hole at Makoko, DD004, was drilled in September 2017; follow-up and infill drilling has been ongoing since then. Drilling to date at Makoko has defined a flat-lying, near-surface stratiform copper deposit, similar to the Kamoia and Kakula deposits. The structure contour map indicates that the mineralized formation in the Makoko area is within 1,000 metres of surface. The majority of the drilling to date at Makoko has intersected the copper-rich zone between 400 metres and 800 metres below surface. The mineralized zone at Makoko strikes approximately south-southeast. It has been tested over a strike length of 4.5 kilometres and a dip extent of between one and two kilometres. Copper mineralization remains open both along strike and down dip.

Photo: Silstone-hosted mineralization in Makoko drill holes DD004, DD017 and DD010. DD004 is one of the holes where chalcocite is the dominant copper sulphide mineral. The purple-coloured copper mineral is bornite.

DD004



0.83m @ 12% Cu
2% Cu cut-off: 3.94m @ 5.46%

DD017



0.85m @ 15.9% Cu
2% Cu cut-off: 3.19m @ 6.49%

DD010



0.67m @ 15% Cu
2% Cu cut-off: 3.21m @ 6.87%

SELECTED ANNUAL FINANCIAL INFORMATION

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

	For the year ended December 31,		
	2018	2017	2016
	\$'000	\$'000	\$'000
Exploration and project expenditure	11,487	40,503	32,426
Share of (profits) losses from joint venture	(19,615)	27,505	21,732
General administrative expenditure	26,215	19,260	18,835
Share-based payments	6,871	4,908	5,977
Loss (gain) on fair valuation of financial asset	6,639	(5,843)	(1,693)
Reversal of impairment of mineral property and other items	-	(286,283)	-
Finance income	(49,859)	(32,614)	(29,902)
Finance costs	946	1,710	1,798
Total comprehensive loss (profit) attributable to:			
Owners of the Company	3,892	(182,872)	23,011
Non-controlling interest	9,703	(64,909)	12,739
Basic (profit) loss per share	(0.03)	(0.22)	0.04
Diluted (profit) loss per share	(0.03)	(0.21)	0.04
Total assets	1,884,788	1,271,311	1,002,230
Non-current liabilities	36,189	33,668	28,957

DISCUSSION OF RESULTS OF OPERATIONS

Review of the year ended December 31, 2018 vs. December 31, 2017

The Company recorded a total comprehensive loss of \$13.6 million for the year ended December 31, 2018, compared to a total comprehensive profit of \$247.8 million for the year ended December 31, 2017. The profit in 2017 was attributable mainly to the reversal of the impairment of mineral property and other items of the Kipushi Project of \$286.3 million.

When excluding the 2017 reversal of impairment of \$286.3 million, the Company's total comprehensive loss for the year ended December 31, 2017, would have amounted to \$38.5 million. This is \$24.9 million higher than the total comprehensive loss of \$13.6 million for the same period in 2018. The decrease mainly was due to the Company recording its share of a profit from the Kamo Holding joint venture of \$19.6 million for the year ended December 31, 2018, compared to a loss of \$27.5 million in 2017.

The following table summarizes the Company's share of the profits and losses of Kamoia Holding for the year ended December 31, 2018, and for the same period in 2017:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$'000	\$'000
Interest expense	57,083	42,137
Exploration costs	19,921	26,631
Foreign exchange loss	168	4,333
Reversal of VAT impairment	(15,557)	-
Interest income	(3,742)	(1,747)
Loss before taxes	57,873	71,354
Deferred tax recovery	(110,416)	-
(Profit) loss after taxes	(52,543)	71,354
Profit (loss) attributable to non-controlling interest	12,917	(15,788)
(Profit) loss for the period attributable to joint venture partners	(39,626)	55,566
Company's share of (profits) losses from joint venture (49.5%)	(19,615)	27,505

The costs associated with mine development are capitalized as development costs in Kamoia Holding, while the exploration expenditure is expensed. Capitalization of costs at Kakula commenced during Q2 2017, coinciding with the start of the Kakula box cut. Expenditure attributable to exploration at Kamoia North, Kakula West and in the saddle area between Kakula West and Kakula still was expensed in 2018.

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

With the Kamoia-Kakula Project quickly advancing towards production and as supported by the excellent economics in the recently completed pre-feasibility study on Kakula, future taxable income now is deemed probable at the Kamoia-Kakula Project and the previously unrecognized deferred tax asset has been recognized by the Kamoia Holding joint venture as a result. Furthermore, with revenue deemed probable, the Kamoia Holding joint venture also has reversed the impairment of previously impaired VAT receivables that will be available for set-off once income tax is payable.

The Company's total comprehensive loss included an exchange loss on translation of foreign operations of \$33.0 million for the year ended December 31, 2018, resulting from the weakening of the South African Rand by 17% from December 31, 2017, to December 31, 2018, compared to an exchange gain on translation of foreign operations recognized in 2017 of \$13.8 million.

Exploration and project expenditure for the year ended December 31, 2018, amounted to \$11.5 million and was \$29.0 million less than for the same period in 2017 (\$40.5 million). Exploration and project expenditure for 2018 related solely to Ivanhoe's 100%-owned Western Foreland exploration licences, while \$36.7 million for 2017 related to the Kipushi Project.

Finance income for the year ended December 31, 2018, amounted to \$49.9 million, and was \$17.2 million more than for the same period in 2017 (\$32.6 million). The increase mainly was due to interest earned on loans to the Kamoia Holding joint venture to fund operations that amounted to \$40.4 million in 2018, and increased by \$13.0 million as the accumulated loan balance increased.

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

The Company's total assets increased by \$613.5 million, from \$1,271.3 million as at December 31, 2017, to \$1,884.8 million as at December 31, 2018. The increase mainly was due to the proceeds received on completion of the equity investment by CITIC Metal Africa Investments Limited (CITIC Metal Africa) and Zijin exercising its anti-dilution rights, for gross proceeds of \$555 million and \$60 million respectively.

Cash and cash equivalents increased by \$392.6 million. The Company utilized \$14.7 million of its cash resources in its operations, which includes interest of \$7.1 million received during the year ended December 31, 2018.

The Company's investment in the Kamoia Holding joint venture increased by \$129.3 million from \$552.4 million as at December 31, 2017, to \$681.7 million as at December 31, 2018, with each of the current shareholders funding the operations equivalent to their proportionate shareholding interest. The Company's portion of the Kamoia Holding joint venture cash calls amounted to \$69.3 million during 2018, while the Company's share of comprehensive profit from the joint venture amounted to \$19.6 million.

The net increase of property, plant and equipment amounted to \$96.4 million, with a total of \$127.9 million being spent on project development and to acquire other property, plant and equipment. Of this total, \$59.9 million and \$69.1 million pertained to development costs and other acquisitions of property, plant and equipment at the Platreef Project and Kipushi Project respectively.

The main components of the additions to property, plant and equipment - including capitalized development costs - at the Platreef and Kipushi projects for the year ended December 31, 2018, and for the same period in 2017, are set out in the following table:

	Year ended December 31, 2018 \$'000	Year ended December 31, 2017 \$'000
Platreef Project		
Shaft 1 construction	29,856	23,112
Salaries and benefits	9,077	8,222
Administrative and other expenditure	7,515	6,929
Shaft 2 early works	5,438	1,164
Social and environmental	2,331	2,431
Infrastructure	2,233	145
Studies and contracting work	1,885	4,371
Site costs	1,114	865
Total development costs	59,449	47,239
Other additions to property, plant and equipment	476	1,856
Total additions to property, plant and equipment for Platreef	59,925	49,095
Kipushi Project		
Salaries and benefits	16,174	14,569
Electricity	7,008	6,204
Studies and contracting work	6,762	3,240
Depreciation	3,005	3,445
Repair and maintenance	960	3,820
Other expenditure	13,647	7,662
	47,556	38,940
<i>Classified as:</i>		
Exploration and project expenditure in the loss from operating activities	-	36,681
Capitalized as development cost in property, plant and equipment	47,556	2,259
Other additions to property, plant and equipment	21,529	9,390
Total additions to property, plant and equipment for Kipushi	69,085	11,649

Costs incurred at the Kipushi Project subsequent to the finalization of its pre-feasibility study, have been capitalized as property, plant and equipment. Costs incurred at the Platreef Project are deemed necessary to bring the project to commercial production and are therefore also capitalized.

The Company's total liabilities increased by \$6.2 million to \$66.0 million as at December 31, 2018, from \$59.8 million as at December 31, 2017. The increase was mainly due to a \$2.9 million increase in trade and other payables and a \$2.0 million increase in borrowings resulting from un-paid interest.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Three months ended			
	December 31,	September 30,	June 30,	March 31,
	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000
Exploration and project expenditure	4,910	2,368	2,773	1,436
Share of (profits) losses from joint venture	(41,274)	7,757	6,702	7,200
General administrative expenditure	12,869	1,823	6,269	5,254
Share-based payments	1,866	1,829	1,764	1,412
Finance income	(16,481)	(12,146)	(10,875)	(10,357)
Finance costs	66	185	352	343
Total comprehensive (profit) loss attributable to:				
Owners of the Company	(30,740)	5,838	33,710	(4,916)
Non-controlling interest	2,330	2,046	4,263	1,064
Basic (profit) loss per share	(0.04)	0.00	0.01	0.01
Diluted (profit) loss per share	(0.04)	0.00	0.01	0.01

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

Review of the three months ended December 31, 2018 vs. 2017

The Company recorded a total comprehensive profit of \$28.4 million for Q4 2018 compared to a profit of \$285.3 million for the same period in 2017. The profit in 2017 was attributable mainly to the reversal of the impairment of mineral property and other items of the Kipushi Project of \$286.3 million as described above, while the profit in 2018 mainly was due to the Company recording its share of a profit from the

Kamoa Holding joint venture of \$41.3 million for the three months ended December 31, 2018, compared to a loss of \$10.2 million for the same period in 2017.

The following table summarizes the Company's share of the profits and losses of Kamoa Holding for the three months ended December 31, 2018, and for the same period in 2017:

	Three months ended	
	December 31,	
	2018	2017
	\$'000	\$'000
Interest expense	16,155	12,137
Exploration costs	5,618	9,989
Foreign exchange loss	145	4,336
Reversal of VAT impairment	(15,557)	-
Interest income	(1,145)	(588)
Loss before taxes	5,216	25,874
Deferred tax recovery	(110,416)	-
(Profit) loss after taxes	(105,200)	25,874
Profit (loss) attributable to non-controlling interest	21,818	(5,281)
(Profit) loss for the period attributable to joint venture partners	(83,382)	20,593
Company's share of (profits) losses from joint venture (49.5%)	(41,274)	10,193

Finance income for Q4 2018, amounted to \$16.5 million, and was \$7.5 million more than for the same period in 2017 (\$9.0 million). The increase mainly was due to interest earned on loans to the Kamoa Holding joint venture to fund operations that increased by \$3.6 million as the accumulated loan balance increased and increase in interest received on cash and cash equivalents due to a higher cash balance during Q4 2018.

The Company's total comprehensive profit for Q4 2018 included an exchange loss on translation of foreign operations of \$9.1 million for the three months ended December 31, 2018, resulting from the weakening of the South African Rand from September 30, 2018, to December 31, 2018, compared to an exchange gain on translation of foreign operations recognized in Q4 2017 of \$12.4 million.

Exploration and project expenditure for the three months ended December 31, 2018, amounted to \$4.9 million and was \$6.1 million less than for the same period in 2017 (\$11.0 million). The decrease in exploration and project expenditure is attributable to the capitalization of costs incurred at the Kipushi Project that began following the finalization of its PFS in December 2017.

With the focus at the Kipushi and Platreef projects being on development and the Kamoa-Kakula Project being accounted for as a joint venture, the total \$4.9 million exploration and project expenditure for the three months ended December 31, 2018, related to exploration at Ivanhoe's 100%-owned Western Foreland exploration licences. In Q4 2017, \$8.3 million of the total \$11.0 million exploration and project expenditure related to the Kipushi Project.

LIQUIDITY AND CAPITAL RESOURCES

The Company had \$574.0 million in cash and cash equivalents as at December 31, 2018. At this date, the Company had consolidated working capital of approximately \$562.9 million, compared to \$182.0 million at December 31, 2017.

On September 19, 2018, Ivanhoe announced the completion of a major strategic equity investment totalling C\$723 million (\$555 million) in Ivanhoe Mines by CITIC Metal Africa, a direct subsidiary of CITIC Metal Co., Ltd. (CITIC Metal), one of China's leading international resources companies. Ivanhoe Mines issued 196,602,037 common shares to CITIC Metal Africa through a private placement at a price of C\$3.68 per share. Zijin exercised its anti-dilution rights, generating additional proceeds for Ivanhoe of C\$78 million (\$60 million). The exercise by Zijin of its anti-dilution rights also was at a price of C\$3.68 per share.

Photo: Ivanhoe Mines' Executive Co-Chairman Robert Friedland and CITIC Metal Group President Yufeng "Miles" Sun signed the landmark agreement to complete CITIC's C\$723 million equity investment in Ivanhoe during a ceremony in Beijing on September 19, 2018.



The Platreef Project's restricted cash, which were funds of \$290 million invested by the Japanese consortium of ITOCHU Corporation, Japan Oil, Gas and Metals National Corporation and Japan Gas Corporation, has been fully utilized and the project's current expenditure is being funded solely by Ivanhoe as the Japanese consortium has elected not to contribute to current expenditures. Since the Platreef Project's restricted cash was fully utilized, Ivanhoe has contributed a total of \$11.2 million on behalf of the Japanese consortium through an interest bearing loan to Ivanplats.

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

The Company's main objectives for 2019 at the Platreef Project are the continuation of Shaft 1 construction and the completion of early-works construction of Shaft 2. At Kipushi, the principal objectives

are the completion of the feasibility study and continued upgrading of mining infrastructure. At the Kamoakakula Project, priorities are the continuation of development at Kakula and the completion of the feasibility study for Kakula. The Company has budgeted to spend \$90 million on further development at the Platreef Project; \$57 million at the Kipushi Project; \$16 million on regional exploration in the DRC; and \$30 million on corporate overheads for 2019 – as well as its proportionate funding of the Kamoakakula Project, expected to be \$101 million for 2019.

The Company has a mortgage bond outstanding on its offices in London, United Kingdom, of £3.2 million (\$4.1 million). The bond is fully repayable on August 31, 2020, secured by the property and incurs interest at a rate of LIBOR plus 1.9% payable monthly in arrears. Only interest will be payable until maturity.

In 2013, the Company became party to a loan payable to ITC Platinum Development Limited, which had a carrying value of \$27.2 million as at December 31, 2018, and a contractual amount due of \$32.6 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 compounded. The difference of \$5.4 million between the contractual amount due and the carrying value of the loan is the benefit derived from the low-interest loan.

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

Contractual obligations as at December 31, 2018	Payments Due By Period				
	Total \$'000	Less than 1 year \$'000	1-3 years \$'000	4-5 years \$'000	After 5 years \$'000
Debt	36,656	-	4,097	-	32,559
Operating leases	1,243	454	789	-	-
Shaft 1 construction – Platreef Project	36,880	29,969	6,911	-	-
Shaft 2 construction – Platreef Project	1,816	1,816	-	-	-
Total contractual obligations	76,595	32,239	11,797	-	32,559

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

The Company is required to fund its Kamoakakula Holding joint venture in an amount equivalent to its proportionate shareholding interest.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

	Year ended December 31, 2018 \$'000	Year ended December 31, 2017 \$'000
Global Mining Management Corporation (a)	3,926	2,256
Ivanhoe Capital Aviation LLC (b)	2,457	2,000
GMM Tech Holdings Inc. (c)	996	681
HCF International Advisers ((d)	838	601
Ivanhoe Capital Services Ltd. (e)	481	465
Ivanhoe Capital Pte Ltd (f)	335	285
Global Mining Services Ltd. (g)	22	24
Ivanhoe Capital Corporation (UK) Limited (h)	8	(44)
Kamoa Copper SA (i)	(4,304)	(3,746)
Ivanhoe Mines Energy DRC Sarl (j)	(363)	(383)
	4,396	2,139
Salaries and benefits	3,244	2,154
Travel	2,925	2,258
Consulting	2,657	1,655
Office and administration	237	201
Cost recovery and management fee	(4,667)	(4,129)
	4,396	2,139

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

As at December 31, 2018, trade and other payables included \$1.21 million (December 31, 2017: \$0.93 million) with regards to amounts due to related parties related by way of director or officers in common. These amounts are unsecured and non-interest bearing. Included in other receivables is \$0.19 million (December 31, 2017: \$0.18 million) due from parties related by way of directors, officers or shareholders in common.

- (a) Global Mining Management Corporation (Global) is a private company based in Vancouver. The Company and the Executive Co-Chairman of the Company hold an indirect equity interest in Global. Global provides administration, accounting and other services to the Company on a cost-recovery basis.
- (b) Ivanhoe Capital Aviation LLC (Aviation) is a private company owned indirectly by the Executive Co-Chairman of the Company. Aviation operates an aircraft for which the Company contributes toward the running costs.

- (c) GMM Tech Holdings Inc. (GMM Tech) is a private company incorporated in British Columbia, Canada and is 100% owned by Global. GMM Tech provides information technology services to the Company on a cost-recovery basis.
- (d) HCF International Advisers (HCF) is a corporate finance adviser specializing in the provision of advisory services to clients worldwide in the metals, mining, steel and related industries. Guy de Selliers, a director of Ivanhoe, is the President and co-founder of HCF, which provides financial advisory services to the Company.
- (e) Ivanhoe Capital Services Ltd. (Services) is a private company owned indirectly by the Executive Co-Chairman of the Company. Services provides for salaries administration and other services to the Company in Singapore and Beijing on a cost-recovery basis.
- (f) Ivanhoe Capital Pte. Ltd. (Capital) is a private company owned indirectly by the Executive Co-Chairman of the Company. Capital provides administration, accounting and other services in Singapore on a cost-recovery basis.
- (g) Global Mining Services Ltd. (Mining) is a private company incorporated in Delaware and is 100% owned by Global. Mining provides administration and other services to the Company on a cost-recovery basis.
- (h) Ivanhoe Capital Corporation (UK) Limited (UK) is a private company owned indirectly by the Executive Co-Chairman of the Company. UK provides administration, accounting and other services in London on a cost-recovery basis.
- (i) Kamo Copper SA (Kamo Copper) is a company incorporated in the DRC. Kamo Copper is 80% owned by Kamo Holding Limited, a joint venture of the Company. The Company provides administration, accounting and other services to Kamo Copper on a cost-recovery basis.
- (j) Ivanhoe Mines Energy DRC Sarl (Energy) is a company incorporated in the DRC. Energy is 100% owned by Kamo Holding Limited (KHL), a joint venture of the Company. The Company provides administration, accounting and other services to Energy on a cost-recovery basis.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in Note 2 to the consolidated financial statements for the year ended December 31, 2018. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period presented and reported amounts of expenses during said reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates that, by their nature, are uncertain. Such estimates have a pervasive effect on the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(i) *Technical feasibility and commercial viability of projects*

All direct costs related to the acquisition of mineral property interests are capitalized by property or project. Exploration costs are charged to operations in the period incurred, until such time as the Company determines that a property is technically feasible and commercially viable, where after development costs are capitalized. In making this determination, the Company considers whether a proposed project is capable of being developed at a sufficient return to justify the capital and managerial resources that must be committed to the project. This determination is made on a property-by-property basis and generally coincides with the finalization of a preliminary economic assessment or pre-feasibility study of the property. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

In determining whether an exploration and evaluation property is technically feasible and commercially viable, the Company considers several criteria, including:

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Newly adopted accounting standards

The following standards became effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company adopted these standards in the current period, which did not have a material impact on its audited consolidated financial statements.

- IFRS 15 – Revenue from contracts with customers. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue.
- Amendments to IFRS 2 – Share-based payments. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled.
- Amendment to IFRS 9 – Financial instruments. The standard replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

On transition, the new expected credit loss impairment model on financial assets did not result in a material amount and therefore opening retained earnings was not adjusted.

The reclassification of financial assets and liabilities are summarized in the table below.

<u>Financial Instrument</u>	<u>Classification in terms of IAS 39</u>	<u>Classification in terms of IFRS 9</u>
Financial Assets		
Loan advanced to joint venture	Loans and receivables	Amortized cost
Long term loan receivable	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Financial assets at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
Cash and cash equivalents	Amortized cost	Amortized cost
Financial Liabilities		
Borrowings – Loans from other entities	Amortized cost	Amortized cost
Borrowings – Citi bank loan	Amortized cost	Amortized cost
Advances payable	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Financial liability	Amortized cost	Amortized cost

- IFRIC 22 – Foreign currency transactions and advance consideration. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency.
- Annual improvements 2014-2016. IFRS 1 - First-time adoption of IFRS.

Accounting standards issued but not yet effective

- IFRS 16 – Leases. IFRS 16 was issued in January 2016 and will result in almost all leases being recognized on the statement of financial position by lessees, as the distinction between operating and finance leases has been removed. An asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. (i)

The Company has reviewed all of its leasing arrangements in light of the new lease accounting as required in IFRS 16. The standard will primarily affect the accounting for the Company's operating leases.

As at the reporting date, the Company has non-cancellable operating lease commitments of \$15.0 million. Of these commitments, approximately \$0.2 million relate to short-term leases and \$0.1 million to low value leases which will both be recognized on a straight-line basis as an expense in profit or loss.

For the remaining lease commitments the Company expects to recognize right-of-use assets of approximately \$11.4 million on January 1, 2019, lease liabilities of \$11.4 million (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018) and deferred tax assets of nil. Overall net assets and net current assets will not be impacted.

The Company expects that net profit after tax will increase by approximately \$0.7 million for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is

expected to increase by approximately \$0.7 million, as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows will decrease by approximately \$0.7 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the financial statements.

- IFRS 13 – Business Combinations. The amendment to the definition of a business confirmed that a business must include inputs and a process and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs. Furthermore, the amendment narrowed the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than providing dividends or other economic benefits directly to investors or lowering costs. (ii)

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

- Annual improvements 2015-2017 Cycle: IFRS 3 – Business Combinations and IFRS 11 – Joint arrangements. The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business. (i)

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

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

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

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

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

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

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

- (i) Effective for annual periods beginning on or after January 1, 2019
- (ii) Effective for annual periods beginning on or after January 1, 2020

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value of financial instruments

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

	Level	December 31, 2018 \$'000	December 31, 2017 \$'000
Financial assets			
<i>Financial assets at fair value through profit or loss</i>			
Investment in listed entity	Level 1	1,924	8,563
<i>Amortized cost</i>			
Cash and cash equivalents	Level 1	574,048	181,419
Loan advanced to joint venture	Level 3	479,521	369,860
Promissory note receivable	Level 3	12,713	13,610
Long term loan receivable	Level 3	36,471	34,065
Financial liabilities			
<i>Amortized cost</i>			
Borrowings	Level 3	31,291	29,204
Trade and other payables	Level 3	26,442	23,586
Advances payable	Level 3	2,502	2,344
<i>Fair value through profit or loss</i>			
Financial liability	Level 3	3,349	2,605

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 long term loan receivable and promissory note receivable are evaluated based on parameters such as interest rates, specific country risk factors, creditworthiness of the creditor and the risk characteristics of the financed projects. Based on this evaluation, allowances are taken into account for the estimated losses of the receivable.

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 is determined assuming an interest rate of USD LIBOR plus 7%. The carrying value of borrowings does not significantly differ from its fair value.

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 maturities.

Finance income

The Company's finance income is summarized as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$'000	\$'000
Interest from loan to joint venture	(40,378)	(27,394)
Other interest income	(7,074)	(3,682)
Interest on long term loan receivable	(2,407)	-
Unwinding discount	-	(1,538)
	(49,859)	(32,614)

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

Financial risk management objectives and policies

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

Foreign exchange risk

The Company incurs certain of its expenses in currencies other than the U.S. dollar. The Company also has foreign currency denominated monetary assets and liabilities. As such, the Company is subject to foreign exchange risk as a result of fluctuations in exchange rates. The Company enters into derivative instruments to manage foreign exchange exposure as deemed appropriate.

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

	December 31, 2018	December 31, 2017
	\$'000	\$'000
Assets		
Canadian dollar	180,321	2,597
South African rand	16,848	46,030
British pounds	5,257	452
Australian dollar	1,924	8,563
Liabilities		
South African rand	(7,325)	(11,100)
British pounds	(3,427)	(180)
Canadian dollar	(571)	(384)
Australian dollar	-	(57)

Foreign currency sensitivity analysis

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

	Year ended December 31, 2018	Year ended December 31, 2017
	\$'000	\$'000
Canadian dollar	8,987	110
Australian dollar	96	425
South African rand	(85)	(97)

Credit risk

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

The Company reviews the recoverable amount of its financial assets at each statement of financial position date to ensure that adequate impairment losses are made for irrecoverable amounts. The Company has considered the requirement of IFRS 9 to recognize a loss allowance for expected credit losses on financial assets. The general approach was applied to these financial assets. Under the general approach the 12 month expected credit losses is calculated unless there has been a significant increase in credit risk in which case the lifetime credit losses are calculated.

The credit risk on cash equivalents is limited because the cash equivalents are composed of deposits with major banks that have investment grade credit ratings assigned by international credit-rating agencies and have low risk of default. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the parties to settle the receivables. Repayment of the long term loan receivable will be made by offsetting the loan against future royalties and dividends payable to Gécamines which arise from future profits earned in Kipushi. The promissory note receivable is expected to be repaid using proceeds from the sale of Crystal River's 1% stake in Kamo Holding. The loan advanced to the joint venture will be repaid as and when there is residual cash flow in Kamo Holding. Due to the excellent economics of the Kamo-Kakula's recently announced PFS and PEA, repayment of the loan is deemed to be highly probable.

Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years. There are no expected credit losses on financial assets.

Liquidity risk

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

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

	Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total undiscounted cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000
As at December 31, 2018					
Trade and other payables	24,247	1,296	899	-	26,442
Non-current borrowings	-	-	-	36,656	36,656
As at December 31, 2017					
Trade and other payables	21,154	1,452	940	40	23,586
Non-current borrowings	-	-	-	35,711	35,711

Interest rate risk

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

If interest rates (including applicable USD LIBOR rates) had been 50 basis points higher or lower and all other variables were held constant, the Company's loss for the year ended December 31, 2018 would have increased or decreased by \$3.4 million.

DESCRIPTION OF CAPITAL STOCK

As at March 26, 2019, the Company's capital structure consists of an unlimited number of Class A common shares without par value (the "Class A Shares"), an unlimited number of Class B common shares without par value (the "Class B Shares") and an unlimited number of preferred shares without par value. At this date 1,017,958,817 Class A Shares, nil Class B Shares, nil warrants and nil preferred shares were issued and outstanding.

The Company granted no options in 2017, and 6,000,000 in 2018 and 1,500,000 options in 2019 to date. As at March 26, 2019, there were 19,152,500 options outstanding issued in terms of the Equity Incentive Plan exercisable into 19,152,500 Class A Shares.

The Company granted 1,666,184 restricted share units (RSUs) in 2019 to date, 1,520,813 restricted RSUs in 2018 and 43,683 RSUs in 2017 per the Company's restricted share unit plan. As at March 26, 2019, there were 3,374,444 RSUs which may vest into 3,374,444 Class A Shares.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operation of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) in order to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have each evaluated the design and operating effectiveness of the Company's DC&P and ICFR as of December 31, 2018 and, in accordance with the requirements established under National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, the CEO and CFO have concluded that these controls and procedures have been designed and operate to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

As at December 31, 2018, management, including the CEO and CFO, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the CEO and CFO have concluded that as of the end of the period covered by this MD&A, the Company's disclosure controls and procedures were effective.

The Company's CEO and CFO have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design and operation of the Company's ICFR as of December 31, 2018 and have concluded that these controls and procedures have been designed and operated effectively to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design and operation of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected.

As at December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective.

During the year ended December 31, 2018, there were no changes in the Company's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISK FACTORS

The Company has summarized its foreign exchange risk, credit risk, interest rate risk and liquidity risk under the “Financial risk management objectives and policies” sub-heading under the “Financial instruments and other instruments” section in this MD&A. Additional risks and uncertainties are discussed in the Company’s Annual Information Form filed with Canadian provincial regulatory authorities and available at www.sedar.com.

DISCLOSURE OF TECHNICAL INFORMATION

Disclosures of a scientific or technical nature in this MD&A have been reviewed and approved by Stephen Torr, who is considered, by virtue of his education, experience and professional association, a Qualified Person under the terms of NI 43-101. Mr. Torr is not considered independent under NI 43-101 as he is the Vice President, Project Geology and Evaluation. Mr. Torr has verified the technical data disclosed in this MD&A.

Ivanhoe has prepared a current, independent, NI 43-101-compliant technical report for each of the Platreef Project, the Kipushi Project and the Kamoakakula Project, which are available under the Company’s SEDAR profile at www.sedar.com:

- The Kamoakakula Integrated Development Plan 2019 dated March 18, 2019, prepared by OreWin Pty Ltd., Amec Foster Wheeler E&C Services Inc. (a division of Wood PLC), SRK Consulting Inc., KGHM Cuprum R&D Centre Ltd., Stantec Consulting International LLC, DRA Global, Golder Associates, and Epoch Resources (Pty) Ltd., covering the company’s Kamoakakula Project;
- The Platreef 2017 Feasibility Study Technical Report dated September 4, 2017, prepared by DRA Global, OreWin, Amec Foster Wheeler, Stantec Consulting, Murray & Roberts Cementation, SRK Consulting, Golder Associates and Digby Wells Environmental, covering the Company’s Platreef Project; and
- The Kipushi 2017 Prefeasibility Study Technical Report dated January 25, 2018, prepared by OreWin, The MSA Group, SRK Consulting (South Africa) and MDM (Technical) Africa, covering the Company’s Kipushi Project.

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

ADDITIONAL INFORMATION

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