



## Conference call for investors

October 15, 2009

Presentations by senior executives  
on details of the Investment Agreement  
and Shareholders' Agreement  
for the Oyu Tolgoi Project  
signed in Mongolia on October 6, 2009

## FORWARD-LOOKING STATEMENTS

The comments may contain certain forward-looking information. This information by its nature is subject to risks and uncertainties. As we conduct this call, various remarks that we make about our future plans and expectations related to the Oyu Tolgoi investment agreement, development of the Oyu Tolgoi mining complex, the upcoming 2009 Oyu Tolgoi integrated development plan and projected production rates, capital costs and operating costs should be regarded as forward-looking statements.

Forward-looking statements reflect management's expectations and estimates, representing the timetable and probable outcomes of these activities and are based on management's best judgment as of today's date, based on information currently available. Management believes that its expectations and estimates are reasonable, but actual results may differ materially from those anticipated. Important factors that could cause actual results to differ from those anticipated are disclosed under the heading risk factors and elsewhere in the corporation's periodic filings with Canadian and U.S. securities regulators.

**ROBERT FRIEDLAND, Executive Chairman, Ivanhoe Mines Ltd.**

Ladies and gentlemen, thank you for joining us today. Clearly, we have just experienced one of the most eventful weeks in our company's history. The door to our future is now opened wide. Oyu Tolgoi, which has long been recognized as the largest and highest-grade undeveloped copper-gold porphyry system in the world is about to begin the final stages of its transformation into one of the largest and most successful operating mines in the world.

Today we're going to bring you up to date with the significant events that we have reported, brief you on the key provisions of our investment agreement with the government of Mongolia to build and operate the Oyu Tolgoi mining complex and we'll also provide some indications of our next steps.

I'm calling you now from Beijing, China. John Macken is in Africa and Peter Meredith is in Canada. It's truly an international call. We scheduled it at this hour to try to get everybody on the call at the same time. We apologize for being so early on the West Coast in North America.

The signing of the investment agreement last week was the key final building block to be put in place before we could commit to the necessary investment and embark on the completion of the construction of the first phase of the Oyu Tolgoi mine. We expect to be in commercial production in the year 2013. The agreement is mutually beneficial, fair and sustainable, and the agreement will deliver to generations of Mongolians the extraordinary opportunities that are presented by Oyu Tolgoi.

We also appreciate the support and confidence shown by our strategic partner, Rio Tinto, whose resources and experience and people will be instrumental in ensuring Oyu Tolgoi's success. While we are on the threshold of our future and looking ahead, I think this is also an

appropriate time to look back along the road that we have travelled. Just over six years ago in September 2003, the successes of our exploration program at Oyu Tolgoi, especially at Hugo North, were the talk of the worldwide mining industry. There was the inevitable speculation about the directions that the project might take. We felt obliged at that time to talk to all those who had an interest in the future of the project.

We confidently declared Oyu Tolgoi to be part of a major new mineral province, not just an individual discovery. We said that there may be an opportunity for “a qualified and appropriate company” or companies with relevant experience and/or resources to become a strategic minority partner.

In a statement that was issued on September the 8th, 2003 I declared that Ivanhoe Mines was committed to “a long-term leadership role in controlling the development of Oyu Tolgoi.” The statement set out a deliberate course and said in part, and it’s kind of strange to be quoting from my own words, but I’ve been looking at this and finding it very interesting:

*“We are always willing to listen to good ideas and we remain cognizant of our fiduciary obligation to our shareholders and do our utmost to maximize the value of their investments. However, we remain convinced that the best opportunity for creating value for our shareholders is through a long-term commitment to Turquoise Hill. And that’s what Oyu Tolgoi was known then outside of Mongolia.*

*“Our approach to all overtures that we received from interested parties is based on the simple little premise that Ivanhoe will continue to control the project and take the lead role in directing its development. We want to be the builder of Turquoise Hill, not the auctioneer. This is not Voisey’s Bay all over again.*

*“Turquoise Hill is integral to Ivanhoe’s future. We intend to be around for the long term to fulfil our responsibilities, including ensuring that everything about this mining project is done right. The mine is being designed from the outset to meet international standards for environmental management and operational safety and health. At Turquoise Hill, we will demonstrate that it is possible to introduce sound mining practices to the South Gobi that will deliver on the region’s economic progress and promise while respecting long-established cultural values.*

*“We will also ensure that the local people of the South Gobi region are involved in our planning from the beginning and that they and their children benefit directly and indirectly from the development of the resources with which their land is blessed. The depth of Ivanhoe’s commitment to these principles cannot be overstated.”*

That was six years ago. I am immensely proud today that we, at Ivanhoe Mines, have kept our word. It is a tribute to the skills and dedication of all of the thousands of men and women that comprise Ivanhoe Mines. All of us are grateful for the support and patience of our many shareholders. Our commitment today continues undiminished.

Peter Meredith, our Deputy Chairman and our Chief Investment Agreement Negotiator with the Mongolian government for the past three years, will walk you through the principal terms of the agreement. John Macken, our President and CEO, will touch on considerations that will be addressed in the 2009 integrated development plan, now almost ready for release, and outline the Oyu Tolgoi work plan for the next couple of years.

By the way, John Fognani, Munkhbat Ania, Tseghe, who runs our Mongolian office, and Peter all received important awards from the Mongolian government in recent days for their tireless work in negotiating this investment agreement. So there's no one better than Peter Meredith to summarize this agreement. He knows it, I'm sure, in his sleep and he's the best person to comment and answer questions later in this call. Peter?

PETER MEREDITH: Thank you, Robert. Just in addition to what Robert said, we had immense help from the Rio Tinto side and I think Sam Riggall and Keith Marshall also deserve a lot of credit for their help in getting these agreements over the line.

ROBERT FRIEDLAND: I second that. Thank you so much.

**PETER MEREDITH, Deputy Chairman,  
Chief Investment Agreement Negotiator, Ivanhoe Mines Ltd.**

PETER MEREDITH: These agreements that are signed have been written within existing Mongolian laws and address the interests of all of the parties in the agreements. I'll review with you selected highlights of the investment agreement and the shareholders' agreement, but copies of a complete summary of these agreements are available on the Ivanhoe Mines website, [www.ivanhoemines.com](http://www.ivanhoemines.com), and have been posted on the Sedar document site, at [www.sedar.com](http://www.sedar.com).

Ivanhoe Mines and its subsidiary, Ivanhoe Mines Mongolia Inc., which will be renamed Oyu Tolgoi LLC, and Rio Tinto have entered into an investment agreement with the government of Mongolia to define and regulate our relationship among the parties for the construction and development of the OT project. The investment agreement provides among other things a

framework for maintaining a stable tax and operational environment for the OT project; protection of the parties' investments in the OT project, the amount and terms of the parties' investments; the rights to realize the benefits of such investment; and undertaking of mining activities with minimal damage to the environment and human health; the rehabilitation of the environment, the social and economic development of the South Gobi region; and creation of many new jobs in Mongolia.

The shareholders' agreement contemplates the basis upon which the government of Mongolia through Erdenes, will acquire a 34-per-cent equity interest in the OT project through a shareholding in IMMI, now Oyu Tolgoi LLC, and provides with the respective rights and obligations of these parties as shareholders.

### **Effective Date**

The investment agreement will come effective as of the date that all of the conditions precedent to its effectiveness have been satisfied or waived. We are working as quickly as possible to satisfy these remaining conditions but two days ago, we were able to check off one of the more important conditions when Rio Tinto opted to conclude its US\$388 million tranche two investment, increasing its investment in Ivanhoe Mines to a new level of 19.7 per cent.

Other conditions which are easily remedied in the next few weeks include:

- Completion and registration of a revised charter.
- Review and approval of a feasibility study of the OT project in accordance with the laws of Mongolia within a period of 150 days from the date of submission. That feasibility study has already been submitted.
- Confirmation by the Mongolian taxing authorities of losses and capitalized expenses for depreciation purposes available for deduction and any outstanding tax liabilities or credit. That audit by the taxing authorities is already under way.
- Determination of the quantum of loans advanced by the company Rio Tinto or our affiliates in relation to the OT prior to the effective date. That audit is under way as well.
- Completion of corporate restructuring of IMMI to separate any assets other than OT. That is under way.
- Establishment of a standing working committee of representatives of the Mongolian government and ourselves to facilitate and expedite permits, customs clearance, general government administration during the pre-commercial production phase of the OT project.

- Transfer of all rights of the company in respect of certain exploration licences held by Entrée and the conversion of such exploration licences into mining licences.
- And the last: restructuring and ownership of IMMI to a country subject to a double taxation treaty with Mongolia.

We expect these conditions precedent to be removed quickly and the effective date should be within the next few months.

### **Term**

The term of this investment has an initial term of 30 years. We also have the right to extend this initial term by a further 20 years, provided a number of conditions are satisfied, including making total capital expenditures for the project of at least \$9 billion.

### **Licenses and Permits**

The investment agreement provides that the company has the right to apply for and obtain all licences, permits, work visas, customs clearances, easements and rights of way, approvals of competent authorities and other similar consents required in connection with this project. The government has agreed to provide support if and when requested in accordance with the relevant laws and regulations of Mongolia.

### **Investment Protection**

The investment agreement confirms our rights to sell, market and export mineral products from the OT project at international market prices and to freely expend and repatriate its sales proceeds in Mongolia in tögrögs and foreign currencies. The investment agreement confirms that investments made by the company and its affiliates within the territory of Mongolia are entitled to the legal protection guaranteed by the Mongolian constitution, the foreign investment law, other Mongolian laws and regulations, and the federal treaties to which Mongolia is a party.

IMMI and its affiliates are entitled to conditions no less favourable than the conditions granted to domestic Mongolian investors regarding the right to own, utilize and spend its investment. The capital property and assets of IMMI and its affiliates are not to be expropriated.

### **Taxes, Royalties and Fees**

Throughout the initial term and the renewal term, any taxes payable by IMMI will remain stabilized unless a particular tax is lowered, in which case IMMI will have the right to enjoy the benefit of the lower tax rate. The annual corporate tax rate will be stabilized at a rate of 25 per

cent. In addition to corporate taxes, the following taxes have been stabilized: customs duties, VAT, excise tax, royalties, mineral exploration and mining licence payments, and immovable property tax and/or real estate tax.

The existing windfall profits tax will be eliminated effective January 1, 2011. The specific rates of the other forms of taxation imposed on the company are as follows: dividends, 10 per cent; income from royalties, 10 per cent; income from disposal of immovable property, 2 per cent; income from interest, 10 per cent; income from the sale of rights, 30 per cent.

The investment further provides that VAT payments, which are currently non-refundable, become refundable in the future, the availability of our investment tax credit will cease from that point on. However, past earned investment tax credits will still apply.

IMMI is also entitled to investment tax credit equal to 10 per cent of its investment in depreciable non-current assets related to the OT project until the earlier of seven years after the effective date or the date upon which commercial production commences. This in reality, ladies and gentlemen, is 10 per cent on all of the capital that we are spending.

IMMI is obligated to pay a royalty to the government of Mongolia equal to 5 per cent of the sales value of all extracted mineralization from the project that is sold, shipped for sale or used. The royalty rate is stabilized.

### **Project Financing and Commercial Production**

IMMI has agreed to secure or to have made available to it within two years of the effective date sufficient financing facilities to enable a full and complete construction of the project as described in the feasibility study. IMMI is required to achieve commencement of commercial production from the OT project within five years of having secured the financing.

### **Infrastructure**

IMMI is permitted to construct a road between the OT project and the border crossing. IMMI has the right to access, to use self-discovered water resources for any purpose connected with the project during the life of the project, including construction commission, operation and rehabilitation.

### **Smelter**

IMMI has agreed that within three years of commencing commercial production from the project, we will prepare a research report on the economic viability of constructing and operating a copper smelter in Mongolia to process the mineral concentrate derived from the project.

**Power Supply**

During the construction period of the OT project and until the fourth anniversary after the project attains commercial production, IMMI will have the right to import electrical power from sources outside Mongolia, including China. If the government of Mongolia supplies power to IMMI, the supply must be on a commercial and non-discriminatory term and must be a stable, reliable and uninterrupted power supply in a quantity sufficient for the project. IMMI also has the option of developing supplemental power from alternative energy sources such as wind, solar and geothermal.

**Local Communities**

IMMI will prioritize the training, recruiting and employment of citizens from local communities for the project, giving specific preference to the citizens of the local aimag (province). Once the OT project attains commercial production, 90 per cent of the OT project workforce must be Mongolian nationals. IMMI must use its best efforts to ensure that within five years of the project attaining commercial production at least 50 per cent, and within 10 years of the project attaining commercial production at least 70 per cent, of the engineers employed at the project are Mongolian nationals.

IMMI is also required to establish a graduate scholarship program to assist in the education of Mongolian nationals in mining-related disciplines with an emphasis on engineering. The scholarship program will support over a six-year period the education and living expenses of 150 qualified under-graduate students with 30 of these scholarships used for studies and undertaken at international universities. The scholarship program will cover tuition fees and living expenses.

**Environmental Protection**

IMMI is responsible for implementing an annual environmental protection plan in an environmental monitoring and analysis program for the project. Every three years, IMMI must provide the government of Mongolia with a report prepared by an independent certified professional firm addressing the implementation. We must also provide a guarantee to implement in all material respects its obligations by depositing funds equal to one half of an environmental protection budget for the particular year.



**Dispute Resolution**

Any dispute that is not resolved through negotiation will be resolved by binding arbitration in accordance with the procedures under the arbitration rules of the United Nations Commission on International Trade Law as enforced at the time of the dispute. In any such arbitration proceeding, the language of the arbitration will be English, the arbitrators will apply the laws and regulations of Mongolia to the interpretation of the investment agreement, the place of arbitration will be London, England, and the attribution award will be final and binding on the parties.

**Shareholders' Agreement**

Now, the shareholders' agreement. The material terms and conditions of the shareholders' agreement are as follows.

**Ownership of IMMI**

Under the terms of the agreement, as of the effective date, IMMI will issue 34 per cent of the then issued and outstanding common shares of IMMI to the government. The government will exercise its right under the investment agreement to obtain the renewal period, and Erdenes or the government will have the option to acquire additional common shares in IMMI to increase its shareholdings in IMMI to 50 per cent.

These shareholdings of IMMI will not be diluted by the issue of new share capital without its consent in any form.

**Management of OT Project**

The management of the project: the management team will be responsible for the day-to-day operations of IMMI and the OT project and will report to IMMI's board of directors on a quarterly basis. A management services payment will be payable to the management team equal to 3 per cent of the OT project's operating and capital costs prior to the commencement of production and 6 per cent thereafter. This management services payment will be shared on a 50-50 basis by the company and Rio Tinto.

**Election of Directors**

IMMI will have the right to nominate six directors and the government of Mongolia will be entitled to nominate three directors. IVN has the right to appoint the chairman of the board of

directors and such chairman will have the casting vote on any matter in which the directors are deadlocked.

### **Budgets and Financial Information**

Within 35 days after the effective date, the management team must submit to the board of directors its first operating program and the budget for IMMI with respect to the remainder of the then current financial year. The management team will also be responsible for submitting to the board of directors the operating program and budget for each fiscal year thereafter.

### **Domestic Procurement Obligations**

IMMI shall be required on a priority basis to purchase and utilize services supplied by Mongolian citizens and/or legal entities and equipment, raw materials and spare parts manufactured in Mongolia should have priority. In addition, a specific preference is given to Mongolian suppliers of freight and transportation services required for the project and businesses operating within the local aimag to the extent practical.

### **Existing Shareholder Loans and Cash Calls**

All funds advanced to IMMI prior to the effective date as determined by the parties are repayable prior to any dividend distributions to the shareholders. The management team of IMMI may request that its shareholders contribute funds in proportion in accordance to their respective share ownership interest to meet projected cash requirements of IMMI under the project programs and budgets approved by the board of directors.

IVN has agreed to fund the government's portion. These advances and loans will attract an interest rate of 9.9 per cent adjusted on a quarterly basis by the percentage of the variation in the United States Consumer Price Index.

### **Payment of Dividends and Transfer of Shares of IMMI to Third Parties**

All principal and interest outstanding must be repaid prior to the payment of any dividends. No shareholder of IMMI may dispose of any of their shares to a third party without first offering such shares to the other shareholders.

### **T-Bill Agreements**

IMMI has also agreed to purchase three treasury bills from the government of Mongolia. These T-bills will be purchased in three separate instalments, each with a purchase triggered by

the attainment of defined milestones. The initial T-bill with a face value of US\$115 million will be purchased next week, October 20th. The purchase price will be US\$100 million. A second T-bill with a face value of US\$57.5 million will be purchased within 14 days of the effective date. The purchase price will be \$50 million.

A final T-bill having a face value of US\$115 million will be purchased within 14 days of IMMI having fully drawn down the financing necessary to enable the full and complete construction of the project or June 30th, 2011, whichever is earlier. The purchase price will be US\$100 million.

Robert, I think that ends the summary of both the IA and the shareholders' agreement.

ROBERT FRIEDLAND: Thank you. That was a mouthful, and I would remind everybody that all of this is going to be posted on Sedar and our website will have a succinct synopsis of both this conference call and the terms of the investment agreement, the shareholders' agreement and the treasury bill purchase agreement, so all of these material documents are transparent for everyone in the world to see.

So with that, I'd like to bring on John Macken, because he has to fly very shortly to catch another flight. I'd like John to offer our audience some of his comments about the next steps for the immediate development of the Oyu Tolgoi copper and gold mining complex. John? Let's tell them about the 2009 integrated development plan, which so many people are waiting for.

**JOHN MACKEN, President and Chief Executive Officer,  
Ivanhoe Mines Ltd.**

JOHN MACKEN: Okay, thank you very much, Robert. The approval of the IA has allowed us to update our OT integrated development plan and the new 2009 IDP is in final draft form, as we speak. We are confident that when our review process is complete and results are made public in the coming weeks, the project economics will demonstrate the project's strength and extraordinary value, especially as leveraged to metal prices, for all the partners concerned.

Whether we evaluate the reserve alone or the life-of-mine resources of Oyu Tolgoi, the project's economics resoundly support a decision to progress from development into production.

In terms of specifics, we would need to complete the IDP 09 review before reporting in full and I would like to leave those details for that time. But what we can say at this stage is that although we assume costs and capital increases since 2005, the expectations as to the long-

term price of copper and gold have grown at a greater rate. As such, we believe our operating margins per tonne will actually improve from those in 2005 and our tonnage will be higher on annual and life-of-mine bases.

The key elements required to execute the project have been in place for quite some time and now we are looking to leverage from these plans in the next three to six months as we move the project towards full release. With the confirmed investment agreement in place we will fully mobilize the project construction team and align all capital and project schedules for our presentation to the board for approval as soon as possible.

Apart from confirming the development path we have been on to date, the draft IDP indicates that Ivanhoe Mines has the opportunity to further enhance project value. We will, of course, investigate these. The process of completing the conditions precedent that Peter outlined and procuring a board submission will facilitate that enhanced project value review.

While that is undertaken, the results of the IDP 09 also are encouraging us to take some immediate steps to maximize project value. In the first instance we have immediately released funds to begin accelerating the underground development. Shaft 1 has been completed to 1,385 metres. Lateral development is progressing and a total of just less than 900 metres has been developed so far.

We will recommence work on Shaft 2 surface facilities come spring and the completion of Shaft 2 currently stands as one of our biggest value drivers in the project. Shaft 2 will allow us to bring between Shaft 1 and Shaft 2, close to 85,000tpd of high grade underground ore to the complex.

Secondly, in accordance with permissions outlined in the investment agreement, we've undertaken a complete review of the scope and basis of power and the transportation of concentrates. We expect that the Mongolian government, our new partner, will be of immense value in reaching a final conclusion on these reviews.

Finally, we'll submit and commence the training program outlined in our OT training and development plan, which currently is being produced. This, coupled with the progression in our financing plans, should put us in a position to marry financing with the final project budget and schedules in the next three to six months. Once that happens, we are looking at a 32- to 38-month construction schedule before the first pound of copper is produced.

From the scheduling perspective and subject to updating all production and capital schedules, we currently believe that mid to late 2013 start-up is achievable.

As to cost, we would like to note that the final financing required for our project will be heavily dependent upon the final approved schedule. The core project is essentially the

concentrator, infrastructure to support it and an open-pit mine sustaining 100,000 tonnes per day of mill feed. That costing is based on a 70- to 80-per-cent engineering estimate; we expect not much variance from our comparable projects, which seem to be in the range of \$3 to \$3.5 billion for a greenfield start-up.

In parallel, and on top of this, we are already committed to the underground development program because we know this project drives value. We'll currently look to a further investment of about \$1 billion before the open-pit mine starts generating revenue.

But this really is governed by the final schedule. In reality, we would like to spend more on the underground, if it meant it was progressing faster as a result in enhancing project value, and this more than would justify the additional outlay. We are projecting that more than 1 billion pounds of copper and 500,000 ounces of gold will be produced on an annual basis, at least for the first 10 years, and close to those levels for the life of mine.

And just a small note on the differences between the IDP 05 and '09. The IDP 09 essentially builds off the main principles of the IDP 05 but will have higher reserve numbers and vastly increased resources, adding to the long-term value of the project.

The Southern Oyu open pit will be the initial source of feed for the now two-line concentrator, built ready for future expansions. We still think rapid development into a more valuable underground resource conducted in parallel will up the mine's value and will reach full production in time for an expansion of the concentrator. So the key to the ongoing development of the project is matching the concentrator to meet underground development and also maintain 100,000 tonnes per day of development with the underground.

Initially power for the project coming across the border from China will be replaced ultimately by power generated in Mongolia. Similar to IDP 05 there is a focus on developing Mongolian employees, supporting Mongolian business, along with an unparalleled community and environmental effort to ensure that Oyu Tolgoi is world class in every respect.

Thank you very much, Robert, and that completes my report.

ROBERT FRIEDLAND: Very good. That was a lot to say for Peter and a lot to say for John in a very short period of time. Of course, we'll have a transcript of this conference call on our website shortly. And I would like to repeat again that all of these material agreements are available on Sedar.

I think with that, as chairman of the call, I'd like to call it to an end and I want to thank Peter Meredith for his extraordinary effort negotiating this agreement on behalf of Ivanhoe Mines. I'd like to thank all the people at Rio Tinto who have also put in an enormous effort

starting with Sam Riggall, who is Chief Negotiator for Rio Tinto, as well as Keith Marshall, who's done such an able job of heading our efforts in country as the head of IMMI. With that, thanks very much.

PETER MEREDITH: And John Fognani.

ROBERT FRIEDLAND: Good night, or good morning as the case may be.

For more information, please contact Ivanhoe Mines Investor Relations in Canada at 1-604-688-5755 or e-mail [info@ivanhoemines.com](mailto:info@ivanhoemines.com).

Extensive information also is available on the company's website at [www.ivanhoemines.com](http://www.ivanhoemines.com).

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