

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

Registration Statement pursuant to Section 12 of the Securities Exchange Act of 1934

or

Annual Report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2008

Commission File Number: [001-32403]

IVANHOE MINES LTD.

(Exact name of Registrant as specified in its charter)

Yukon, Canada
*(Province or other jurisdiction of
incorporation or organization)*

1021
*(Primary Standard Industrial
Classification Code Number)*

Not Applicable
(I.R.S. Employer Identification Number)

Suite 654, 999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1, (604) 688-5755
(Address and telephone number of registrant's principal executive offices)

**CT Corporation System
111 Eighth Avenue
New York, New York
10011
(212) 894-8700**

(Name, address and telephone number of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Common Shares without par value

(Title of Class)

**New York Stock Exchange/
Nasdaq Stock Market**

(Exchanges)

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this Form:

Annual Information Form Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

378,046,013 Common Shares outstanding as of December 31, 2008

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The Annual Report on Form 40-F shall be incorporated by reference into, or as an exhibit to, as applicable, the Registrant's Registration statement under the Securities Act of 1933: Form S-8 (File No. 333-143550).

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In this annual report on Form 40-F, all funds are quoted in Canadian dollars unless otherwise indicated.

PRINCIPAL DOCUMENTS

The following documents have been filed as part of this Annual Report on Form 40-F:

A. Annual Information Form

For the Annual Information Form of Ivanhoe Mines Ltd. (the “Company”) for the year ended December 31, 2008, see Exhibit 1 of this Annual Report on Form 40-F.

B. Audited Annual Financial Statements

For the Company’s audited consolidated financial statements for the year ended December 31, 2008 and 2007, including the auditor’s report with respect thereto, see Exhibit 2 of this Annual Report on Form 40-F.

C. Management’s Discussion and Analysis

For the Company’s Management’s Discussion and Analysis for the year ended December 31, 2008, see Exhibit 3 of this Annual Report on Form 40-F.

FORWARD-LOOKING STATEMENTS

Certain statements made herein, including statements relating to matters that are not historical facts and statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and “forward-looking statements” within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as “anticipate,” “could,” “should,” “expect,” “seek,” “may,” “intend,” “likely,” “plan,” “estimate,” “will,” “believe” and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting anticipated business activities; planned expenditures; corporate strategies; proposed acquisitions and dispositions of assets; discussions with third parties respecting material agreements; the expected timing and outcome of the Company’s discussions with representatives of the Government of Mongolia for an Investment Agreement in respect of the Oyu Tolgoi Project; the timing of commencement of full construction of the Oyu Tolgoi Project; the estimated timing and cost of bringing the Oyu Tolgoi Project into commercial production; anticipated future production and cash flows; target milling rates; the impact of amendments to the laws of Mongolia and other countries in which Ivanhoe Mines carries on business; the anticipated future production for the Ovoot Tolgoi Coal Mine, the potential improvement of the export conditions at the Ceke border between Mongolia and China and the completion of a feasibility study on the Ovoot Tolgoi Coal Mine; the potential of plans to make non-core projects self-funding; and other statements that are not historical facts.

All such forward-looking information and statements are based on certain assumptions and analyses made by the Company’s management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Important factors that could cause actual results to differ from these forward-looking statements include those described under the heading “Risks

and Uncertainties” elsewhere in this Annual Report on Form 40-F. The reader is cautioned not to place undue reliance on forward-looking information or statements.

This Annual Report on Form 40-F also contains references to estimates of mineral reserves and mineral resources. The estimation of reserves and resources is inherently uncertain and involves subjective judgments about many relevant factors. 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, which may prove to be unreliable. There can be no assurance that these estimates will be accurate or that such mineral reserves and mineral resources can be mined or processed profitably. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Except as required by law, the Company does not assume the obligation to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

NOTE TO UNITED STATES INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES

This document and the documents incorporated by reference herein have been prepared in accordance with the requirements of securities laws in effect in Canada, which differ from the requirements of United States securities laws. Without limiting the foregoing, this document, and the documents incorporated by reference herein, use the terms “measured,” “indicated” and “inferred” resources. United States investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. Under current United States standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, “inferred resources” have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the “inferred resources” will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically. Disclosure of “contained ounces” is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report “resources” as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization and resources contained in this document, or in the documents incorporated by reference, may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC. National Instrument 43-101 Standards of Disclosure for Mineral Projects (“NI 43-101”) is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates contained in or incorporated by reference in this document have been prepared in accordance with NI 43-101. These standards differ significantly from the requirements of the SEC, and reserve and resource information contained herein and incorporated by reference herein may not be comparable to similar information disclosed by U.S. companies. NI 43-101 permits historical estimates made prior to the adoption of NI 43-101 that do not comply with NI 43-101 to be disclosed using the historical terminology if the disclosure: (a) identifies the source and date of the historical estimate; (b) comments on the relevance and reliability of the historical estimate; (c) states whether the historical estimate uses categories other than those prescribed by NI 43-101; and (d) includes any more recent estimates or data available.

ADDITIONAL DISCLOSURE

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's principal executive officer and principal financial officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the Company's fiscal year ended December 31, 2008, an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was carried out by the Company's management with the participation of the principal executive officer and principal financial officer. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in United States Securities and Exchange Commission ("SEC") rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's principal executive officer and principal financial officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles and the requirements of the SEC in the United States, as applicable. The Company's principal executive officer and principal financial officer have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 in accordance with Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's principal executive officer and principal financial officer have determined that the Company's internal control over financial reporting was effective as at December 31, 2008 and have certified the Company's annual filings with the SEC on Form 40-F as required by the United States Sarbanes-Oxley Act and with Canadian securities regulatory authorities.

Management of the Company reviewed the results of management's assessment with the Audit Committee of the Company's Board of Directors. Deloitte & Touche LLP, independent registered chartered accountants, was engaged, as approved by a vote of the Company's shareholders, to audit and

provide independent opinions on the Company's consolidated financial statements and the effectiveness of the Company's internal control over financial reporting as at December 31, 2008. Deloitte & Touche LLP has provided such opinions.

Changes in Internal Control Over Financial Reporting

During the year ended December 31, 2008, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF THE INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

The Company's independent registered chartered accountants, Deloitte & Touche LLP, have issued an unqualified opinion on the Company's internal control over financial reporting which is included in the Company's Audited Consolidated Financial Statements for the year ended December 31, 2008 attached hereto as Exhibit 2.

AUDIT COMMITTEE

The Company's board of directors has a separately-designated standing Audit Committee as defined by Section 3(a)(58)(A) of the Exchange Act for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the Company's annual financial statements. As of the date of this annual report, the members of the Audit Committee are Messrs. David Korbin, Kjeld Thygesen and Dr. Marcus Faber. Mr. Korbin is the Chairman of the Audit Committee.

Each of the directors serving on the Audit Committee has also been determined by the board of the Company to be independent within the criteria established by the SEC, the New York Stock Exchange (the "NYSE") and the NASDAQ Stock Market ("Nasdaq") for audit committee membership.

AUDIT COMMITTEE FINANCIAL EXPERT

The Company's board of directors has determined that Mr. David Korbin (a nominee of management for re-election as a director at the Meeting) is an "audit committee financial expert" (as such term is defined in Form 40-F). In addition, Mr. Korbin is independent, as that term is defined by the SEC and the NYSE and Nasdaq listing standards. Mr. Korbin holds a Chartered Accountant designation and has worked as an accounting professional for over 25 years.

CODE OF BUSINESS CONDUCT AND ETHICS

The Company has adopted a written "code of ethics" (as that term is defined in Form 40-F), entitled Code of Business Conduct and Ethics, which applies to all of the Company's employees, executive officers and directors, including the Company's principal executive officer, principal financial officer, principal accounting officer or control, and persons performing similar functions. The Code of Business Conduct and Ethics includes, among other things, written standards for the Company's principal executive officer, principal financial officer and principal accounting officer that are required by the SEC for a code of ethics applicable to such officers. To review or obtain a copy of the Company's Code of Business Conduct and Ethics, see "Corporate and Social Responsibilities – Code of Business Conduct and Ethics" posted on the Company's website, www.ivanhoe-mines.com. The Code of Business Conduct and Ethics is also available in print to any shareholder who requests it. Requests for copies of the Code should be made by contacting: Ivanhoe Mines Ltd., 654 – 999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1.

Since the adoption of the Code of Business Conduct and Ethics, there have not been any amendments to the Code of Business Conduct and Ethics (other than housekeeping amendments to the Code in 2007 to clarify consulting and reporting procedures and to recognize the Company's whistleblower mechanism) or waivers, including implicit waivers, from any provision of the Code of Business Conduct and Ethics.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte & Touche LLP has served as the Company's auditing firm since January 1995. Fees billed by Deloitte & Touche LLP and its affiliates during fiscal 2008 and fiscal 2007 were approximately Canadian \$3,330,000 and Canadian \$1,838,000, respectively. The aggregate fees billed by the auditors in fiscal 2008 and fiscal 2007 are detailed below.

<i>(Canadian \$ in 000's)</i>	<u>2008</u>	<u>2007</u>
Audit Fees (a)	\$1,030	\$ 935
Audit Related Fees (b)	\$1,960	\$ 439
Tax Fees (c)	\$ 43	\$ 411
All Other Fees (d)	\$ 297	\$ 53
Total	<u>\$3,330</u>	<u>\$1,838</u>

(a) Fees for audit services billed or expected to be billed relating to fiscal 2008 and 2007 consists of:

- audit of the Corporation's annual statutory financial statements; and
- audit of its subsidiaries, SouthGobi Energy Resources Ltd.'s and Ivanhoe Australia Limited's, annual statutory financial statements.

In addition, in 2008 and 2007, fees were paid for services provided in connection with review pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the required attestations relating to internal controls.

(b) Fees for audit-related services provided during fiscal 2008 and 2007 consists of:

- translation services;
- financial accounting and reporting consultations;
- reviews of the Corporation's quarterly financial statements; and
- comfort letters, consents, and other services related to SEC, Canadian and other securities regulatory authorities' matters.

The 2008 audit-related services were substantially higher than those incurred in 2007 due to the incursion of \$1,182,000 relating to services provided in respect of SouthGobi's potential Asian stock exchange listing and \$370,000 relating to services provided in respect of Ivanhoe Australia's initial public offering.

(c) Fees for tax services provided during fiscal 2008 and 2007 consisted of income tax compliance, and tax planning and advice relating to transactions and proposed transactions of the Corporation and its subsidiaries.

(d) The Corporation incurred fees of Cdn.\$297,000 for products and services provided by its principal accountant during fiscal 2008 and 2007 not disclosed in subsections (a), (b) or (c).

Pre-Approval Policies and Procedures

All services to be performed by the Company's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee ("Designated Member"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any de minimus non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve a permitted service needs to be reported to the Audit Committee at its regularly scheduled meetings.

Pre-approval from the Audit Committee or Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees.

Pursuant to these procedures, 100% of each of the services provided by the Company's external auditor relating to the fees reported as audit, audit-related, tax and all other fees were pre-approved by the Audit Committee or the Designated Member.

OFF-BALANCE SHEET ARRANGEMENTS

During the most recent financial year, the Company was not a party to any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations," contained in Exhibit 3 to this Annual Report on Form 40-F, is incorporated by reference herein.

CORPORATE GOVERNANCE PRACTICES

Corporate Governance Practices Compared to NYSE and Nasdaq Listing Standards

The Company has reviewed its corporate governance practices against the requirements of the NYSE and Nasdaq, and determined that its corporate governance practices do not differ in any significant way from those followed by U.S. companies under NYSE and Nasdaq listing standards. This includes the composition of the Board of Directors, because in excess of one-half of the Company's directors (seven of twelve directors) are considered independent for purposes of the NYSE and Nasdaq corporate governance rules. The Company's directors that the Board of Directors has determined to be independent under the NYSE and Nasdaq corporate governance rules are David Huberman, Markus Faber, Robert Hanson, Kjeld Thygesen, Howard Balloch, Livia Mahler and David Korbin. All of these directors are nominees for re-election to the Board at the 2009 annual general meeting scheduled for May 8, 2009 (the "Meeting"). If re-elected, following the Meeting in excess of one-half of the Company's directors (seven of twelve directors) will continue to be considered independent for purposes of the NYSE and Nasdaq corporate governance rules.

Presiding Director at Meetings of Non-Management Directors

The Company schedules regular executive sessions in which the Company's "non-management directors" (as that term is defined in the rules of the NYSE) meet without management participation. David Huberman, the Company's lead director (the "Lead Director") serves as the presiding director at such sessions.

Communication with Non-Management Directors

Shareholders may send communications to the Company's non-management directors by writing to the Lead Director, c/o Ivanhoe Mines Ltd., 654 – 999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1. Communications will be referred to the Lead Director for appropriate action. The status of all outstanding concerns addressed to the Lead Director will be reported to the board of directors as appropriate.

Corporate Governance Guidelines

According to NYSE Rule 303A.09 and Rule 4350(n) of the Nasdaq Listed Company Manual, a listed company must adopt and disclose a set of corporate governance guidelines with respect to specified topics. Such guidelines are required to be posted on the listed company's website. The Company has adopted the required guidelines and has posted them on its website at www.ivanhoe-mines.com. The required guidelines are available in print to any shareholder who requests them. Requests for copies of these documents should be made by contacting: Ivanhoe Mines Ltd., 654 – 999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1.

Board Committee Mandates

The Mandates of the Company's Audit Committee, Compensation and Benefits Committee, and Nominating and Corporate Governance Committee are each available for viewing on the Company's website at www.ivanhoe-mines.com, and are available in print to any shareholder who requests them. Requests for copies of these documents should be made by contacting: Ivanhoe Mines Ltd., 654 – 999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

Undertaking

The Company undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

Consent to Service of Process

The Company filed an Appointment of Agent for Service of Process and Undertaking on Form F-X on December 17, 2003 with respect to the class of securities in relation to which the obligation to file the Form 40-F arises.

Any change to the name or address of the agent for service of process of the registrant shall be communicated promptly to the SEC by an amendment to the Form F-X referencing the file number of the Company.

SIGNATURE

Pursuant to the requirements of the Exchange Act, the Company certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Dated: March 31, 2009

IVANHOE MINES LTD.

By: /s/ Beverly A. Bartlett

Name: Beverly A. Bartlett

Title: Vice President and Corporate Secretary

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Document</u>
1	Annual Information Form for the year ended December 31, 2008.
2	Audited Consolidated Financial Statements of Ivanhoe Mines Ltd., including the notes thereto, as of and for the years ended December 31, 2008 and 2007, together with the reports thereon of the Independent Registered Chartered Accountants.
3	Management's Discussion and Analysis of Financial Condition and Results of Operations.
23.1	Consent of Deloitte & Touche LLP, Independent Registered Chartered Accountants.
23.2	Consent of GRD Minproc Limited.
23.3	Consent of Bernard Peters.
23.4	Consent of Stephen Torr.
23.5	Consent of John Vann.
23.6	Consent of Dean David.
23.7	Consent of Scott Jackson.
23.8	Consent of Jeffrey Price.
23.9	Consent of Gene Wusaty.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended).
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

IVANHOE MINES LTD.

Annual Information Form

For the year ended
December 31, 2008

Dated March 27, 2009

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Forward-Looking Information

Certain statements made herein, including statements relating to matters that are not historical facts and statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and “forward-looking statements” within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as “anticipate,” “could,” “should,” “expect,” “seek,” “may,” “intend,” “likely,” “plan,” “estimate,” “will” “believe” and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting anticipated business activities; planned expenditures; corporate strategies; proposed acquisitions and dispositions of assets; discussions with third parties respecting material agreements; the expected timing and outcome of IVN’s discussions with representatives of the Government of Mongolia for an Investment Agreement in respect of the Oyu Tolgoi Project; the timing of commencement of full construction of the Oyu Tolgoi Project; the estimated timing and cost of bringing the Oyu Tolgoi Project into commercial production; anticipated future production and cash flows; target milling rates; the impact of amendments to the laws of Mongolia and other countries in which IVN carries on business; the anticipated future production for the Ovoot Tolgoi Coal Mine, the potential improvement of the export conditions at the Ceke border between Mongolia and China and the completion of a feasibility study on the Ovoot Tolgoi Coal Mine; the potential of plans to make non-core projects self-funding and other statements that are not historical facts.

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Currency and Exchange Rates

In this Annual Information Form, all funds are quoted in United States dollars unless otherwise indicated. References to “\$” and “US\$” are to United States dollars, references to “Cdn.\$” are to Canadian dollars and references to “A\$” are to Australian dollars.

The Bank of Canada noon buying rates for the purchase of one United States dollar using Canadian dollars were as follows during the indicated periods:

(Stated in Canadian dollars)

	Year Ended December 31		
	2008	2007	2006
End of period	1.2246	0.9881	1.1653
High for the period	1.2969	1.1853	1.1726
Low for the period	0.9719	0.9170	1.0990
Average for the period	1.0660	1.0748	1.1342

The Bank of Canada noon buying rate on March 27, 2009 for the purchase of one United States dollar using Canadian dollars was Cdn.\$1.2392 (one Canadian dollar on that date equalled US\$0.8070).

Defined Terms and Abbreviations

Throughout this AIF, there are terms that are defined in the document and used only in the relevant section in which they are defined. There are also a number of defined terms and abbreviations that are used consistently throughout the document as follows:

“**ABCP**” means asset backed commercial paper;

“**Au**” means gold;

“**CIM**” means the Canadian Institute of Mining, Metallurgy and Petroleum;

“**CIM Standards**” means CIM Standards on Mineral Resources and Mineral Reserve Guidelines;

“**Cloncurry Project**” means Ivanhoe Australia’s copper, gold and uranium exploration and development project located in Queensland, Australia;

“**Coal Transaction**” means the transaction whereby IVN transferred its coal division to SouthGobi in consideration for common shares of SouthGobi, as further described in “GENERAL DEVELOPMENT OF THE BUSINESS — Three Year History — 2006”;

“**Common Shares**” means common shares in the capital of IVN;

“**Cu**” means copper;

“**CuEq**” means copper equivalent grade, calculated using assumed metal prices for copper, gold and, where applicable, molybdenum;

“**Entrée**” means Entrée Gold Inc.;

“**Entrée Earn-in Agreement**” means the Equity Participation and Earn-in Agreement dated October 15, 2004 between Entrée and IVN, as amended November 9, 2004;

“**Entrée Joint Venture**” means the joint venture of IVN and Entrée contemplated pursuant to the Entrée Earn-in Agreement and covering the portion of the Oyu Tolgoi Project currently held by Entrée;

“**g/t**” means grams per tonne;

“**GSC Paper 88 — 21**” means the Geological Survey of Canada Paper 88-21 “A Standardized Coal Resource / Reserve Reporting System for Canada”;

“**GRD Minproc**” means GRD Minproc Limited;

“**Hugo Dummett Deposits**” means collectively, the Hugo North, the Hugo South and Hugo North Extension deposits;

“**Hugo North**” means the Hugo North deposit of the Oyu Tolgoi Project;

“**Hugo North Extension**” means the Hugo North Extension deposit of the Oyu Tolgoi Project, representing the extension of the Hugo Dummett Deposits into Entrée’s Shivée Tolgoi Property;

“**Hugo South**” means the Hugo South deposit of the Oyu Tolgoi Project;

“**IMMI**” means Ivanhoe Mines Mongolia Inc. LLC;

“**Integrated Development Plan 2005**” or “**IDP05**” means a report on the development of the Oyu Tolgoi Project prepared by a group of independent engineering companies in October 2005;

“**Investment Agreement**” means a comprehensive agreement with the Government of Mongolia that addresses the development and operation of the Oyu Tolgoi Project, including taxation rates, cross-border import/export arrangements, supply of power, labour, land use and water rights;

“**Ivanhoe Australia**” means Ivanhoe Australia Limited;

“**IVN**” means Ivanhoe Mines Ltd;

“**IVN Group**” means, collectively, IVN and its subsidiaries or a group of subsidiaries, as the context requires;

“**km**” means kilometres;

“**km²**” means square kilometres;

“**lb**” means pound;

“**m**” means metres;

“**Major Drilling Mongolia**” means Major Drilling Mongolia LLC;

“**Mamahak Coal Project**” means SouthGobi’s coal exploration and development project in East Kalimantan, Indonesia;

“**Mamahak Joint Venture**” means the joint venture of SouthGobi and Score Resources Ltd. covering the Mamahak Project;

“**MEL**” means Mongolian mineral exploration licence;

“**Mo**” means molybdenum;

“**MCM Concession**” means one of four mining concessions, located approximately 30 kilometres from the Mahakam River in East Kalimantan, Indonesia, in which the Mamahak Joint Venture has obtained rights;

“**NI 43-101**” means National Instrument 43-101 of the Canadian Securities Administrators;

“**Norwest**” means Norwest Corporation of Salt Lake City, Utah, U.S.A.;

“**OT Technical Committee**” means a joint technical committee established between Rio Tinto and IVN for the development of the Oyu Tolgoi Project;

“**Ovoot Tolgoi**” means the location known as Ovoot Tolgoi (formerly Nariin Sukhait) in southern Mongolia;

“**Ovoot Tolgoi Coal Mine**” means SouthGobi’s coal mine at Ovoot Tolgoi which includes the West Field and South-East Field;

“**Ovoot Tolgoi Mining Licence**” means licence no. 12726A covering an area of approximately 9,300 ha encompassing the areas of the West Field and the South-East Field;

“**Ovoot Tolgoi Technical Report**” means a technical report on the Ovoot Tolgoi Coal Mine dated March 29, 2009, prepared by Stephen Torr, P. Geo and Gene Wusaty P. Eng;

“**Oyu Tolgoi Project**” means IVN’s copper and gold exploration and development project located at Oyu Tolgoi in Mongolia;

“**Oyu Tolgoi Technical Report**” means a Technical Report on the Oyu Tolgoi Project dated March 2008 prepared by GRD Minproc;

“**oz**” means ounce;

“**ppm**” means parts per million;

“**Preferred Shares**” means preferred shares in the capital of IVN;

“**Rio Tinto**” means Rio Tinto Plc.;

“**Rio Tinto Credit Agreement**” means the agreement between IVN and a wholly-owned subsidiary of Rio Tinto to establish a convertible credit facility to finance ongoing mine development of the Oyu Tolgoi Project, as further described in “GENERAL DEVELOPMENT OF THE BUSINESS — Three Year History - 2007”;

“**Rio Tinto Transaction**” means the transaction between IVN and Rio Tinto to establish a strategic partnership for the development of the Oyu Tolgoi Project, as further described in “GENERAL DEVELOPMENT OF THE BUSINESS — Three Year History — 2006”;

“**Sapphire**” means Sapphire Geo Ltd.;

“**Savage River Project**” means the Savage River iron ore project located in Tasmania, Australia;

“**South-East Field**” means the area of a coal deposit delineated and identified as the South-East Field in the Ovoot Tolgoi Coal Mine;

“**Southern Oyu Deposits**” means collectively, the South Oyu, Southwest Oyu, Central Oyu and Wedge deposits of the Oyu Tolgoi Project;

“**SouthGobi**” means SouthGobi Energy Resources Ltd. (formerly Asia Gold Corp.);

“**Southgobi sands**” means Southgobi sands LLC, a Mongolian registered company that holds the licenses and permits relating to the Ovoot Tolgoi Coal Mine;

“**TAG**” means The Americas Group of Lakewood, Colorado, U.S.A.;

“**Tanan Drilling**” means Tanan Impex Drilling LLC;

“**tpd**” means tonnes per day;

“**tpy**” means tonnes per year;

“**Underground**” means the part of the Ovoot Tolgoi Coal Mine comprising the underground coal resources of the West Field; and

“**West Field**” means the area of a coal deposit delineated and identified as the West Field in the Ovoot Tolgoi Coal Mine.

Conversion Factors

For ease of reference, the following conversion factors are provided:

Imperial Measure	=	Metric Unit	Metric Unit	=	Imperial Measure
2.47 acres		1 hectare	0.4047 hectares		1 acre
3.28 feet		1 m	0.3048 m		1 foot
0.62 miles		1 km	1.609 km		1 mile
0.032 ounces (troy)		1 gram	31.1 grams		1 ounce (troy)
2.205 pounds		1 kilogram	0.454 kilograms		1 pound
1.102 tons (short)		1 tonne	0.907 tonnes		1 ton
0.029 ounces (troy)/ton		1 gram/tonne	34.28 grams/tonne		1 ounce (troy)/ton

Glossary of Geological and Mining Terms

anomaly: a departure from the norm which may indicate the presence of mineralization in the underlying bedrock.

assay: the chemical analysis of an ore, mineral or concentrate of metal to determine the amount of valuable species.

chalcocite: a form of copper mineral ore that generally contains a high copper content.

chalcopyrite: a form of copper mineral ore that generally contains a low copper content.

concentrate: a product containing valuable metal from which most of the waste material in the ore has been eliminated.

concentrator: a plant for recovery of valuable minerals from ore in the form of concentrate. The concentrate must then be treated in some other type of plant, such as a smelter, to effect recovery of the pure metal.

covellite: a supergene mineral found in copper deposits; a source of copper.

cut-off grade: the lowest grade of mineral resources considered economic; used in the calculation of reserves and resources in a given deposit.

dyke: a tabular igneous intrusion that cuts across the bedding or foliation of the country rock.

fault: a fracture in rock along which the adjacent rock surfaces are differentially displaced.

feasibility study: a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

flotation: a milling process by which some mineral particles are induced to become attached to bubbles of froth and float, and others to sink, so that the valuable minerals are concentrated and separated from the gangue.

gangue: valueless rock or mineral material in ore.

hypogene: primary mineralization formed by mineralizing solutions emanating up from a deep magmatic source.

HQ: diamond drilling equipment that produces a 63.5 millimetre core diameter.

indicated mineral resource: that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and test information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

inferred mineral resource: that part of a mineral resource for which the quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

intrusive: rock which while molten, penetrated into or between other rocks but solidified before reaching the surface.

IP: induced polarization.

kriging: A weighted, moving-average interpolation method in which the set of weights assigned to samples minimizes the estimation variance, which is computed as a function of the variogram model and locations of the samples relative to each other, and to the point or block being estimated.

leach: to dissolve minerals or metals out of ore with chemicals.

measured mineral resource: that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

mineral reserve: the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, and economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. An ore reserve includes diluting materials and allowances for losses that may occur when the material is mined.

mineral resource (deposit): a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource (deposit) are known, estimated or interpreted from specific geological evidence and knowledge.

NQ: diamond drilling equipment that produces a 47.5 millimetre core diameter.

porphyry: any igneous rock in which relatively large, conspicuous crystals (called phenocrysts) are set in a fine-grained ground mass.

preliminary assessment: a study that includes an economic analysis of the potential viability of mineral resources taken at an early stage of the project prior to the completion of a preliminary feasibility study.

preliminary feasibility study and pre-feasibility study: a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve.

probable reserve: the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

proven reserve: the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

PQ: diamond drilling equipment that produces an 85 millimetre core diameter.

qualified person: an individual who: (a) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, or mineral project assessment, or any combination of these; (b) has experience relevant to the subject matter of the mineral project; and (c) is a member in good standing of a professional association as defined by National Instrument 43-101 of the Canadian Securities Administrators.

QMD or quartz monzodiorite: plutonic rock containing quartz, alkali feldspars, plagioclase feldspars and feldspathoid minerals.

RC: reverse circulation.

seam: A stratum or bed of coal or other mineral; generally applied to large deposits of coal.

splits: The division of a bed of coal into two or more horizontal sections by intervening rock strata.

stock: an irregular, metalliferous mass in a rock formation.

strike: the direction, or course or bearing, of a vein or rock formation measured on a level surface.

sulphides: compounds of sulphur with other metallic elements.

supergene: ore minerals that have been formed by the effects (usually oxidization and secondary sulphide enrichment) of descending ground water.

CORPORATE STRUCTURE

Name, Address and Incorporation

IVN was incorporated under the *Company Act* (British Columbia) on January 25, 1994 under the name 463212 B.C. Ltd. In February 1994, IVN changed its name to Indochina Goldfields Ltd. In March 1994, IVN increased its authorized capital from 10,000 Common Shares without par value to 100,000,000 Common Shares without par value and created 100,000,000 Preferred Shares without par value. In February 1995, IVN was continued under the *Business Corporations Act* (Yukon). In July 1997, IVN increased its authorized capital to an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares without par value. In June 1999, IVN changed its name to Ivanhoe Mines Ltd.

IVN's North American headquarters are located at 654 — 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1. IVN's Asian headquarters are located at 150 Beach Road, #25-03 The Gateway West, Singapore, 189720. IVN's registered office is located at 300 — 204 Black Street, Whitehorse, Yukon, Canada, Y1A 2M9.

Intercorporate Relationships

The following sets forth the name and jurisdiction of incorporation of IVN's principal subsidiaries and the ownership interest of IVN in each of them.

Name of Subsidiary	Jurisdiction of Incorporation	IVN Ownership Interest
Ivanhoe Mines Delaware Holdings, LLC	Delaware	100%
Ivanhoe Mines Aruba Holdings LLC	Aruba	100%
Ivanhoe Oyu Tolgoi (BVI) Ltd. (formerly Ivanhoe Mines Mongolia Inc.)	British Virgin Islands	100%
Ivanhoe Mines Mongolia Inc. LLC	Mongolia	100%
SouthGobi Energy Resources Ltd. ⁽¹⁾	British Columbia	80.19%
SGQ Coal Investment Pte. Ltd. ⁽¹⁾	Singapore	— ⁽¹⁾
Southgobi sands LLC ⁽¹⁾	Mongolia	— ⁽¹⁾
Ivanhoe Australia Limited ⁽²⁾	Australia	82.88%

⁽¹⁾ As of December 31, 2008, SouthGobi is beneficially owned as to approximately 80.19% by IVN. Each of SGQ Coal Investment Pte. Ltd. and Southgobi sands LLC is a direct or indirect wholly-owned subsidiary of SouthGobi.

⁽²⁾ As of December 31, 2008, Ivanhoe Australia is beneficially owned as to approximately 82.88% by IVN

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

IVN is an international mineral exploration and development company. The IVN Group's principal mineral resource property is the Oyu Tolgoi Project, located in Mongolia. The IVN Group also holds interests in several other mineral resource projects in the Asia Pacific region, including the Ovoot Tolgoi Coal Mine, located in Mongolia, the Cloncurry Project, located in Queensland, Australia and the Bakyrchik gold project, located in Kazakhstan.

Three Year History

Throughout the period from 2006 to the date of this Annual Information Form, IVN focused substantial time and effort on the further development of its Mongolian properties, including in particular the Oyu Tolgoi Project.

2006

In January 2006, GRD Minproc completed a reserve estimate for the Southern Oyu Deposits upgrading the measured and indicated resources to the proven and probable reserve categories. GRD Minproc estimated 930 million tonnes of proven and probable reserves grading 0.5% copper and 0.36 g/t gold.

In February 2006, Norwest completed an updated coal resource estimate for the Ovoot Tolgoi Coal Mine which reported measured and indicated resources of 123.9 million tonnes and inferred resources of 33.7 million tonnes.

In February 2006, an updated independent resource estimate on the Oyu Tolgoi Project was completed, adding inferred resources from Hugo North and Hugo North Extension, and reporting measured and indicated resources (inclusive of reported reserves) of 1.15 billion tonnes grading 1.27% copper and 0.48 g/t gold at a 0.60% copper equivalent cut-off grade and inferred resources of 1.44 billion tonnes grading 1.11% copper and 0.28 g/t gold at the same cut-off.

In April 2006, IVN completed an underwritten public offering which, including the exercise of an over-allotment option, consisted of 18,400,000 Common Shares at a price of Cdn.\$10.28 per Common Share, for gross proceeds of Cdn.\$189,152,000.

In July 2006, IVN entered into definitive agreements with SouthGobi for the Coal Transaction, pursuant to which, IVN agreed to sell to SouthGobi all of the coal assets of IVN, including the Ovoot Tolgoi Coal Mine, in consideration for the issuance of 82,576,383 common shares of SouthGobi, which would, when combined with existing shareholdings, give IVN ownership of approximately 90% of SouthGobi's issued and outstanding shares. The Coal Transaction was approved by the shareholders of SouthGobi in August 2006. In connection with the transaction, IVN also provided SouthGobi with an interim credit facility of up to \$10,000,000, with an option to increase such funding to \$15,000,000 by mutual agreement.

In October 2006, IVN and a wholly-owned subsidiary of Rio Tinto completed the Rio Tinto Transaction, which transaction established a strategic partnership for the development of the Oyu Tolgoi Project. Pursuant to the Rio Tinto Transaction, Rio Tinto subscribed for 37.1 million Common Shares of IVN at a price of \$8.18 per share, for gross proceeds of approximately \$303 million and agreed to subscribe for an additional 46.3 million shares at a price of \$8.38 per share, for gross proceeds of approximately \$388 million, upon the completion of certain conditions precedent, including completion of an Investment Agreement. IVN also issued to Rio Tinto two tranches of approximately 46 million warrants entitling Rio Tinto to subscribe for Common Shares of IVN at prices between \$8.38 and \$9.02. The agreement governing the terms of the Rio

Tinto Transaction also restricted Rio Tinto from acquiring more than 40% of IVN's outstanding Common Shares. Pursuant to the Rio Tinto Transaction, the parties established the OT Technical Committee and Rio Tinto agreed to provide the technical services of Rio Tinto on a cost-recovery basis for the development of the project, and Rio Tinto became entitled to representation on IVN's board of directors.

2007

In May 2007 IVN and SouthGobi completed the Coal Transaction, and SouthGobi issued 57,000,000 common shares and 25,576,383 preferred shares (each convertible into a SouthGobi common share) to IVN in consideration for the transfer to SouthGobi of the IVN coal assets. As a result of the transaction, SouthGobi became a majority-owned, publicly traded IVN subsidiary.

During 2007, an initial draft Investment Agreement was negotiated by IVN and Rio Tinto with the Government of Mongolia. While this draft agreement was reviewed by a Parliamentary standing committee in late 2007, it subsequently was withdrawn by the Government for review and evaluation by an independent international expert.

In October 2007, IVN and a wholly-owned subsidiary of Rio Tinto entered into the Rio Tinto Credit Agreement, pursuant to which IVN obtained a convertible credit facility of up to \$350 million to finance ongoing mine development activities at the Oyu Tolgoi Project pending the finalization of an Investment Agreement with the Government of Mongolia. Amounts owing under the facility bear interest at the rate of LIBOR plus 3.3% and the loan matures on September 12, 2010. The principal amount drawn on the loan plus up to \$108 million in interest are automatically convertible into Common Shares at maturity (or earlier at the option of Rio Tinto) at a deemed price of \$10 per share, for an aggregate of up to 45.8 million Common Shares. In addition, IVN issued to Rio Tinto share purchase warrants to purchase up to 35 million Common Shares at a price of \$10 per share for a period of five years. The warrants may be exercised on a basis proportionate to the amount of funds drawn down under the Credit Agreement. As at the date of this Annual Information Form, IVN had drawn down all \$350 million from the facility. In connection with the completion of the Rio Tinto Credit Agreement, IVN and Rio Tinto also agreed to amend certain terms of the Rio Tinto Transaction. Rio Tinto now has the right to appoint the Chairman of the Technical Committee overseeing development and operation of the Oyu Tolgoi project in 2009 rather than in 2011 and Rio Tinto's maximum permitted shareholding in IVN increased to 46.65% from 40%.

2008

In January 2008, SouthGobi completed three equity private placement financings to raise a total of Cdn.\$117.9 million. The first placement was for 10 million common shares at Cdn.\$8.00 per share, while the second and third placements were for 3.5 million common shares and 711,111 common shares, respectively, each at Cdn.\$9.00 per share. Concurrent with these financings, IVN converted 25,576,383 preferred shares of SouthGobi, the total sum of preferred shares held by IVN, into common shares of SouthGobi on a one-for-one basis. IVN also converted approximately Cdn.\$30 million of debt into 14,709,071 common shares of SouthGobi at a conversion rate of Cdn.\$2.09 per share. The conversion terms for preferred shares and the debt were established pursuant in the Coal Transaction.

In January 2008, IVN announced that it had completed an estimate of inferred resources at the Heruga Deposit, a newly discovered deposit of the Oyu Tolgoi Project located on lands covered by the Entrée Joint Venture. IVN reported inferred resources of 760 million tonnes grading 0.48% copper, 0.55g/t gold and 142 ppm molybdenum, using a 0.60% copper equivalent cut-off grade.

Effective April 2008, SouthGobi received government approval to mine coal at the Ovoot Tolgoi Coal Mine and subsequently commenced mining and stockpiling coal from the West Field.

In May 2008, IVN completed the sale of its controlling stake in Jinshan Gold Mines Inc. (“Jinshan”) to China National Gold Group Hong Kong Ltd. (“China National”). China National purchased IVN’s entire holding of 67,520,000 common shares of Jinshan at a price of Cdn.\$3.1115 per share and a Jinshan promissory note in the principal amount of Cdn.\$7,500,000, for an aggregate purchase price of approximately Cdn.\$216.7 million.

In June 2008, IVN notified Entrée that it completed \$35 million in expenditures on the property covered by the Entrée Joint Venture, and had thereby earned an 80% interest in minerals below 560 m and a 70% interest on minerals above that threshold.

In August 2008, IVN announced the successful completion of Ivanhoe Australia’s A\$125 million initial public offering. Ivanhoe Australia sold 62.5 million shares at a price of A\$2 per share and began trading on the Australian Stock Exchange under the symbol “IVA”. The offering raised capital for the ongoing exploration and development of the Cloncurry Project.

In September 2008, IVN received \$47.0 million from Rio Tinto for the purchase of large equipment to be used in the construction of the Oyu Tolgoi Project in Mongolia, representing the first tranche of funds paid under a purchase and sale agreement entered into in August 2008. The agreement provided for Rio Tinto to purchase certain Oyu Tolgoi Project equipment already acquired or on order by IVN pending the successful completion of negotiations with the Government of Mongolia for an Investment Agreement. IVN received a further \$74.5 million in November 2008, as part of the purchase and sale agreement, bringing the aggregate amount received from the sale of the equipment to approximately \$121.5 million. IVN will use these funds for future development of the Oyu Tolgoi Project. Under the terms of the transaction, Rio Tinto can require IVN to re-purchase the equipment if an acceptable Investment Agreement is reached with the Government of Mongolia. IVN also has a right of first refusal to re-purchase the equipment if Rio Tinto intends to deploy the equipment elsewhere or sell it to a third party.

During October 2008, IVN purchased 1.0 million common shares and 3.4 million special warrants of Ivanhoe Nickel & Platinum Ltd. (“Ivanplats”) from two asset management firms for consideration of 2.2 million common shares of IVN. Ivanplats is a private company and is related to IVN by certain directors in common. Additionally, IVN and Ivanplats are both parties, amongst others, to an office expense cost sharing agreement.

2009 to date

In January 2009, IVN and Rio Tinto re-started negotiations for an Investment Agreement with a new Government working group and, in February 2009, completed a draft Investment Agreement. In March, the draft agreement was introduced into Parliament for review in an extraordinary winter session to address budgetary measures related to the international financial crisis, and also the anticipated Investment Agreement for the Oyu Tolgoi Project.

On March 13, after an initial review of the Oyu Tolgoi Investment Agreement by the Parliament’s Standing Committee on Economics, the Parliament announced that the extension of the winter session would adjourn and that further discussion regarding the Investment Agreement would resume during the regular spring session in early April. A news release issued by the Parliament’s press office stated, in part, that resumption of the review of the Investment Agreement would be placed “at the top of the government’s action agenda to help ensure that new investment is directed to Mongolia and new jobs are created for Mongolians to help our economy weather the present international financial crisis.”

The Parliament’s press statement noted that the Standing Committee on Economics had made significant progress in reviewing the agreement and that Members of Parliament had requested that a number of points be clarified. A working group formed to address the issues was directed to continue its review during the break between the parliamentary sessions.

In January 2009, SouthGobi announced that it had received government approval to begin surface coal mining at the Mamahak Coal Project in East Kalimantan, Indonesia, which could begin later in 2009. SouthGobi also increased its working interest in the Mamahak Joint Venture from 56% to 85%.

In February 2009, SouthGobi announced that it had received an initial independent resource estimate for the Mamahak Coal Project. The South-West and East resource blocks on the MCM concession contained measured plus indicated coal resources of 12.2 million tonnes, with an additional inferred coal resource of 5.2 million tonnes. The estimates were prepared by PT SMG Consultants of Jakarta Indonesia and were based on 220 drill holes completed between March 2008 and November 2008.

Outlook

IVN and Rio Tinto are continuing their cooperation with the Mongolian government working group pending the reconvening of Parliament to prepare additional information to facilitate an early approval of the draft Investment Agreement by the Parliament. IVN and Rio Tinto also are continuing to assess the implications for the Oyu Tolgoi Project and its development schedule as a result of the delays in approval that have been experienced in Mongolia, the sharp declines in commodity prices and continuing uncertainty in international financial markets.

Risk Factors

IVN is subject to a number of risks due to the nature of the industry in which it operates, the present state of development of its business and the foreign jurisdictions in which it carries on business. The following is a description of some of the risks and uncertainties to which IVN is subject. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements. Please refer to the section entitled "Forward-Looking Information" in this Annual Information Form.

IVN may be unsuccessful in completing an Investment Agreement with the Government of Mongolia.

Although there is no legal requirement that IVN obtain an Investment Agreement from the Mongolian Government before commencing development and mining operations at the Oyu Tolgoi Project, IVN believes that entering into a mutually satisfactory Investment Agreement with the Mongolian Government is of fundamental importance to the viability of the Oyu Tolgoi Project. An acceptable Investment Agreement is a prerequisite to Rio Tinto's obligations to make an additional equity investment in IVN. Although IVN and Rio Tinto recently completed a mutually acceptable draft Investment Agreement with a working group appointed by the Mongolian Government which was reviewed and approved in principle by the Cabinet and the National Security Council, the draft Investment Agreement remains subject to review and approval by the Mongolian Parliament before it can become effective. There is no assurance that any approval will be forthcoming in the short term or at all as political developments and unanticipated actions within Parliament may impact the scope and terms of the draft Investment Agreement. Moreover, some risk exists that additional changes to the Minerals Law may be considered necessary by Parliament before it returns to its review of the draft agreement. If the Government seeks to impose terms and conditions that would have a significantly adverse impact on the economic viability of the Oyu Tolgoi Project or if it fails to act upon approving the Investment Agreement in a timely manner, it could effectively prevent IVN from successfully concluding an Investment Agreement that is necessary for development of the Oyu Tolgoi deposit. Failure to obtain an Investment Agreement on mutually acceptable terms approved by the Mongolian Parliament is likely to have a significant adverse effect on the development of the Oyu Tolgoi Project and IVN itself.

IVN's ability to carry on business in Mongolia is subject to political risk.

IVN holds its interest in each of its Mongolian mineral exploration and development projects indirectly through mining licences and exploration licences that enable it to conduct operations or development and exploration activities. However, IVN's ability to conduct exploration and development activities may be subject to changes in legislation or government regulations or changes in political attitudes within Mongolia.

Government policy may change to discourage foreign investment, mining projects may be nationalized or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that IVN's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body.

There is no assurance that provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances would be effective to restore the full value of IVN's original investment or to compensate for the loss of the current value of the Mongolian projects. Similarly, IVN's operations may be affected in varying degrees by, among other things, government regulations with respect to restrictions on production, price controls, export controls, income taxes, environmental legislation, mine safety and annual fees to maintain mineral licences in good standing. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

There can be no assurance that IVN will be capable of raising the additional funding that it needs to carry out its development and exploration objectives.

Carrying out the development and exploration of the Oyu Tolgoi Project and the various other mineral properties in which IVN holds interests depends upon IVN's ability to obtain financing through capital markets, sales of non-core assets or other means. IVN expects to be able to meet short-term cash requirements for development of the Oyu Tolgoi Project and IVN's other projects from its existing financial resources, but these funds will not be sufficient to meet all anticipated development expenditure requirements. The equity investment entitlements and obligations of Rio Tinto pursuant to the Rio Tinto Transaction may, if consummated in their entirety, account for a significant portion of the development cost of the Oyu Tolgoi Project, but will be insufficient to fund the entire development cost and, in any case, there is no assurance that IVN will meet the conditions necessary to trigger Rio Tinto's additional equity investment obligations or that Rio Tinto will fully exercise its share purchase warrants and other rights to subscribe for additional Common Shares. In particular, Rio Tinto's obligation to complete the second tranche private placement is subject to IVN obtaining an Investment Agreement on terms acceptable to Rio Tinto. Until an Investment Agreement with the Government of Mongolia is actually finalized, approved and executed, it is not possible to predict if IVN will be successful in negotiating and obtaining an Investment Agreement that is acceptable to Rio Tinto. Even if Rio Tinto completes its second tranche private placement under the Rio Tinto Transaction, it is permitted under the terms of the Rio Tinto Credit Agreement, to elect to apply the subscription proceeds from the second tranche private placement to the repayment of the principal and interest outstanding under the Rio Tinto Credit Agreement. Rio Tinto's share purchase warrants are exercisable at the discretion of Rio Tinto, and IVN has no ability to compel the exercise of those warrants. If the second tranche private placement is not completed (or is completed, but the proceeds from it are applied to repay the amounts outstanding under the Rio Tinto Credit Agreement) and/or Rio Tinto's share purchase warrants are not exercised, IVN may be unable to obtain financing from other sources necessary for development of the Oyu Tolgoi Project, on favourable terms or at all. Even if Rio Tinto completes the maximum equity investment contemplated by the Rio Tinto Transaction, IVN will need to obtain additional sources of capital to complete the development of the Oyu Tolgoi Project and to advance the development of other mineral properties. Depressed markets for precious and base metals may make it difficult or impossible for IVN to obtain debt financing or equity financing. IVN operates in a region of the world that is prone to economic and political upheaval and instability, which may

make it more difficult for IVN to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause IVN to postpone its development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

If IVN is required to access credit markets to carry out its exploration and development objectives, the recent market events and conditions, including disruptions in the Canadian, United States and international credit markets and other financial systems and the deterioration of the Canadian, United States and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the IVN's ability to fund its working capital and other capital requirements. In 2007 and into 2008, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, sub-prime and non-prime mortgages) and a decline in the credit quality of mortgage-backed securities. These conditions continued and worsened in 2008 and early 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks and other financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and other governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators, including employment levels, announced corporate earnings, economic growth and consumer confidence have deteriorated. These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly resource companies. These disruptions could, among other things, make it more difficult for IVN to obtain, or increase its cost of obtaining, capital and financing for its operations. IVN's access to additional capital may not be available on terms acceptable to IVN or at all.

Lack of infrastructure in proximity to IVN's material properties could adversely affect mining feasibility.

The Oyu Tolgoi Project is located in an extremely remote area in the South Gobi Region of Mongolia, which currently lacks basic infrastructure, including sources of electric power, water, housing, food and transport, necessary to develop and operate a major mining project. While IVN has established the limited infrastructure necessary to conduct its current exploration and development activities, substantially greater sources of power, water, physical plant and transportation infrastructure in the area will need to be established before IVN can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured. The Ovoot Tolgoi Coal Mine is similarly located in a remote area of southern Mongolia.

The resource and reserve estimates for the IVN Group's projects disclosed in this Annual Information Form are estimates only and are subject to change based on a variety of factors, some of which are beyond the IVN Group's control. The IVN Group's actual production, revenues and capital expenditures may differ materially from these estimates.

The estimates of reserves and resources disclosed in this Annual Information Form, including the anticipated tonnages and grades that will be achieved or the indicated level of recovery that will be realized, are estimates and no assurances can be given as to their accuracy. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or formations may be different from those predicted. It may also take many years from the initial phase of drilling

before production is possible, and during that time the economic feasibility of exploiting a deposit may change. Reserve and resource estimates are materially dependent on prevailing metal prices and the cost of recovering and processing minerals at the individual mine sites. Market fluctuations in the price of metals or increases in the costs to recover metals from the IVN Group's mining projects may render the mining of ore reserves uneconomical and materially adversely affect IVN's operations. Moreover, various short-term operating factors may cause a mining operation to be unprofitable in any particular accounting period.

Prolonged declines in the market price of metals may render reserves containing relatively lower grades of mineralization uneconomic to exploit and could reduce materially the IVN Group's reserves and resources. Should such reductions occur, material write downs of IVN's investment in mining properties or the discontinuation of development or production might be required, and there could be material delays in the development of new projects, increased net losses and reduced cash flow. The estimates of mineral reserves and resources attributable to a specific property are based on accepted engineering and evaluation principles. The estimated amount of contained metals in proven and probable mineral reserves does not necessarily represent an estimate of a fair market value of the evaluated properties.

There are numerous uncertainties inherent in estimating quantities of mineral reserves and resources. The estimates in this Annual Information Form are based on various assumptions relating to commodity prices and exchange rates during the expected life of production, mineralization of the area to be mined, the projected cost of mining, and the results of additional planned development work. Actual future production rates and amounts, revenues, taxes, operating expenses, environmental and regulatory compliance expenditures, development expenditures, and recovery rates may vary substantially from those assumed in the estimates. Any significant change in these assumptions, including changes that result from variances between projected and actual results, could result in material downward revision to current estimates.

Mining projects are sensitive to the volatility of metal prices.

The long-term viability of the Oyu Tolgoi Project depends in large part on the world market prices of copper and gold. The market prices for these metals are volatile and are affected by numerous factors beyond IVN's control. These factors include international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities, increased production due to improved mining and production methods and economic events, including the performance of Asia's economies.

The aggregate effect of these factors on metals prices is impossible to predict. Should prevailing metal prices remain depressed or below variable production costs of IVN's current and planned mining operations for an extended period, losses may be sustained and, under certain circumstances, there may be a curtailment or suspension of some or all of IVN's mining, development and exploration activities. IVN would also have to assess the economic impact of any sustained lower metal prices on recoverability and, therefore, the cut-off grade and level of IVN's reserves and resources. These factors could have an adverse impact on IVN's future cash flows, earnings, results of operations, stated reserves and financial condition.

The following table sets forth for the periods indicated (1) the London Metals Exchange's high, low and average settlement prices for copper in U.S. dollars per pound and (2) the high, low and average London afternoon fixing prices for gold.

Year	Copper			Gold		
	High	Low	Average	High	Low	Average
2004	\$1.49	\$1.06	\$1.30	\$ 454	\$375	\$409
2005	\$2.11	\$1.39	\$1.67	\$ 536	\$411	\$444
2006	\$3.99	\$2.06	\$3.05	\$ 725	\$524	\$604
2007	\$3.77	\$2.37	\$3.23	\$ 841	\$604	\$695
2008	\$4.08	\$1.26	\$3.15	\$1,011	\$713	\$872

IVN's business in Mongolia may be subject to legal risk.

The legal framework in Mongolia is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. As a result, there may be ambiguities, inconsistencies and anomalies in the agreements, licences and title documents upon which IVN holds its interests in Mongolia, or the underlying legislation upon which those interests are based, which are atypical of more developed legal systems and which may affect the interpretation and enforcement of IVN's rights and obligations. Local institutions and bureaucracies responsible for administering laws may lack a proper understanding of the laws or the experience necessary to apply them in a modern business context. Many laws have been enacted, but in many instances they are neither understood nor enforced and may be applied in an inconsistent, arbitrary and unfair manner, while legal remedies may be uncertain, delayed or unavailable. For decades Mongolians have looked to politicians and bureaucrats as the sources of the "law". This has changed in theory, but often not in practice. With respect to most day-to-day activities in Mongolia government civil servants interpret, and often effectively make, the law. This situation is gradually changing but at a relatively slow pace. Accordingly, while IVN believes that it has taken the legal steps necessary to obtain and hold its property and other interests in Mongolia, there can be no guarantee that such steps will be sufficient to preserve those interests.

Recent and future amendments to Mongolian laws could adversely affect IVN's mining rights in the Oyu Tolgoi Project or make it more difficult or expensive to develop the project and carry out mining.

In 2006, Mongolia implemented revisions to the Minerals Law. These revisions continue to preserve the substance of the original Minerals Law, which was drafted with the assistance of Western legal experts and was widely regarded as progressive, internally consistent and effective legislation, but the revisions have also increased the potential for political interference and weakened the rights of mineral holders in Mongolia. A number of the provisions will require further clarification from the Government about the manner in which the Government intends to interpret and apply the relevant law, which could have a significant effect on IVN's Mongolian properties, including the Oyu Tolgoi Project in particular. In addition, members of Parliament in Mongolia have recently stated that they may consider additional amendments to the Minerals Law.

The Mongolian government has, in the past, expressed its strong desire to foster, and has to date protected the development of, an enabling environment for foreign investment. However, there are political constituencies within Mongolia that have espoused ideas that would not be regarded by the international mining industry as conducive to foreign investment if they were to become law or official government policy. At present, IVN has no reason to believe that the government of Mongolia intends to sponsor or that Parliament intends to enact amendments to the Minerals Law or other legislation that would be materially adverse to the interests of international investors in Mongolia's mining sector, including those of IVN. Nevertheless, the Oyu Tolgoi Project has a high profile among the citizens of Mongolia and, as a burgeoning democracy, Mongolia has recently demonstrated a degree of political volatility. Accordingly, until these issues are addressed and clarified, there can be no assurance that the present government or a future government will refrain from enacting legislation or adopting government policies that are adverse to IVN's interests or that impair IVN's ability to develop and operate the Oyu Tolgoi Project on the basis presently contemplated.

IVN may experience difficulties with its joint venture partners.

A portion of the Oyu Tolgoi Project property is held by Entrée and subject to the Entrée Joint Venture. IVN is subject to the risks normally associated with the conduct of joint ventures, which include disagreements as to how to develop, operate and finance a project and possible litigation between the participants regarding joint venture matters. If any such risks are realized, it may have an adverse effect on IVN's ability to obtain the full economic benefit of its interest in the property that is the subject of the joint venture, which could affect its results of operations and financial condition.

IVN may be unable to enforce its legal rights in certain circumstances.

In the event of a dispute arising at or in respect of, IVN's foreign operations, including the Oyu Tolgoi Project, IVN may be subject to the exclusive jurisdiction of local courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or other jurisdictions. IVN may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Changes in, or more aggressive enforcement of, laws and regulations could adversely impact IVN's business.

Mining operations and exploration activities are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labour standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response and other matters.

Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays and other effects associated with these laws and regulations may impact IVN's decision as to whether to continue to operate in a particular jurisdiction or whether to proceed with exploration or development of properties. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, IVN is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Furthermore, changes in governments, regulations and policies and practices could have an adverse impact on IVN's future cash flows, earnings, results of operations and financial condition.

IVN is subject to substantial environmental and other regulatory requirements and such regulations are becoming more stringent. Non-compliance with such regulations, either through current or future operations or a pre-existing condition could materially adversely affect IVN.

All phases of IVN's operations are subject to environmental regulations in the various jurisdictions in which it operates. For example, the Oyu Tolgoi Project is subject to a requirement to prepare an environmental impact assessment, as well as other environmental protection obligations. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect IVN's operations. Environmental hazards may exist on the properties in which the IVN Group holds interests which are presently unknown to IVN and which have been caused by previous or existing third party owners or operators of the properties.

Government approvals and permits are often required in connection with various aspects of IVN's operations. To the extent such approvals are required and not obtained, IVN may be delayed or prevented from proceeding with planned exploration or development of its mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on IVN and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Previous mining operations may have caused environmental damage at current and former IVN mining projects, and if IVN cannot prove that such damage was caused by such prior operators, its indemnities and exemptions from liability may not be effective.

IVN has received exemptions from liability from relevant governmental authorities for environmental damage caused by previous mining operations at current and former mining projects, including at the Bakyrchik gold project in Kazakhstan and the Cloncurry Project in Australia. There is a risk, however, that, if an environmental accident occurred at those sites, it may be difficult or impossible to assess the extent to which environmental damage was caused by IVN's activities or the activities of other operators. In that event, the liability exemptions could be ineffective and possibly worthless.

The actual cost of developing the Oyu Tolgoi Project may differ significantly from IVN's estimates and involve unexpected problems or delays.

The estimates regarding the development and operation of the Oyu Tolgoi Project are based on the IDP05. This study establishes estimates of resources, construction and development costs, operating costs and projects economic returns. These estimates are based, in part, on assumptions about future metal prices and future cost inputs, and variances in these inputs, as well as other inputs that form the basis of IDP05, may result in operating costs, construction and development costs, production and economic returns that differ significantly from those anticipated by the IDP05 and future development reports. In the case of operating costs, IDP05 derives estimates of average cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of copper and gold from the ore;
- cash operating costs of comparable facilities and equipment; and
- anticipated climatic conditions.

There are also a number of uncertainties inherent in the development and construction of any new mine, including the Oyu Tolgoi Project. These uncertainties include:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour, power, water and transportation;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to obtain necessary environmental and other government permits, and the timing of those permits; and
- the availability of funds to finance construction and development activities.

The cost, timing and complexities of mine construction and development are increased by the remote location of a property such as the Oyu Tolgoi Project. It is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there is no assurance that future development activities will result in profitable mining operations.

IVN's valuation of its investment in the commercial paper it received as a result of the ABCP settlement may not reflect actual amounts recovered in the future

IVN has valued its investment in the commercial paper resulting from the asset backed commercial paper settlement using information that is publicly available at this time. Continuing uncertainties regarding the value of the assets that underlie these investments and the amount and timing of cash flows could give rise to a further change in their fair value. There can be no assurance that IVN's investment will be recoverable in whole, in part or at all.

IVN's ability to obtain dividends or other distributions from its subsidiaries may be subject to restrictions imposed by law, foreign currency exchange regulations and financing arrangements.

IVN conducts its operations through subsidiaries. Its ability to obtain dividends or other distributions from its subsidiaries may be subject to restrictions on dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which the subsidiaries operate. The subsidiaries' ability to pay dividends or make other distributions to IVN is also subject to their having sufficient funds to do so. If the subsidiaries are unable to pay dividends or make other distributions, IVN's growth may be inhibited unless it is able to obtain additional equity or debt financing on acceptable terms. In the event of a subsidiary's liquidation, IVN may lose all or a portion of its investment in that subsidiary.

There can be no assurance that the interest held by IVN in its exploration, development and mining properties is free from defects or that material contractual arrangements between IVN and entities owned or controlled by foreign governments will not be unilaterally altered or revoked.

IVN has investigated its rights to explore and exploit its various properties and, to the best of its knowledge, those rights are in good standing but no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of IVN. There can also be no assurance that IVN's rights will not be challenged or impugned by third parties. IVN has also applied for rights to explore, develop and mine various properties, but there is no certainty that such rights, or any additional rights applied for, will be granted on terms satisfactory to IVN or at all.

The proceeds from the sale of the Savage River Project are dependent on iron ore prices and the remaining supply of ore at the Savage River Project.

The remaining portion of the proceeds payable to IVN from the sale of the Savage River Project are deferred, and the amount of such payments are dependent on prevailing prices for iron ore (as represented by the Nibrasco/JSM pellet price) in the year that the compensation is paid and the total tonnage of iron ore pellets sold from the Savage River Project in that year. Such prices are very volatile and in the past prices have suffered significant declines. Lower prices mean lower corresponding payments to IVN. In addition, while current reserve and resource estimates indicate that the mine will be capable of producing sufficient ore to meet the desired tonnes per year threshold for the term of deferred payments, there is no assurance that these estimates will actually bear themselves out. If insufficient ore is actually present to produce the desired threshold amount of ore, then the corresponding payments to IVN will be lower.

Competition for new mining properties by larger, more established companies may prevent IVN from acquiring interests in additional properties or mining operations.

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, IVN may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that IVN will acquire any interest in additional operations that would yield reserves or result in commercial mining operations.

There is no assurance that IVN will be capable of consistently producing positive cash flows.

IVN has paid no dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. IVN has not, to date, produced positive cash flows from operations, and there can be no assurance of its ability to operate its projects profitably. While IVN may in the future generate additional working capital through the operation, development, sale or possible syndication of its properties, there is no assurance that IVN will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.

A substantial portion of IVN's operations involve exploration and development and there is no guarantee that any such activity will result in commercial production of mineral deposits.

Development of IVN's mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. There is no assurance that additional commercial quantities of ore will be discovered on any of IVN's exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of IVN.

IVN cannot insure against all of the risks associated with mining.

Exploration, development and production operations on mineral properties involve numerous risks and hazards, including:

- rock bursts, slides, fires, earthquakes or other adverse environmental occurrences;
- industrial accidents;
- labour disputes;
- political and social instability;
- technical difficulties due to unusual or unexpected geological formations;
- failures of pit walls; and
- flooding and periodic interruptions due to inclement or hazardous weather condition.

These risks can result in, among other things:

- damage to, and destruction of, mineral properties or production facilities;
- personal injury;
- environmental damage;
- delays in mining;
- monetary losses; and
- legal liability.

It is not always possible to obtain insurance against all such risks and IVN may decide not to insure against certain risks as a result of high premiums or other reasons. The incurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on IVN's financial conditions, results of operations and cash flows and could lead to a decline in the value of the securities of IVN. IVN does not maintain insurance against political or environmental risks.

As a result of the rights to acquire Common Shares and other rights granted to Rio Tinto pursuant to the Rio Tinto Transaction and the Rio Tinto Credit Agreement, Rio Tinto has the ability to significantly influence the business and affairs of IVN.

Rio Tinto's original subscription for Common Shares pursuant to the Rio Tinto Transaction and the various rights granted to Rio Tinto to acquire additional Common Shares through the second tranche private placement, the exercise of share purchase warrants and the right to convert the indebtedness outstanding under the Rio Tinto Credit Agreement will give Rio Tinto the voting power to significantly influence the policies, business and affairs of IVN and the outcome of any significant corporate transaction or other matter, including a merger, business combination or a sale of all, or substantially all, of IVN's assets. Subject to certain limited exceptions, Rio Tinto also has a right of first refusal with respect to any proposed disposition by IVN of an interest in the Oyu Tolgoi Project. Rio Tinto's share position in IVN and its right of first refusal with respect to the Oyu Tolgoi Project may have the effect of delaying, deterring or preventing a transaction involving a change of control of IVN in favour of a third party that otherwise could result in a premium in the market price of the Common Shares in the future.

Rio Tinto will also be able to significantly influence the management, development and operation of the Oyu Tolgoi Project through its representatives on the OT Technical Committee, established to manage the Oyu

Tolgoi Project. Provided Rio Tinto maintains a minimum level of shareholding in IVN, Rio Tinto's appointees to the OT Technical Committee will have a veto over certain specified material decisions until October 2009 and, thereafter, Rio Tinto appointees will represent a majority of the members of the OT Technical Committee and will thereby be entitled to control the ongoing decisions made by the Technical Committee.

IVN is exposed to risks of changing political stability and government regulation in the countries in which it operates.

IVN holds mineral interests in countries, which may be affected in varying degrees by political stability, government regulations relating to the mining industry and foreign investment therein, and the policies of other nations in respect of these countries. Any changes in regulations or shifts in political conditions are beyond the control of IVN and may adversely affect its business. IVN's operations may be affected in varying degrees by government regulations, including those with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. IVN's operations may also be affected in varying degrees by political and economic instability, economic or other sanctions imposed by other nations, terrorism, military repression, crime, extreme fluctuations in currency exchange rates and high inflation.

In certain areas where IVN is active, the regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. The laws of many of the countries in which IVN operates also contain inconsistencies and contradictions. Many of them are structured to bestow on government bureaucrats substantial administrative discretion in their application and enforcement with the result that the laws are subject to changing and different interpretations. As such, even IVN's best efforts to comply with the laws may not result in effective compliance in the determination of government bureaucrats.

IVN's prospects depend on its ability to attract and retain key personnel.

Recruiting and retaining qualified personnel is critical to IVN's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. IVN believes that it has been successful in recruiting excellent personnel to meet its corporate objectives but, as IVN's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although IVN believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Certain directors of IVN are directors or officers of, or have significant shareholdings, in other mineral resource companies and there is the potential that such directors will encounter conflicts of interest with IVN.

Certain of the directors of IVN are directors or officers of, or have significant shareholdings in, other mineral resource companies and, to the extent that such other companies may participate in ventures in which IVN may participate, the directors of IVN may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. This includes the nominees of Rio Tinto, which is entitled to nominate directors to the board of directors of IVN in proportion to its holdings of IVN's issued and outstanding Common Shares from time to time. Certain of these nominees are or may be directors or officers of, or have significant shareholdings in, Rio Tinto companies or other mineral resource companies and, to the extent that such companies may engage in business relationships with IVN, the directors of IVN appointed by Rio Tinto may have conflicts of interest in negotiating and concluding terms of such relationships. In all cases where directors and officers have an interest in another resource company, such other companies may also compete with IVN for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a

director who has such a conflict will disclose the conflict to a meeting of the directors of IVN and will abstain from voting for or against the approval of such participation or such terms. In appropriate cases, IVN will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of the Yukon *Business Corporations Act*, the directors of IVN are required to act honestly, in good faith and in the best interests of IVN. In determining whether or not IVN will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to IVN, the degree of risk to which IVN may be exposed and its financial position at that time.

Capital markets are experiencing increased volatility.

In recent years and especially over the course of the last year, securities markets throughout the world have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those in the resource sector, has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. If these increased levels of volatility and market turmoil continue, our operations could be adversely impacted and there can be no assurance that such fluctuations will not continue to affect the price of IVN's securities.

DESCRIPTION OF THE BUSINESS

Overview

The Oyu Tolgoi Project and the Ovoot Tolgoi Coal Mine have been identified as the mineral properties that are material to IVN.

Qualified Persons

Disclosure of a scientific or technical nature in this Annual Information Form in respect of each of the material mineral resource properties of IVN was prepared by or under the supervision of the “qualified persons” (as that term is defined in NI 43-101) listed below:

<u>Property</u>	<u>Qualified Person</u>	<u>Relationship to Corporation</u>
Oyu Tolgoi Project	Bernard Peters, GRD Minproc	Independent Consultant
Ovoot Tolgoi Coal Mine	Stephen Torr, Chief Resource Geologist, IVN	Non-Independent
Ovoot Tolgoi Coal Mine	Gene Wusaty, Chief Operating Officer, SouthGobi	Non-Independent

Oyu Tolgoi Copper and Gold Project, Mongolia

The information in this Section is based on the Oyu Tolgoi Technical Report, in accordance with the requirements of NI 43-101. The Qualified Persons for the Oyu Tolgoi Technical Report are Bernard Peters, B. Eng. (Mining), Aus.I.M.M. of GRD Minproc, who was responsible for overall preparation of the report and in particular the open pit design and mineral reserve estimate of the report; Stephen Torr, B.Sc. (Hons) MSc, PGeo (APEGBC), of IVN, who was responsible for preparation of the sections on the Oyu Tolgoi and Shivee Geology and Mineral Resources; Scott Jackson, B.Sc. (Hons), CFSG, M.Aus.I.M.M., of Quantitative Geoscience Pty Ltd., who was responsible for preparation of the sections Heruga Geology and Mineral Resources; John Vann, B.App.Sc., B.Sc. (Hons), M.Sc., F.Aus.I.M.M., M.A.I.G, M.S.E.G., of Quantitative Geoscience Pty Ltd., who was responsible for preparation of the sections on Heruga Geology and Mineral Resources; Jeffrey Price PhD, M.Aus.I.M.M., MIE (Aust) F.G.S., of SRK Consulting (Australasia) Pty Ltd., who was responsible for the subsection on Open Pit Mine Geotechnical in the Oyu Tolgoi Technical Report March 2007; and Dean David, B. AppSc (Metallurgy), M Aus.I.M.M., of GRD Minproc, who was responsible for preparation of the processing section.

Project Description and Location

The Oyu Tolgoi Project is located in the Aimag (province) of Omnogovi, approximately 550 km south of the capital city of Ulaanbaatar and 80 km north of the border with China. Mineralization on the property consists of porphyry style copper, gold and molybdenum contained in a linear structural trend, termed the OT Trend, with a strike length that extends over 20 km. Mineral resources have been identified in a series of deposits throughout this trend, which from south to north include the Heruga deposit, the Southern Oyu Deposit group,

consisting of the Southwest Oyu, South Oyu, Wedge deposits and Central Oyu, and the Hugo Dummett Deposits group, consisting of the Hugo South, Hugo North and Hugo North Extension deposits.

IVN operates the Oyu Tolgoi Project through its wholly-owned subsidiary, IMMI. IMMI, in turn, holds its rights to the Oyu Tolgoi Project through mining licence 6709A (the “OT Licence”), comprising approximately 8,496 hectares of property. The Mongolian government granted the OT Licence to IMMI in 2003 along with mining licences for three properties identified as mining licences 6708A, 6710A and 6711A. 6711A (Ulaan Uul) was relinquished in 2008 due to its distance from the OT licence (20km) and lack of mineralisation. The OT Licence includes the right to explore, develop mining infrastructure and facilities and conduct mining operations on the Oyu Tolgoi Project. When originally granted, the OT Licence had a term of 60 years, with an option to extend the licence for an additional term of up to 40 years. In 2006 the Mongolian parliament passed new mining legislation that changed the term of mining licences to 30 years with two 20 year extensions. It is unclear if this law will be applied retroactively to current licences.

IVN holds an interest in approximately 20,000 hectares of MEL 3148X (the “Shivee Tolgoi Licence”) and approximately 20,000 hectares of MEL 3150X (the “Javkhlant Licence”) owned by Entrée. IVN holds its rights to the property through the Entrée JV Agreement, where IVN has an 80% interest in minerals below 560 m and a 70% interest in minerals above that point. Conditions to fulfill the JV agreement were reached in May 2008 when IMMI spent more than \$35 million on the properties. JV expenditure commitments are in 80-20% proportion with Entrée having the option of amortizing their commitment against future income. The Shivee Tolgoi and Javkhlant Licences were renewed in June 2008 and the current terms are now due to expire in 2010. Thereafter, the Licences will expire if the holder does not convert the MELs into a mining licence. The Shivee Tolgoi Licence is adjacent to the north of the OT Licence, and the Hugo North deposit crosses the property boundary onto the Shivee Tolgoi Licence. The Javkhlant Licence is adjacent to the south of the OT licence and hosts the newly discovered Heruga deposit which crosses the property boundary onto the OT licence.

IMMI must pay a yearly per hectare fee to the Mongolian government in order to maintain the OT Licence in good standing. The licence fees are \$15 per hectare per year on the mining licence. The lands covered by the Entrée Joint Venture are subject to an annual licence fee of \$1.50 per hectare. The OT Licence property was surveyed by an independent consultant in 2002 and by a qualified Mongolian Land Surveyor in 2004 to establish the legal boundaries of the OT Licence concession.

Pursuant to the Minerals Law, the Mongolian government assesses a royalty of 5% on the sale value of all minerals mined in the country. IVN holds a 2% net smelter returns royalty over the property covered by the OT Licence (which does not cover the Entrée Joint Venture lands) that was purchased from BHP Exploration in 2003.

Environment

Holders of a mining license in Mongolia must comply with environmental protection obligations established in the Environmental Protection Law of Mongolia, Law of Environmental Impact Assessment and the Minerals Law. These obligations include preparation of an environmental impact assessment (“EIA”) for mining proposals, submitting an annual environmental protection plan, posting an annual bond against completion of the protection plan and submitting an annual environmental report.

IMMI has posted environmental bonds to the Mongolian Ministry for Nature and Environment (“MNE”) in accordance with the Minerals Law of Mongolia for restoration and environmental management work required for exploration and the limited development work undertaken at the site. IMMI pays to the Khanbogd Soum annual fees for water and road usage, while sand and gravel use fees are paid to the Aimag government in Dalanzadgad.

IMMI has, through qualified independent consultants, prepared an EIA for the Oyu Tolgoi Project consisting of three volumes: (i) road, (ii) water supply, and (iii) mine and processing facilities. The first EIA document, for the transport corridor south of the Oyu Tolgoi property to the Chinese border, was submitted in April 2004 and approved in May 2004. An amendment to the approved EIA was submitted in December 2006 to allow for an alternative road alignment to the Chinese border.

The second volume of the Oyu Tolgoi Project EIA, covers the supply of water from nearby aquifers, was submitted in June 2005. Approval was obtained for the use of the Gunni Hooloi water reserve in September 2005. Since approval, changes have been proposed to the mine process, which has resulted in an increase to the project water demand. In addition, further hydrogeological investigations at Gunii Hooloi have occurred, which has allowed a revision to be made to the aquifer capacity, characteristics and exploitable reserves. This revision is provided in the Report on Groundwater Exploration (IMMI, 2007) submitted by IMMI to the MNE in January 2008. This document was reviewed by the Water Sector Science and Technology Council who approved registration (January 2009) of the available water resource at Gunii Hooloi of 870L/s.

An explanatory amendment document to the approved 2005 EIA is to be submitted to the MNE. The document assesses any potential changes to the environmental impacts associated with the use of the resource as a result of the latest hydrogeological assessments and approved exploitable water reserves.

The third volume, incorporating the results of the 2005 IDP, was first submitted in January 2006 and, after review by the Mongolian government, the submission was amended in May 2006. An expert committee review of the mine and processing facilities volume of the EIA was completed in September 2006, and further information was submitted in November 2006 to address the issues raised. The third volume of the EIA was approved by the MNE in December 2007.

Further volumes have been established to accommodate the Power Plant (Volume IV) and Airport Re-location (Volume V – approved 2007) and a number of supplementary assessments (Volume VI) which cover current development work associated with underground shafts 1 & 2, waste water treatment, diesel power supply, emulsion plant, chemicals import and usage, the quarry and batch plant for construction materials.

The Power Plant Screening and EIA reports are prepared for a 3x150MW coal fired steam power plant located on the mining licence at the Oyu Tolgoi Project. Submission to the MNE is pending the exact location on site and the Investment Agreement.

The water supply pipeline and borefield infrastructure EIA is prepared and also pending the Investment Agreement.

<u>EIA</u>	<u>EIA Component</u>	<u>Approval Status</u>	<u>Supplementary EIA's</u>	<u>Approval Status</u>
Volume I	Road and Power Corridor to China	Approved 2004	Re-alignment	Approved 2007
Volume II	Water Resource	Approved 2005	Increase in water demand (explanatory note prepared)	Approved 2009
	Pipeline & Bore field Infrastructure	Prepared		
Volume III	Mine and Processing	Approved 2007		
Volume IV	Coal Fired Power Plant	Prepared		
Volume V	Airport Re-location	Approved 2007		
Volume VI	Infrastructure — Construction		Temporary Fuel Storage Depot	Approved 2004

<u>EIA</u>	<u>EIA Component</u>	<u>Approval Status</u>	<u>Supplementary EIA's</u>	<u>Approval Status</u>
			Emulsion Plant	Approved 2005
			Shaft #1	Approved 2005
			Shaft # 2	Approved 2007
			Quarry & Batch Plant	Approved 2007
			Diesel Power Plant	Approved 2007
			Waste Water Treatment Plant	Approved 2007
			Chemicals import & usage	Approved 2008

IMMI has retained the Institute of Archaeology at the Mongolian Academy of Science to complete archaeological studies of the Oyu Tolgoi Project. The studies have resulted in the excavation and removal of sites of historical and cultural significance within the Oyu Tolgoi Project area in accordance with the relevant Mongolian Laws and custom.

Accessibility, Climate, Local Resources and Physiography

The Oyu Tolgoi Project is located in the South Gobi region of Mongolia, approximately 550 km south of the capital city, Ulaanbaatar. The most prominent nearby community is Dalanzadgad, with a population of approximately 15,000, which is located approximately 220 km northwest of the Oyu Tolgoi property. Facilities at Dalanzadgad include a regional hospital, tertiary technical colleges, domestic airport and a 6 megawatt capacity coal-fired power station. The closest community to the property is Khanbogd, the centre of the Khanbogd Soum. Khanbogd has a population of approximately 2,500 and is located 35 km to the east of the property.

Road access to the property follows a well-defined track directly south from Ulaanbaatar requiring approximately 12 hours travel time in a four-wheel drive vehicle. IMMI has also developed a 2,000 m dirt airstrip within the Oyu Tolgoi property that allows the property to be serviced by a 50 passenger, turbo prop aircraft. Mongolian rail service and a large electric power line lie 350 km east of the property at the main rail line between Ulaanbaatar and China. The China-Mongolia border is located approximately 80 km south of Oyu Tolgoi. The Chinese government has upgraded a highway to the Mongolian border, which now provides a direct link between the border south of Oyu Tolgoi property to the trans-China railway system.

The south Gobi region has a continental, semi-desert climate with cool springs and autumns, hot summers, and cold winters. The average annual precipitation is approximately 80 millimetres, 90% of which falls in the form of rain with the remainder as snow. Temperatures range from an extreme maximum of about 36° Celsius to an extreme minimum of about -31° Celsius. The area occasionally receives very high winds accompanied by sand storms that often severely reduce visibility for several hours at a time. IMMI conducts exploration activities year-round and believes that mining operations can also be run on a year-round basis.

The property ranges in elevation from 1,140 m to 1,215 m above sea level. The region is covered by sparse semi-desert vegetation and is used by nomadic herders who tend camels, goats and sheep. The topography largely consists of gravel-covered plains, with low hills along the northern and western borders. Scattered, small rock outcrops and colluvial talus are widespread within the northern, western and southern parts of the property. IMMI believes that this topography will be amenable to the construction of the necessary infrastructure for mining operations, including tailings storage sites, heap leach pads, waste disposal, and

processing plant sites. Seismicity studies related to the property have been conducted and IMMI has determined that the seismicity of the project area is generally low.

The Mongolian Minerals Law and Mongolian Land Law govern IMMI's surface rights on the Oyu Tolgoi Project. Water rights are governed by the Mongolian Water Law and the Mongolian Minerals Law. These laws permit licence holders to use the land and water in connection with exploration and mining operations, subject to the discretionary authority of Mongolian national, provincial and regional governmental authorities. IVN expects that it will have to negotiate with all three levels of government to ensure access to appropriate land and water rights prior to the commencement of any mining operations.

Power sources are currently sufficient for exploration activities. The nearest power line is 350 km away, so IMMI operates a number of diesel generators for camp electrical needs. A small power station consisting of six one MW diesel generators has been installed to provide power for sinking a shaft on the property. Additional power sources will need to be developed prior to the commencement of mine development and mining operations. IMMI is exploring the possibility of utilizing currently undeveloped coal deposits as a source of power supply.

Water is widely available from shallow wells, and is sufficient for exploration purposes. A more substantial source of water will be required for development and mining operations. Groundwater supply investigations by independent consultants for the Oyu Tolgoi Project have been ongoing since April 2002. IMMI has identified three deep sedimentary groundwater systems within 100 km of the Oyu Tolgoi Project. Investigative drilling of two of these systems and computer modeling of the systems has now been completed and indicates that these groundwater systems will be able to meet the water demand for a production rate of up to 40 million tpy. The Gunii Hooloi aquifer system has been identified as the most suitable supply, with use of water from the systems being subject to finalization of the EIA for the project and the issue of extraction licences by the Mongolian government. There were discussions with the Mongolian Government during 2006 on points related to the issue of extraction licences. In 2007 IMMI conducted additional drilling and testing to acquire additional data in support of licence applications. A total of eight exploration bores totaling 2,868 m with an outside diameter of 250 mm were drilled to better define the aquifer continuity, its boundaries and spatial variability in aquifer transmissivity and to explore to greater depths to determine if additional aquifers exist below the previously defined zones. In addition, four trial production bores, totaling 2,541 m, with outside diameters of 444 mm were drilled to field test the preliminary bore design and their capability to produce at the design capacity.

The results of the 2007 drill program indicates that the aquifer is capable of supplying an estimated maximum output of 1,325 litres per second ("L/s") for 40 years assuming the water drawdown is restricted to the base of the confining layer which is the top of the main aquifer. All of the data related to the assessment of the aquifer potential, as well as a report covering an assessment of the supply potential, was supplied to the Water Agency in January 2008. In mid November of 2008, the Water Agency stated that they would accept a calculation of the groundwater reserve of 870 L/s for the Gunii Hooloi borefield. This rate is almost the same as that used during the design of the wellfield and associated pipeline. Currently, application is being made for a Water Use Contract for the 870L/s usage rate.

History

Old diggings and small amounts of slag found in the area indicate that the Oyu Tolgoi area was subject to small scale mining activity in ancient times. However, modern mineral exploration did not begin in earnest in the area until 1996, when the Magma Copper Company Ltd. began a reconnaissance program which examined more than 60 copper occurrences in various parts of Mongolia. In 1996, after BHP Minerals International Exploration Inc. ("BHP Exploration") acquired Magma Copper Company Ltd., BHP Exploration continued the reconnaissance program in western and southern Mongolia.

BHP Exploration first visited the Oyu Tolgoi Project in September 1996 as part of its regional reconnaissance program of the south Gobi region. BHP Exploration subsequently applied for, and was granted, an exploration concession covering 1,350 km². After geological mapping, stream and soil sediment surveys and magnetic and IP surveys, BHP Exploration completed six diamond core holes totalling 1,102 m during the 1997 field season. With encouraging results from two of the holes, a second phase of drilling was undertaken in 1998, consisting of an additional 17 widely spaced core holes totalling 2,800 m. These holes failed to return significant mineralization, and BHP Exploration suspended the project pending economic review. In 1999, following a review of past results, additional drilling and continued exploration on the property was planned but never carried out. BHP Exploration then offered the properties for joint venture.

IMMI originally acquired its interest in the property from BHP Exploration in May 2000 pursuant to an earn-in agreement. Shortly thereafter, IMMI carried out a RC drill program to delineate a chalcocite blanket intersected by one of BHP Exploration's diamond drill holes. This program consisted of 109 RC holes totalling 8,828 m. In 2001, IMMI continued the RC drilling program to expand the chalcocite blanket and locate additional supergene resources. IMMI also completed three diamond drill holes to test deep hypogene copper and gold potential. One of these holes, OTD 150, intersected 508 m of chalcopyrite-rich mineralization grading 0.81% copper and 1.17 g/t gold, while another hole, OTD 159, intersected a 49 m thick chalcocite blanket grading 1.17% copper and 0.21 g/t gold and 252 m of hypogene covellite mineralization grading 0.61% copper and 0.11 g/t gold.

The diamond drill holes were sufficiently encouraging for IMMI to conduct a major follow-up drill program that resulted in the discovery of the Southwest Oyu deposit. In late 2002, drilling in the far northern section of the property intersected 638 m of bornite-chalcopyrite rich mineralization grading 1.61% copper and 0.07 g/t gold starting at a depth of 222 m. This marked the discovery of the Hugo Dummett Deposits.

IMMI completed the earn-in requirements under the Earn-in Agreement with BHP Exploration by the first quarter of 2002. After certain back-in rights held by BHP Exploration expired, BHP Exploration transferred title to the relevant mineral exploration licences to IMMI in the summer of 2002. Pursuant to the Earn-in Agreement, BHP Exploration retained a 2% net smelter returns royalty on production from the Oyu Tolgoi Project. IVN acquired this royalty from BHP Exploration in November 2003 in consideration for the payment to BHP Exploration of \$37,000,000.

In February 2004, a scoping study was prepared for development of the Oyu Tolgoi Project. The report considered mine development options ranging from a 20-year mine life to a 40-year mine life, with all deposits except Hugo North being mined by open pit and Hugo North being mined by block caving.

In 2005 the Integrated Development Plan 2005 was completed. The IDP05, a preliminary assessment report, was summarized in a Technical Report dated October 1, 2005, which was filed with applicable Canadian securities regulatory authorities and is available for review at www.sedar.com. The report assesses development alternatives open to IVN and charts an implementation path for developing the Oyu Tolgoi Project.

Geology and Mineralization

The Oyu Tolgoi Project lies near the boundary of the South Mongolian and the South Gobi tectonic units, in the Kazakh Mongol Belt. The project area falls within the Gurvansayhan Terrane, which consists of highly deformed accretionary complexes and oceanic island arc assemblages. The area is dominated by a broad corridor of major strike-slip faults, contractional fault and fold belts and fault-controlled Mesozoic sedimentary basins.

The Oyu Tolgoi Project area lies within an east to west trending belt of volcanic and sedimentary rocks of continental margin and island arc affinities. The two major stratigraphic sequences recognised in the project

area are a sequence of tuffs, basaltic rocks and sedimentary strata of probable island arc affinity, assigned to the Upper Devonian Alagbayan Formation and an overlying succession containing conglomerates, fossiliferous marine siltstones, sandstones, waterlain tuffs and basaltic to andesitic flows and volcanoclastic rocks, assigned to the Carboniferous Sainshandhudag Formation. There is also a thin covering of stratified clays and clay-rich gravels of Cretaceous age overlying the two main sequences, infilling paleochannels and small fault-controlled basins.

The Devonian Alagbayan Formation sequence includes four major lithological divisions. The lowest division consists of laminated siltstone and sandstone overlain by an approximately 800m thick augite basalt unit. Overlying is a sequence of volcanoclastic conglomerate/breccias and lapilli tuffs of dacitic composition up to 200m thick. These rocks are commonly strongly altered and host much of the contained mineralisation found on the property; the top of the alteration commonly extends up into the conglomerate/ lapilli tuff unit. The third division is a carbonaceous siltstone and sandstone unit up to 200 m thick.

A major low angle thrust is hosted within the top of the carbonaceous siltstone unit, termed the contact fault. This separates the lower three divisions with the fourth upper division of the Alagbayan formation- a sequence of basaltic flows and volcanoclastic rocks interstratified with thinly bedded siltstone and massive sandstone averaging up to 600 m thick. This unit is commonly overturned and has been transported by thrusting from another location.

The Early Carboniferous Sainshandhudag Formation unconformably overlies the Alagbayan Formation sequence, and consists of a lower tuffaceous sequence, a middle clastic package and an uppermost volcanic sequence. The lowest sequence consists mainly of andesitic lapilli tuff and measures up to 200 m in thickness. The intermediate sequence typically shows a progression from a lower conglomerate-sandstone-siltstone dominant unit to an overlying siltstone-waterlain tuff unit; total thickness is up to 200 m. The uppermost sequence consists of a thick layer of andesitic to basaltic flows and volcanoclastic rocks comprising several subunits; thickness is up to 800 m.

Intrusive rocks are common, and range in age from Devonian to Mesozoic. A broad range of dykes and sills intrude the host rocks, of particular significance are Devonian aged quartz monzodiorite (QMD) intrusions that are genetically linked to the porphyry style mineralisation, mineralised QMD intrusions are irregular dykelike bodies, much larger weakly to unmineralised QMD underlies much of the mineralisation and crops out to the west. Biotite granodiorite dykes and sills intrude the axis of the mineralised trend, In the Hugo Dummett deposit area they feed upward into a keel shaped intrusive interpreted to be the bottom of a dacite dome.

There is a complex network of faults, folds and shear zones that cross-cut the project area. A major Devonian aged low angle thrust fault, the contact fault, is hosted within the carbonaceous siltstone unit of the Alagbayan formation and is of district scale. Other significant faults include the Mesozoic aged West Bat fault and the East Bat fault, which respectively bound the west and east side of the zone of mineralization constituting the Hugo Dummett Deposits. The Solongo fault is also major, and cuts off the southern end of the outcropping South West Oyu and south Oyu Deposits. To the south of this fault mineralisation is deeply buried, with the Heruga deposit some 4km to the south under about 800m of Devonian rocks.

Heruga Deposit

The Heruga Deposit is at present the southernmost deposit discovered on the OT Trend. It is preserved below the contact fault, a major low angle thrust of district scale significance. 600 to 1000m of Devonian Alagbayan formation overlie the contact fault. Below the contact fault, the porphyry system is intact, with the top of the porphyry related alteration zone commencing 100-200m below the fault, usually within conglomerates and tuffs of the lower Alagbayan formation. Almost all of the deposit is hosted in the underlying augite basalt with some lesser QMD intrusions. The upper part of the deposit comprises a pyritic copper-molybdenum rich zone approximately

200-300m thick overlying and partly overlapping with a copper and gold rich zone, this lower zone is similar to that at Southwest Oyu. The alteration at Heruga is typical of gold rich porphyry style deposits, with the upper copper-molybdenum rich zone equated to the molybdenum rich external annuli that commonly partly overlap the copper gold cores to gold rich porphyry deposits. In the gold zone biotite and magnetite are the main alteration minerals, chalcopyrite and minor bornite accompany the gold, and pyrite contents are low in the gold zone.

Mineralized veins have a much lower density at Heruga than in the more northerly Southern Oyu and Hugo Dummett Deposits. Some quartz veins show a weak preferred orientation, but in general most occur as stockworks with no visible preferred orientation.

High grade copper and gold intersections show a strong spatial association with contacts of the mineralized quartz monzodiorite porphyry intrusion in the southern part of the deposit, occurring both within the outer portion of the intrusion and in adjacent enclosing basaltic country rock.

Southern Oyu Deposits

The Southern Oyu deposits consist of a series of deposits known as Southwest Oyu, South Oyu, Central Oyu and the Wedge. These deposits form contiguous zones of mineralization representing multiple mineralizing centres, each with distinct styles of mineralization, alteration and host lithology. The boundaries of the individual deposits coincide with major fault zones.

The geology and mineralization of the Southwest Oyu deposit is characterized by a gold-rich porphyry system, with a high-grade core about 250 m in diameter and extending over 700 m vertically (the “Southwest Gold Zone”). Over 80% of the deposit is hosted by porphyritic augite basalt of the Alagbayan Formation, with the remainder hosted by QMD intrusions. The high-grade core is enclosed by a large, low-grade ore shell approximately 600 m by 2,000 m in area. The system is low sulphide, and the copper and gold mineralization is related to chalcopyrite.

Mineralization at Southwest Oyu consists mainly of finely disseminated pyrite-chalcopyrite with minor bornite and massive chalcopyrite veins cross-cutting and impregnating earlier deformed quartz vein stock works and the basalt and QMD host rocks. The mineralization is related to a late stage sericite and sericite-biotite-albite overprint, which affects the QMD intrusions and basaltic wall rocks. The high grade core is centred on a 10 m to 30 m wide, vein-rich QMD dyke and extends for over 100 m into the adjacent porphyritic augite basalt. Gold to copper ratios (g/t Au to % Cu) vary between 0.5 to one and one to one in the outer margin of the deposits, increasing to approximately two to one into the high grade gold core, with the highest ratios consisting of up to three to one in the deeper parts of the deposit. Outside the Southwest Gold Zone, the augite basalts contain anomalous gold contents, with the gold to copper ratios increasing southward.

South Oyu is a copper porphyry deposit developed mainly in the Alagbayan Formation strata consisting of basalt and dacite tuff units. The deposit is cut by numerous barren dykes, including one major rhyolite dyke that is up to tens of metres wide and cuts east to west through the middle of the deposit. Unlike Southwest Oyu, the South Oyu system is not gold rich. Copper mineralization at South Oyu is associated with stockworks of thin quartz and sulphide veins, and consists of finely disseminated pyrite-chalcopyrite and bornite.

The Central Oyu deposit is hosted in a quartz monzodiorite dyke swarm that contains a series of isolated irregular bodies of altered basalt and dacite tuff up to 200m thick extending several hundred metres down dip to the limit of drilling. Mineralisation consists of high-sulphidation style copper mineralization with pyrite, covellite, chalcocite, and minor enargite in intensely sericite altered rock; this is telescoped down into a deeper and peripheral body of chalcopyrite and gold porphyry mineralization and is overlain by a shallow chalcocite enrichment blanket developed 20 to 80m below a surficial leached cap. The centre of the system is

strongly quartz veined. The high sulfidation system has the largest volume and averages about 0.7% copper with high pyrite content and minor enargite.

The Wedge deposit is wedged between South Oyu and SW Oyu, it is a downfaulted block of the top of the alteration system, which, like other deposits at Oyu Tolgoi is developed in the top of the augite basalt unit of the Alagbayan Formation and the overlying dacitic tuff. Mineralisation is largely high sulfidation style with chalcopyrite, chalcocite and enargite but grades down into chalcopyrite in basalt and QMD rocks. There is little gold mineralisation.

Hugo Dummett Deposits

The Hugo Dummett Deposits consist of Hugo South, Hugo North and the Hugo North Extension. These deposits represent a continuous zone of mineralization that is elongated in a north-north-easterly direction over a strike length of at least three km. While mineralization of the Hugo Dummett Deposits is virtually continuous, IMMI has divided the mineralized zone into two deposits (Hugo South and a combined Hugo North and Hugo North Extension) for the purposes of resource estimation, development and mine planning. Hugo South and Hugo North are separated by a 110° striking sub-vertical fault that displaces Hugo North vertically down a modest distance from Hugo South. Hugo North Extension represents the extension of the Hugo North deposit into the Shivee Tolgoi Licence.

The Hugo Dummett Deposits occur in a northerly striking, moderately to steeply east dipping monocline that is bounded and intruded by several faults, including a near vertical fault that controls the western edge of the deposit known as the West Bat Fault and a near vertical fault that controls the eastern edge of the deposit known as the East Bat Fault. The host rocks to the deposit are basalt and overlying dacite tuffs and breccias of the Alagbayan Formation intruded by QMD's which are the source and host most of the mineralisation. Overlying the dacite tuffs are sedimentary and volcanic rocks of the upper Alagbayan Formation and Sainshandhudag Formation with a total intersected thickness of up to 600 m thick in places. The width of the mineralized zone on the Hugo Dummett Deposits varies along strike from 200 m to in excess of 500 m. Mineralization dips generally to the east from as low as 40° to up to 80°, but is generally above 60° and increases to sub-vertical at the northern end of Hugo North.

Hugo South has a higher copper to gold ratio than Hugo North, averaging 10 to one copper to gold in most of the deposit. It is closer to the surface than Hugo North, with the lowest portion of the deposit approximately 700 m below surface compared to 1,500 m below the surface for Hugo North. Mineralization is centred on a high-grade zone typically grading in excess of 2% copper, this usually corresponds with intensely quartz stockwork veined narrow QMD intrusions extending out into the enclosing basalt and dacite tuff. The sulphide mineralization consists of chalcopyrite, bornite, chalcocite and pyrite. The sulphides are zoned, with bornite, chalcocite and tennantite comprising the highest grades, often in excess of 2.5% copper, then grading outwards to chalcopyrite at between 1% to 2% copper and then pyrite-chalcopyrite and other minerals grading at less than 1% copper. The gold-rich QMD does not occur in Hugo South, with the result that the gold grades are typically less than 0.1 g/t. Weakly mineralized QMD forms the base of the deposit.

Hugo North contains the same high-grade copper zone as Hugo South, consisting of a zone of intense stockwork to sheeted quartz veins centred on QMD intrusions and extending into the adjacent Alagbayan Formation basalt. Unlike Hugo South, the Hugo North quartz veining also hosts significant gold mineralization. The copper mineralization in the high-grade zone is also greater, at up to 3% to 5% copper, moderate to high-grade copper and gold values are also in nearby QMD intrusions below and to the west of the intense vein zone. In other respects, Hugo North and Hugo South have similar mineralogy and zonation patterns. Bornite is dominant in the highest grade part of the deposit, at 3% to 5% copper and is zoned outward to chalcopyrite at approximately 2% copper, grading upward to less than 1% copper in pyrite-chalcopyrite in the altered dacitic tuff sequence at the top of the deposit.

All of the deposits display alteration zones, including K-silicate, advanced argillic, muscovite/sericite and intermediate argillic styles. The copper in the deposits also correlates with elevated abundances of silver, selenium and tellurium. Small amounts of zinc, arsenic, lead and mercury also occur with or near the high-grade zone.

On the Hugo North Extension, mineralization is similar to that characterizing the northern part of the Hugo North deposit. High copper grades are associated with equally elevated gold values, with copper and gold ratios typically around two to four to one. The extension is more structurally complex, manifested in a more variable strike and steeper dip to the mineralized zone with a higher prevalence of faults, and structurally-induced discontinuities in the high-grade zone. These features are the result of post-mineral deformation. Both the mineralized zone and lithologic contacts in the enclosing and overlying rocks display an abrupt right-hand stepover of around 200 m, starting at the border of the deposit with the main Hugo North deposit. Drilling in this zone during 2006 confirmed that this stepover is a flexure/fold with a short, east-west striking limb, rather than a fault offset. North of the flexure, grade continuity is more difficult to predict, and the western margin of the deposit consists of a zone of complex faulting. These faults typically result in a sliver of weakly- to moderately- mineralized QMD lying between the sub vertical high-grade deposit core, and non-mineralized Devonian and Carboniferous rocks to the west of the fault system.

Exploration

IMMI's exploration at Oyu Tolgoi has consisted mainly of remote sensing and geophysical methods, including satellite image interpretation, detailed ground magnetics, Bouger gravity and gradient array IP, as well as extensive drilling. These activities have enabled IMMI to construct detailed geophysical and geological mapping of the entire property, as well as the nearby mining licences owned by IMMI, and have supplemented the understanding of the property derived from drilling. Outcropping prospects, including Southwest, South and Central Oyu, have been mapped at 1:1,000 scale, while the central part of the exploration block was mapped at 1:5,000 scale. The entire remaining exploration block has been mapped at 1:10,000 scale. In 2004, extensive surface trenching by excavators and shallow overburden RC drilling was conducted to provide bedrock geology over the extensive areas devoid of outcrop. As a result the geology is well defined over the entire 10 km by 8 km concession block.

Gradient array IP has been conducted on north to south, and subsequently east to west lines at 200 m line spacing, with electrode spacing up to 11 km. A further IP survey covered the deposit areas with a more detailed program using multiple electrode spacing. An airborne magnetometer was flown by BHP in the late 1990s at a height of 100 m on 300 m spaced, east to west oriented lines. IMMI conducted magnetometer surveys on the property, with the northern half using east to west oriented lines on 50 m intervals with 25 m spaced readings and Southern Oyu deposits using a north to south orientation for 5 m intervals on 25 m spaced lines.

A gravity survey was conducted, controlled by GPS, with readings on deposit areas taken on 50 m centres and on the extremities at 100 m centres. The Bouger map was reduced to residual gravity for contouring. Telluric electromagnetic surveying was conducted over the eastern half of the concession to identify smaller drainage basins that could have channelled copper-rich waters during the Cretaceous Period.

In late 2004 IMMI began to extend its exploration program to the outlying Oyu Tolgoi Project concessions, including the mining licences 6708A, 6710A and 6711A and exploration licence 3677X that adjoins and extends the southern limits of the mining concessions. A number of chargeability anomalies with similarities to the Oyu Tolgoi Project anomaly were discovered on the other concessions and IMMI has conducted diamond drilling with negative results to date. Additional evaluation work will continue to be carried out to determine the extent to which other chargeability anomalies might contain sulphide mineralization or precious metals.

IMMI initiated exploration work on the Shivee Tolgoi Licence in November 2004 following the signing of the earn-in agreement with Entrée. Prior to that time, Entrée had undertaken geochemical remote sensing, geophysics testing, such as ground magnetics, Bouger gravity and pole-dipole geophysical surveying, and geological mapping. Starting at the northern boundary of the OT Licence, an IP survey was run on 100 m spaced lines oriented east-west to trace the northern projection of the Hugo North Deposit. This initial IP survey used gradient array with 11,000 m AB electrode spacing, covered an area extending 5.6 km north of the boundary and 10 km in width. Subsequent IP surveys covering smaller areas within the larger area were carried out with gradient arrays. The IP surveys resulted in the delineation of a significant chargeability feature being traced for approximately four km north along strike of the Hugo North deposit. Additional IP chargeability targets were also revealed 2.5 km to three km west of the Hugo North trend and are referred to as the Eagle anomalies.

In 2005 and 2006 IMMI conducted IP surveying on 100 m spaced, east-west lines across the Javkhant Licence. This resulted in the discovery of three significant chargeability IP anomalies subsequently named the Sparrow South (Heruga deposit), Castle Rock and SW Magnetic anomalies.

In 2007 and 2008 further detailed IP surveying was conducted over Heruga and the area between Heruga and SW Oyu where previous IP surveys detected a weak anomaly. Detailed ground magnetometer surveys were also conducted over Heruga, extensions to the south of Heruga, the area between Heruga and SW Oyu and over the Hugo North Extension area and northwards. This resulted in a far better understanding of the surface geology of the OT Trend south of SW Oyu and a better understanding of IP anomalies. A program of detailed 1:5000 scale geological mapping is continuing over this area. OTD1487 was drilled in 2008 to target an IP anomaly half way between Heruga and SW Oyu. It intersected 350m of high grade gold-copper mineralisation below about 1978m. Drilling is ongoing in this area.

Drilling

Diamond drill holes are the most significant source of geological and grade data for the Oyu Tolgoi Project. From the start of IMMI's diamond core drill program in 2001 to February 1, 2009, IMMI has drilled approximately 798,000 m of core in over 1,980 drill holes. IMMI currently has two drill rigs operating on the property.

IMMI has relied on wireline methods for all drilling, utilizing HQ and NQ size core and some PQ size core for metallurgical testing. At Hugo North, virtually all holes are initiated in PQ size core to a depth of at least 450 m to 550 m. The rest of the drill hole is then continued using HQ or NQ sized core. On two occasions PQ coring was extended to depth of 1,450 m, allowing IMMI to collect large diameter core from the deep Hugo North deposit. Upon completion of all holes, the collar and anchor rods on drill holes are removed, and a PVC pipe is inserted in the hole. Each hole collar is marked by a cement block inscribed with the hole number. The holes are not grouted or back filled with cement so as to allow re-entry of individual holes for surveying checks or to permit IMMI to drill new daughter holes. In future, some holes may have to be grouted or cemented to keep near surface water from entering the underground mine workings.

Drill hole collars are located respective to a property grid by either global positioning system or theodolite and electronic distance measuring instruments. Holes are drilled at an inclination of between 45° and 90°, with the majority between 60° and 70°. The drill contractors take down-hole surveys about every 50 m. Where magnetite is present that will affect the deviation of the compass readings in the survey instruments, gyro compasses are used that are not affected by magnetism in the rock.

IMMI uses standard logging and sampling conventions to capture information from the drill core. The core is logged in detail onto paper logging sheets, and the data are then entered into the project database. The core is photographed prior to being sampled, and the digital photographs are linked to the drill logs enabling the

geologist to quickly access specific photographs for any given metre. Drill core is then stacked on pallets in an organized “core farm”. Core recovery in the mineralized units has been usually between 95% and 100%.

IMMI’s current drill program is now focused on testing the extent of the Heruga deposit mineralization on the Javkhlant Licence and its extension northward to SW Oyu. At Heruga, drill holes are spaced on 200 m intervals along east-west section lines spaced 300 m apart drilling grid west at -70°. Some holes have had daughter holes cut from them where reduced spacing has been required to better define higher grade intersections. However most holes are single holes of 1400 m to 1800 m in length and drilled in PQ and HQ core sizes. The mineralized intervals are cut and sampled on two m intervals similar to the Oyu Tolgoi Project drilling described below.

Sampling, Analyses and Security

IMMI’s sampling procedure comprises collection of core samples taken on continuous two m intervals down each drill hole, excluding dykes that extend more than 10 m along the core length. Samples of one-half of NQ and HQ core or one-quarter of PQ core are taken for assaying. The core is marked with a continuous linear cutting line before being split to prevent a sampling bias. Splitting is done with a rock saw flushed continually with fresh water. Samples are placed in cloth bags and sent to an on-site preparation facility operated by SGS Mongolia LLC (“SGS Mongolia”).

Core samples initially are assembled into groups of 15 or 16 and then four or five quality control samples are randomly inserted to make up batch of 20. The quality control samples comprise one duplicate split core sample and one uncrushed field blank, which are inserted prior to sample preparation, a coarse reject or pulp preparation duplicate, which is inserted during sample preparation, and one or two standard reference material samples, which are inserted after sample preparation.

Split core samples are crushed to 90% minus 3.5 mm. A 1 kg sub-sample is then riffle split from the crushed sample and pulverized to a 90% minus 200 mesh (70 µ) pulp. A 150 gram sub-sample is split off by taking multiple scoops from the pulverized 200 mesh (70 µ) pulp, which is then placed in a sealed tin-tip kraft envelope.

The kraft envelopes of prepared pulp samples are packed in wooden shipping boxes, locked, sealed with tamper-proof, numbered tags, and shipped under the custody of IMMI to Ulaanbaatar, where they are assayed at a facility operated by SGS Mongolia.

All samples are assayed for gold, copper, molybdenum, arsenic, and silver. Gold is determined by atomic absorption spectroscopy following lead fire assay fusion to obtain prills that are digested with nitric and hydrochloric acids. Copper, molybdenum, arsenic, and silver also are determined by atomic absorption spectroscopy following digestion with nitric, hydrochloric, hydrofluoric, and perchloric acids to dryness, leaching by hydrochloric acid to dissolve soluble salts, and volume make-up with distilled water.

Upon receipt of assay results, values for Standard Reference Material samples and Field Blanks are tabulated and compared to those from an established Round Robin program. Assay results that deviate from Round Robin program results beyond pre-set tolerance limits are rejected and subject to re-assay. IMMI also performs check assays on a regular basis at the rate of one per batch of 20 samples, although this program was temporarily suspended during 2006 and early 2007.

The QAQC program used by IMMI was developed by an independent Quality Control consultant and adopted in April 2002. The original samples taken from diamond drilling at Southwest Oyu following its discovery were assayed prior to implementation of this QAQC program. Re-assaying of 20% of these early samples under the new QAQC program indicated a slight positive bias in the original gold and copper assays of a small proportion of samples. Accordingly, resource estimates covering Southwest Oyu include a proportional

adjustment of the grades of a number of pre-OTD231 gold and copper assays to account for this bias. Since the implementation of the full QAQC program, IMMI has not been required to conduct re-assay programs or make adjustments for bias to its assay results for subsequent resource estimations.

In preparation for feasibility level metallurgical testing IMMI has conducted a trace element composite (TEC) analytical program to map the distribution of potential penalty elements within the deposits. The program consists of the preparation of 10 m composite samples from five continuous 2 m samples obtained from reject minus 200 mesh (70 μ) pulps. The program was conducted on approximately every second hole in Southwest and Central Oyu deposits and every drill hole in Hugo South, Hugo North, and Heruga deposits. These samples are sent to an independent laboratory in Canada for a 47 element ICP analysis based on a four acid digestion method plus carbon, sulphur, mercury, and fluorine by various fusion methods. Arsenic and fluorine are modelled to provide a global distribution of the potential penalty elements to facilitate blending strategies if required to reduce the effects of these elements in the concentrates.

Mineral Resources and Mineral Reserves

The estimates of mineral reserves and resources on the Oyu Tolgoi Project identified below are contained in the Oyu Tolgoi Technical Report and were classified using logic consistent with the CIM Standards. The current estimate of mineral resources for the Oyu Tolgoi Project, excluding those on the Heruga Deposit, was prepared under the supervision of Stephen Torr, a qualified person for the purposes of NI 43-101 and an employee of IVN. The mineral resource estimate for the Heruga Deposit was prepared under the supervision of John Vann and Scott Jackson of Quantitative Geoscience, each of whom is a qualified person for the purposes of NI 43-101. The estimate of mineral reserves on the Southern Oyu Deposits was prepared by Bernard Peters of GRD Minproc, who is also a qualified person under NI 43-101.

Mineral Resources

In the Oyu Tolgoi Technical Report, a consolidated resource estimate for the Oyu Tolgoi Property is reported as follows:

Total Oyu Tolgoi Project Mineral Resources March 2008⁽¹⁾⁽²⁾
(based on a 0.60% copper equivalent cut-off)

Resource Category	Tonnes	Cu (%)	Au (g/t)	Mo (ppm)	CuEq ⁽³⁾ (%)	Contained Metal ⁽⁴⁾		
						Cu ('000 lbs)	Au (ounces)	CuEq ⁽³⁾ ('000 lbs)
Measured	101,590,000	0.64	1.10	—	1.34	1,430,000	3,590,000	3,000,000
Indicated	1,285,840,000	1.38	0.42	—	1.65	39,120,000	17,360,000	46,770,000
Measured + Indicated	1,387,430,000	1.33	0.47	—	1.63	40,680,000	20,970,000	49,860,000
Inferred	2,157,130,000	0.81	0.34	50	1.05	38,390,000	23,860,000	50,140,000

Notes:

- (1) Resource classifications conform to CIM Standards on Mineral Resources and Reserves referred to in National Instrument 43-101. Mineral Resources that are not Reserves do not have demonstrated economic viability. Measured and Indicated Resources are that part of a mineral resource for which quantity and grade can be estimated with a level of confidence

sufficient to allow the application of technical and economic parameters to support mine planning and evaluation of the economic viability of the project. An Inferred Resource is that part of a mineral resource for which quantity and grade can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity.

- (2) This table includes estimated resources on the Hugo North Extension Deposit and the Heruga deposit. These deposits are located on mineral licences owned by Entrée but subject to the Entrée Joint Venture. These resources consist of indicated resources of 117,000,000 tonnes grading 1.8% copper and 0.61 g/t gold and inferred resources of 855,500,000 tonnes grading 0.53% copper and 0.52 g/t gold and a 142ppm Molybdenum at a 0.6% cut-off grade on the combined Hugo North Extension and Heruga Deposits.
- (3) CuEq has been calculated using assumed metal prices (\$1.35/lb. for copper and \$650/oz for gold and \$10/lb for molybdenum); %CuEq. = $Cu + ((Au * 18.98) + (Mo * 0.01586)) / 29.76$. Mo grades outside of Heruga are assumed to be zero for CuEq calculations. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and copper recovery was 72%.
- (4) The contained gold and copper represent estimated contained metal in the ground and have not been adjusted for the metallurgical recoveries of gold and copper. Differences in measured and indicated totals relate to rounding associated with tonnes and grade.

The estimates were based on 3D block models utilizing commercial mine planning software (MineSite®). Industry-accepted methods were used to create interpolation domains, these domains were based upon mineralization and geology. Grade estimation was performed by ordinary kriging. A separate resource model was prepared for each of the deposits. Only hypogene mineralization was estimated, with the exception of a zone of supergene mineralization at Central Oyu. The estimation plans, or sets of parameters used for estimating blocks, were designed using a philosophy of restricting the number of samples for local estimation, as it was found to be an effective method of reducing smoothing and producing estimates that match the Discrete Gaussian change-of-support model and ultimately the actual recovered grade-tonnage distributions.

Modelling consisted of grade interpolation by ordinary kriging. Only capped grades were interpolated in the Southern Oyu and Hugo South Deposits. In addition, nearest neighbour grades were interpolated for validation purposes. For both copper and gold, on all deposits except Hugo South, an outlier restriction was used to control the effect of high-grade composites. In the Southern Oyu Deposits, resource grades were also adjusted to reflect likely occurrences of internal and contact dilution from unmineralized post-mineral dykes. Validation procedures included Discrete Gaussian change-of-support method, comparisons using a nearest neighbour model and visual checks.

The base case CuEq cut-off grade assumptions for each deposit were determined using cut-off grades applicable to mining operations exploiting similar deposits.

Southern Oyu Mineral Resources

The mineral resource grade model on the Southern Oyu Deposits was tabulated above a 0.30% copper equivalent cut-off grade within a pit shell approximating a copper price of \$1.15/lb copper and \$450/oz gold. These parameters were used as they approximate the effective copper equivalent cut-off grade and pit shell in the reserve estimate on the Southern Oyu Deposits. The grade and tonnages, at a range of copper equivalent cutoff grades are reported below.

Southern Oyu Deposits⁽¹⁾⁽²⁾

Southern Oyu Deposits	CuEq Cutoff	Tonnage (t)	Cu (%)	Au (g/t)	Contained Metals⁽⁴⁾			
					CuEq (%)⁽³⁾	Cu ('000 lb)	Au (oz)	CuEq⁽³⁾ ('000 lb)
Measured	1.0	59,550,000	0.77	1.55	1.76	1,011,000	2,970,000	2,311,000
	0.7	84,140,000	0.69	1.25	1.49	1,280,000	3,380,000	2,764,000
	0.6	101,590,000	0.65	1.09	1.34	1,456,000	3,560,000	3,001,000
	0.5	115,180,000	0.61	1.00	1.25	1,549,000	3,700,000	3,174,000
	0.4	123,440,000	0.59	0.95	1.20	1,606,000	3,770,000	3,266,000
	0.3	126,690,000	0.58	0.93	1.17	1,620,000	3,790,000	3,268,000
	0.25	127,550,000	0.58	0.92	1.17	1,631,000	3,770,000	3,290,000
	0.2	127,800,000	0.58	0.92	1.17	1,634,000	3,780,000	3,296,000

Southern Oyu Deposits	CuEq Cutoff	Tonnage (t)	Cu (%)	Au (g/t)	Contained Metals ⁽⁴⁾			
					CuEq (%) ⁽³⁾	Cu ('000 lb)	Au (oz)	CuEq ⁽³⁾ ('000 lb)
Indicated	1.0	102,330,000	0.85	0.82	1.38	1,918,000	2,700,000	3,113,000
	0.7	279,850,000	0.71	0.50	1.02	4,380,000	4,500,000	6,293,000
	0.6	430,830,000	0.63	0.40	0.89	5,984,000	5,540,000	8,453,000
	0.5	617,530,000	0.57	0.35	0.79	7,760,000	6,950,000	10,755,000
	0.4	827,050,000	0.51	0.30	0.70	9,299,000	7,980,000	12,763,000
	0.3	992,400,000	0.47	0.27	0.64	10,283,000	8,610,000	14,002,000
	0.25	1,067,830,000	0.45	0.26	0.61	10,594,000	8,930,000	14,360,000
	0.2	1,143,710,000	0.43	0.25	0.59	10,842,000	9,190,000	14,877,000
Measured+Indicated	1.0	161,880,000	0.82	1.09	1.52	2,926,000	5,670,000	5,425,000
	0.7	363,990,000	0.70	0.67	1.13	5,617,000	7,840,000	9,068,000
	0.6	532,420,000	0.64	0.54	0.98	7,512,000	9,240,000	11,503,000
	0.5	732,710,000	0.57	0.45	0.86	9,207,000	10,600,000	13,892,000
	0.4	950,490,000	0.52	0.38	0.76	10,896,000	11,610,000	15,926,000
	0.3	1,119,100,000	0.48	0.35	0.70	11,843,000	12,590,000	17,270,000
	0.25	1,195,370,000	0.46	0.33	0.67	12,123,000	12,680,000	17,657,000
	0.2	1,271,510,000	0.45	0.32	0.65	12,614,000	13,080,000	18,221,000
Inferred	1.0	3,750,000	0.91	0.48	1.22	75,000	60,000	101,000
	0.7	19,420,000	0.62	0.39	0.87	265,000	240,000	372,000
	0.6	47,390,000	0.51	0.35	0.74	533,000	530,000	773,000
	0.5	103,190,000	0.43	0.31	0.63	978,000	1,030,000	1,433,000
	0.4	181,700,000	0.38	0.26	0.55	1,522,000	1,520,000	2,203,000
	0.3	266,820,000	0.34	0.23	0.48	2,000,000	1,970,000	2,824,000
	0.25	318,380,000	0.32	0.21	0.45	2,246,000	2,150,000	3,159,000
	0.2	394,850,000	0.29	0.19	0.40	2,524,000	2,410,000	3,482,000

Notes:

- (1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility study or pre-feasibility study. Mineral resources are reported inclusive of mineral reserves.
- (2) The resources shown above at a 0.3% CuEq Cut-off are inclusive of the resources tabulated at the 0.6 CuEq Cut-off in the consolidated resource statement.
- (3) CuEq has been calculated using assumed metal prices (\$1.35/lb. for copper and \$650/oz for gold and \$10/lb for molybdenum); %CuEq. = $Cu + ((Au * 18.98) + (Mo * 0.01586)) / 29.76$. Mo grades outside of Heruga are assumed to be zero for CuEq calculations. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and copper recovery was 72%.
- (4) The contained gold and copper represent estimated contained metal in the ground and have not been adjusted for the metallurgical recoveries of gold and copper.

In the Southwest Gold Zone at Southwest Oyu, drilling is approximately on 50 m sample spacing. Inspection of the model and drill hole data on plans and sections in the Southwest Gold Zone area, combined with spatial statistical work and investigation of confidence limits in predicting planned quarterly production showed good geologic and grade continuity. When taken together with all observed factors, it was determined that the blocks covered by this data spacing in the Southwest Gold Zone area may be classified as a measured mineral resource. A three-hole rule was used where blocks containing an estimate resulting from three or more samples from different holes (all within 55 m and at least one within 30 m) were classified as measured mineral resource.

The bulk of the remainder of the Southern Oyu Deposits were estimated at an indicated resource level. The drill spacing is at a nominal 70 m on and between sections. Geologic and grade continuity is demonstrated by inspection of the model and drill hole data in plans and sections over the various zones, combined with spatial statistical work and investigation of confidence limits in predicting planned annual production. A two-hole rule was used where blocks containing an estimate resulting from two or more samples from different holes.

For the Southwest Oyu Deposit the two holes needed to be within 75 m, with at least one hole within 55 m. For the remaining deposits, both holes needed to be within 65 m, with at least one hole within 45 m to be classified as indicated mineral resources. All interpolated blocks that did not meet the criteria for either measured or indicated mineral resources were assigned as inferred mineral resources if they fell within 150 m of a drill hole composite.

Hugo Dummett Mineral Resources

A drill spacing of between 135 m to 150 m along strike and 75 m to 100 m down dip was adopted for the classification of indicated resource blocks at Hugo Dummett. Blocks that do not meet these criteria but that are within 150 m of a drill-hole composite are classified as inferred resource. Blocks outside of 150 m from a borehole composite are not classified.

For the Hugo North resource estimate, IMMI created three-dimensional mineralized shells or envelopes based on copper grades of 0.6%, and a quartz vein percentage of 15%. For gold interpolation IMMI created two sets of grade shells, one at 0.3 g/t gold threshold and one at 1.0 g/t gold threshold. The shapes were checked for interpretational consistency in section and plan. These shells were then used as interpolation domains. Copper grades for blocks within the copper domains in each deposit or zone were estimated with a hard boundary between the shells. Gold grades for blocks within the gold zone in Hugo North were also estimated with a hard boundary. The background estimation domain used all composites outside of the grade shells.

In Hugo South, a 0.6% copper shell and a 2% copper shell were used to constrain ordinary kriging. All blocks that fell within 150 m of a drill composite were assigned to an inferred mineral resource category. All other blocks were not included in the resource estimate.

The resources of the Hugo North Deposit were updated at an effective date of February 20, 2007. This update included drilling that was completed up to November 1, 2006.

Hugo Dummett Deposits — Mineral Resources at 0.6% copper equivalent cut-off⁽¹⁾

Deposit	Tonnage (t)	Cu (%)	Au (g/t)	CuEq ⁽²⁾ (%)	Contained Metal ⁽³⁾		
					Cu (‘000 lb)	Au (oz)	CuEq ⁽²⁾ (‘000 lb)
Indicated (Hugo North)	703,200,000	1.82	0.39	2.07	28,215,000	8,820,000	32,091,000
Indicated (Hugo North Extension) ⁽⁴⁾	117,000,000	1.80	0.61	2.19	4,643,000	2,290,000	5,649,000
Inferred (Hugo North)	722,800,000	0.97	0.30	1.17	15,457,000	6,970,000	18,644,000
Inferred (Hugo North Extension) ⁽⁴⁾	95,500,000	1.15	0.31	1.35	2,421,000	950,000	2,842,000
Inferred (Hugo South)	490,330,000	1.05	0.09	1.11	11,350,000	1,420,000	12,000,000
Total							
Indicated (Hugo North and Hugo North Extension) ⁽⁴⁾	820,200,000	1.82	0.42	2.08	32,910,000	11,080,000	37,611,000
Inferred (Hugo North, Hugo South and Hugo North Extension) ⁽⁴⁾	1,308,630,000	1.02	0.22	1.16	29,430,000	9,260,000	33,470,000

Notes:

- (1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility study or pre-feasibility study. IVN reports mineral resources inclusive of mineral reserves.
- (2) CuEq has been calculated using assumed metal prices (\$1.35/lb. for copper and \$650/oz for gold and \$10/lb for molybdenum); %CuEq. = $Cu + ((Au * 18.98) + (Mo * 0.01586)) / 29.76$. Mo grades outside of Heruga are assumed to be zero for CuEq calculations. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and copper recovery was 72%.
- (3) The contained gold and copper represent estimated contained metal in the ground and have not been adjusted for the metallurgical recoveries of gold and copper.
- (4) The Hugo North Extension is located on the Shivee Tolgoi Property, which property is owned by Entrée but subject to earn-in rights in favour of IVN.

A further breakdown of the mineral resource inventory of the Hugo North and Hugo North Extension Deposits is set forth below.

Hugo North Mineral Resource Inventory⁽¹⁾
Indicated

Class Hugo North Deposit	CuEq Cutoff	Tonnage (t)	Cu (%)	Au (g/t)	CuEq ⁽²⁾ (%)	Contained Metal ⁽³⁾		
						Cu ('000 lb)	Au (oz)	CuEq ⁽²⁾ ('000 lb)
Indicated (Hugo North)	3.5	125,300,000	3.74	0.93	4.34	10,331,000	3,750,000	11,989,000
	3	175,400,000	3.49	0.84	4.03	13,496,000	4,740,000	15,584,000
	2	276,900,000	3.03	0.69	3.47	18,497,000	6,140,000	21,183,000
	1	541,600,000	2.15	0.46	2.44	25,672,000	8,010,000	29,134,000
	0.6	703,200,000	1.82	0.39	2.07	28,215,000	8,820,000	32,091,000
	0.3	798,200,000	1.65	0.35	1.87	29,036,000	8,980,000	32,907,000
Indicated (Hugo North Extension) ⁽⁴⁾	3.5	22,300,000	3.68	1.43	4.59	1,809,000	1,030,000	2,257,000
	3	32,000,000	3.36	1.29	4.18	2,370,000	1,330,000	2,949,000
	2	52,300,000	2.84	1.09	3.53	3,275,000	1,830,000	4,070,000
	1	84,800,000	2.22	0.80	2.73	4,150,000	2,180,000	5,104,000
	0.6	117,000,000	1.80	0.61	2.19	4,643,000	2,290,000	5,649,000
	0.3	137,900,000	1.59	0.52	1.92	4,834,000	2,310,000	5,837,000
Total Indicated (Hugo North and Hugo North Extension) ⁽⁴⁾	3.5	147,600,000	3.73	1.01	4.38	12,138,000	4,790,000	14,253,000
	3	207,400,000	3.47	0.91	4.05	15,866,000	6,070,000	18,518,000
	2	329,200,000	3.00	0.76	3.48	21,773,000	8,040,000	25,257,000
	1	626,400,000	2.16	0.51	2.48	29,829,000	10,270,000	34,248,000
	0.6	820,200,000	1.82	0.42	2.08	32,910,000	11,080,000	37,611,000
	0.3	936,200,000	1.64	0.38	1.88	33,849,000	11,440,000	38,803,000

Inferred

Class Hugo North Deposit	CuEq Cutoff	Tonnage (t)	Cu (%)	Au (g/t)	CuEq ⁽²⁾ (%)	Contained Metal ⁽³⁾		
						Cu ('000 lb)	Au (oz)	CuEq ⁽²⁾ ('000 lb)
Inferred (Hugo North)	>= 3.5	3,600,000	3.06	1.41	3.96	243,000	160,000	314,000
	>= 3	12,900,000	2.80	0.98	3.43	796,000	410,000	975,000
	>= 2	54,700,000	2.08	0.91	2.66	2,508,000	1,600,000	3,208,000
	>= 1	385,500,000	1.25	0.41	1.51	10,624,000	5,080,000	12,833,000
	>= 0.6	722,800,000	0.97	0.30	1.17	15,457,000	6,970,000	18,644,000
	>= 0.3	1,108,200,000	0.76	0.24	0.92	18,568,000	8,550,000	22,477,000
Inferred (Hugo North Extension) ⁽⁴⁾	>= 3.5	1,400,000	3.32	1.03	3.98	102,000	50,000	123,000
	>= 3	3,600,000	2.97	0.88	3.53	236,000	100,000	280,000
	>= 2	11,000,000	2.20	0.86	2.75	534,000	300,000	667,000

Class Hugo North Deposit	CuEq Cutoff	Tonnage (t)	Cu (%)	Au (g/t)	CuEq ⁽²⁾ (%)	Contained Metal ⁽³⁾		
						Cu (*000 lb)	Au (oz)	CuEq ⁽²⁾ (*000 lb)
	>= 1	62,200,000	1.39	0.39	1.64	1,906,000	780,000	2,249,000
	>= 0.6	95,500,000	1.15	0.31	1.35	2,421,000	950,000	2,842,000
	>= 0.3	152,400,000	0.85	0.23	1.00	2,856,000	1,130,000	3,360,000
Total Inferred (Hugo North and Hugo North Extension⁽⁴⁾)								
	>= 3.5	5,000,000	3.13	1.30	3.96	345,000	210,000	437,000
	>= 3	16,500,000	2.84	0.96	3.45	1,033,000	510,000	1,255,000
	>= 2	65,700,000	2.10	0.90	2.68	3,042,000	1,900,000	3,882,000
	>= 1	447,700,000	1.27	0.41	1.53	12,535,000	5,900,000	15,101,000
	>= 0.6	818,300,000	1.00	0.30	1.19	18,040,000	7,890,000	21,468,000
	>= 0.3	1,260,500,000	0.77	0.24	0.93	21,398,000	9,730,000	25,844,000

Notes:

- (1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility study or pre-feasibility study.
- (2) The contained gold and copper represent estimated contained metal in the ground and have not been adjusted for the metallurgical recoveries of gold and copper.
- (3) CuEq has been calculated using assumed metal prices (\$1.35/lb. for copper and \$650/oz for gold and \$10/lb for molybdenum); %CuEq. = $Cu + ((Au * 18.98) + (Mo * 0.01586)) / 29.76$. Mo grades outside of Heruga are assumed to be zero for CuEq calculations. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and copper recovery was 72%.
- (4) The Hugo North Extension is located on the Shivee Tolgoi Property, which property is owned by Entrée but subject to earn-in rights in favour of IVN.

A further breakdown of the mineral resource inventory of the Hugo South Deposit is set forth below.

Hugo South Mineral Resource Inventory⁽¹⁾

Hugo South Deposit	CuEq Cutoff	Tonnage (t)	Cu (%)	Au (g/t)	CuEq ⁽²⁾ (%)	Contained Metal ⁽³⁾		
						Cu (*000 lb)	Au (oz)	CuEq ⁽³⁾ (*000 lb)
Inferred	>= 3.5	5,440,000	3.71	0.25	3.87	440,000	40,000	460,000
	>= 3	11,950,000	3.38	0.21	3.51	890,000	80,000	920,000
	>= 2	38,900,000	2.67	0.15	2.77	2,290,000	190,000	2,380,000
	>= 1	203,590,000	1.53	0.09	1.59	6,870,000	590,000	7,140,000
	>= 0.6	490,330,000	1.05	0.09	1.11	11,350,000	1,420,000	12,000,000
	>= 0.3	1,105,600,000	0.67	0.07	0.72	16,330,000	2,490,000	17,550,000

Notes:

- (1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility study or pre-feasibility study.
- (2) CuEq has been calculated using assumed metal prices (\$1.35/lb. for copper and \$650/oz for gold and \$10/lb for molybdenum); %CuEq. = $Cu + ((Au * 18.98) + (Mo * 0.01586)) / 29.76$. Mo grades outside of Heruga are assumed to be zero for CuEq calculations. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and copper recovery was 72%.
- (3) The contained gold and copper represent estimated contained metal in the ground and have not been adjusted for the metallurgical recoveries of gold and copper.

Heruga Mineral Resources

For inferred resources at Heruga a three dimensional wireframe was constructed inside of which the nominal drill spacing was less than 150m. The shape aimed to remove isolated blocks around drill holes where continuity of mineralization could not be confirmed. Within the 150m shape there were a small number of blocks that were greater than 150m from a drill hole. These were included because it was considered that geological and grade continuity could be reasonably inferred within the main part of the mineralized zone. The average distance of all the Inferred blocks in the resource model is displayed in the plot below. Of the total tonnes classified as inferred

approximately 95% are within 150m of a drill hole while the average distance of the inferred blocks is approximately 100m.

At Heruga, IMMI created three-dimensional mineralized shells or envelopes based on copper grades of 0.3%, gold grades of 0.3g/t and 0.7 g/t and Molybdenum of 100ppm. In addition, IMMI created 3 dimensional shapes of the major lithological and structural features of the deposit. The shapes were checked for interpretational consistency in section and plan and were used as interpolation domains during kriging.

The resources of the Heruga Deposit were reported at an effective date of March 12, 2008. This update included drilling that was completed up to February 15, 2008.

Heruga Mineral Resource Inventory⁽¹⁾ — March 2008

Cut-off CuEq %	Tonnage (t)	Cu %	Au g/t	Mo ppm	CuEq(2) %	Contained Metal (3)		
						Cu ('000 lb)	Au (oz)	CuEq ('000 lb)
>1.50	30,000,000	0.63	1.80	126	1.85	390,000	1,600,000	1,220,000
>1.25	80,000,000	0.59	1.39	124	1.54	970,000	3,400,000	2,710,000
>1.00	210,000,000	0.57	0.97	145	1.26	2,570,000	6,400,000	5,840,000
>0.90	300,000,000	0.55	0.84	150	1.16	3,600,000	8,000,000	7,700,000
>0.80	430,000,000	0.53	0.72	152	1.07	5,000,000	9,900,000	10,120,000
>0.70	590,000,000	0.51	0.62	148	0.98	6,590,000	11,700,000	12,750,000
>0.60	760,000,000	0.48	0.55	142	0.91	8,030,000	13,400,000	15,190,000
>0.50	930,000,000	0.45	0.50	135	0.84	9,220,000	14,900,000	17,270,000
>0.40	1,160,000,000	0.41	0.45	123	0.76	10,500,000	16,700,000	19,530,000
>0.30	1,420,000,000	0.37	0.40	111	0.69	11,670,000	18,200,000	21,530,000

Notes:

- (1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility study or pre-feasibility study.
- (2) CuEq has been calculated using assumed metal prices (\$1.35/lb. for copper and \$650/oz for gold and \$10/lb for molybdenum); %CuEq. = $Cu + ((Au * 18.98) + (Mo * 0.01586)) / 29.76$. Mo grades outside of Heruga are assumed to be zero for CuEq calculations. The equivalence formula was calculated assuming that gold and molybdenum recovery was 91% and copper recovery was 72%.
- (3) The contained gold and copper represent estimated contained metal in the ground and have not been adjusted for the metallurgical recoveries of gold and copper.

Mineral Reserves

To date, IVN has declared reserves on the Oyu Tolgoi Project for only the Southern Oyu Deposits, based on a reserve estimate prepared by GRD Minproc in January 2006. IVN anticipates that it will be in a position to declare reserves on the Hugo Dummett Deposits in connection with the completion of an integrated development plan following execution of the Investment Agreement.

In the January 2006 study by GRD Minproc, a reserve was declared based on the open pit mine plan. This represents the initial step in the overall mine plan for the Oyu Tolgoi mineral resources. The open pit is planned to be a conventional truck and shovel open pit mining operation on the Southern Oyu Deposit. Ore is to be treated in a conventional concentrator. The mineral reserve is not intended to replace the IDP05 but to identify the open pit mineral reserve that is in the Southern Oyu and available for inclusion in the finalized life of mine plan.

Southern Oyu Mineral Reserves – January 2006

Class	Ore (tonnes)	NSR \$/t	Copper (%)	Gold (g/t)	CuEq Grade (%)	Recovered Copper (‘000 lbs)	Recovered Gold (ounces)
Proven	127,000,000	15.91	0.58	0.93	1.18	1,451,000	2,833,000
Probable	803,000,000	7.96	0.48	0.27	0.66	7,431,000	4,768,000
Total	930,000,000	9.05	0.50	0.36	0.73	8,882,000	7,601,000

The key parameters in determining the Mineral Reserves are (i) assumed metal prices of \$400/oz gold and \$1.00 /lb copper; and (ii) block value net smelter return (“NSR”) cut-off grades of \$3.54 per tonne for Southwest Oyu and \$3.39 per tonne for Central Oyu. There was no change in the mineral reserve compared to the previously stated mineral reserves.

In order to estimate the reserves, GRD Minproc relied on the resource model from its prior resource estimates on the Southern Oyu deposits, and then applied proposed mining parameters for mining and processing. This includes pit designs using industry standard mining software, assumed metal prices as described above and smelter terms as set forth in the Oyu Tolgoi Technical Report. The estimate was prepared on a simplified project analysis on a pre-tax basis. Key outstanding variables noted by GRD Minproc include the Investment Agreement, marketing matters, water supply and management and power supply.

Only measured resources were used to report proven reserves and only indicated resources were used to report probable reserves. The mineral reserve estimate is primarily based on the IDP05 and relies only on the resources and facilities necessary to support an open pit mine at the Oyu Tolgoi Project. The report only considers mineral resources in the measured and indicated categories, and engineering that has been carried out to a pre-feasibility level or better to state the open pit mineral reserve.

Comparison of the reserve to the total tonnes in the resource model indicates that at the reserve cut-off grades 100% of measured resource tonnage has been converted to proven mineral reserve. The probable to indicated ratios are as follows: tonnage 75%, recovered copper metal 79% and recovered gold metal 70%. Of the total reserve and total resource within the block model, the reserve resource ratios are: tonnage 55%, recovered copper metal 64% and recovered gold metal 70%.

Project Development

The fundamental parameters of the mine plan at the Oyu Tolgoi Project were established in the IDP05, which was produced in September 2005. The IDP05 is a preliminary assessment report under the NI 43-101 guidelines and includes inferred mineral resources that are considered too speculative geologically to have economic considerations applied to them that would allow them to be categorised as mineral reserves, and there is no certainty that the preliminary assessment will be realised. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Since the release of the IDP05 the resources reported on the Southern Oyu Deposits have been upgraded to mineral reserves and updated resource estimates have increased the confidence levels of a substantial portion of the resources from inferred to indicated and increased the overall amount of resources on the Hugo Dummett Deposits.

IMMI has continued to advance mine planning, engineering and pre-construction work, and will prepare an update to the IDP05 once the Investment Agreement is completed.

2005 IDP Summary

The IDP05 envisions the staged development of the Oyu Tolgoi Project, over a 15-year period, as a major copper and gold mining complex having an ultimate mine life that is expected to exceed 40 years. The IDP05 consists of a feasibility-level evaluation of an initial, large open-pit mine developed on the near-surface Southern Oyu deposits and a pre-feasibility-and scoping-level evaluation of the associated infrastructure, such as power supply, and at least two very large underground block cave mines at the Hugo Dummett Deposits.

It is contemplated that the open pit mine be developed in nine stages. The first three stages cover Southwest Oyu and the Wedge deposit, while later stages would expand to Southern Oyu and Central Oyu. Accordingly, the ore feed will focus on the gold-rich areas of the Southern Oyu deposits for the initial stages. Gold grades will drop significantly starting in stage 4 when production moves to South Oyu and Central Oyu. The IDP05 only addresses development of the first four stages of the open pit, with the remaining five stages available to expand the project life beyond the current schedule.

On the Hugo Dummett Deposits, block cave mining is contemplated. This method will require the development of deep production shafts to provide access for personnel, equipment and supplies and for hoisting ore and waste. IMMI has developed an approximately 1,200 m shaft to access Hugo North. The IDP05 contemplates a total of four shafts for Hugo North over the 15-year build-out. At appropriate depths, IMMI would commence lateral development to extract ore. On Hugo North, IMMI would extract the ore through two rows of lateral development (lifts). Mining would target the 2% plus copper shell identified in Hugo North. The Hugo South Deposit would also be developed through block-cave mining, but only under an expanded production mining scenario.

It is proposed in the IDP05 that ore be treated in a conventional flotation concentrator, using conventional technology. An ore-processing flow sheet was proposed based upon a large flotation concentrator using conventional 40-foot-diameter semi-autogenous (“SAG”) mills, ball mills and flotation. The current estimates for capacity are 20 million tpy (70,000 tpd) for the plant, with a second facility being built under the expanded case to accommodate a production increase to 40 million tpy (140,000 tpd). The concentrate would then be sold to smelters. During the initial three years of operation, mill feed would be primarily sourced from the Southwest Oyu open pit while the initial underground block cave mine at the copper-rich, higher-grade Hugo North Deposit was being developed. After year 3, production from the Hugo North Deposit would commence. By year 5, Hugo North would be the predominant source of mill feed for the concentrator. By year 6, open-pit production would be curtailed and only stages 1 and 2 of the ultimate nine-stage open-pit mine plan would have been mined. In this Base Case scenario, Hugo North would provide the mill feed to beyond year 40.

The Expanded Case, Phase 2 of the IDP05, would be initiated with a decision in year 3 to develop a block-cave mine at the Hugo South Deposit and proceed with the stripping of stages 3 & 4 of the open-pit mine. The capacity of the concentrator would be doubled through the addition of a second SAG milling circuit and related infrastructure increases, to increase the Oyu Tolgoi Project’s combined open-pit and underground production to at least 140,000 tpd by year 7. Hugo North mill feed, combined initially with feed from stages 3 & 4 of the open-pit mine, would ensure that the 140,000 tpd production rate was maintained. By year 12, when production from Hugo South would commence, underground production alone is expected to reach 140,000 tpd.

The IDP05 indicates that the Oyu Tolgoi Project could produce approximately 35 billion pounds of copper and 11 million ounces of gold over the projected, initial 35-year life of the mine, based on resource estimates delineated as at the date of the IDP05, with average annual production at approximately one billion lbs of copper and 900,000 oz of gold under the Expanded Case.

Following the reporting of the mineral reserve for the Southern Oyu Deposits, the IDP05 remains relevant in the context of a sensitivity showing overall development of the mineral resources at the Oyu Tolgoi Project. The IDP05 financial models were constructed using a base copper price of \$1.00/lb and a base gold price of

\$400/oz, and are based on interpretation of tax, mining and other relevant Mongolian laws in effect at the time. The estimated net present value (“NPV”) of the Oyu Tolgoi Project, assuming the Expanded Case production is developed as scheduled to 140,000 tpd at an 8% discount rate, is \$3.44 billion before tax and \$2.71 billion after tax. At a 10% discount rate, the NPV is \$2.40 billion before tax and \$1.85 billion after tax. At an 8% discount rate, the internal rate of return (“IRR”) of the Expanded Case is 19.75% after tax, and the payback period is 6.5 years. The IDP05 is a preliminary assessment report under the NI 43-101 guidelines and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would allow them to be categorised as mineral reserves, and there is no certainty that the preliminary assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The engineering assessment of initial capital required to fund the open-pit mine and the associated milling complex, capable of processing 70,000 tpd, was estimated at \$1.15 billion. In addition, \$232 million would be expended during the same period to advance the development of the underground Hugo North Mine. This initial expenditure would carry the Oyu Tolgoi Project through a six-month ramp-up period to reach full production of 70,000 tpd.

The IDP05’s sensitivity analysis shows that the Oyu Tolgoi Project’s rate of return is most sensitive to changes in the copper price, followed by changes in operating costs, capital costs and copper recovery. The project is far less sensitive to changes in gold price or power costs.

The IDP05 was prepared in September 2005, prior to the implementation of amendments to the Minerals Law in the spring of 2006 and without reference to a completed Investment Agreement. IVN expects that the updated development plan will include several adjustments to the financial inputs and conclusions set forth in the IDP05 based on changes to mine planning and changing assumptions regarding price and costs to reflect current realities.

Current Status of Engineering and Construction

The engineering teams continued to advance the design and procurement areas for the Oyu Tolgoi Project in 2008. Design work was conducted in Shanghai, China, Vancouver, Canada, and North Bay, Canada. Fluor Canada Ltd. is conducting concentrator design, while Fluor China is conducting infrastructure design. Engineering work for underground development is being conducted by McIntosh Engineering Limited. A dedicated Ivanhoe power plant design team was located in Beijing. Central administrative and programme management functions are based in Shanghai. The procurement team in Shanghai secured critical long-lead items identified by the design teams. In early 2008 the site transitioned from a Fluor China management effort to an IVN managed site. This strategy was aligned with the maintaining a lower cost profile pending the execution of an acceptable Investment Agreement with the Government of Mongolia.

Concentrator

Detailed engineering design of the concentrator to accept 100,000 t/d of ore feed progressed. The location of the primary crusher was optimized to reduce truck haulage from the open pit and the design of the two kilometre overland ore transfer conveyor to the processing plant was completed. The approach and proposed equipment for replacing the liners in the mills were changed to reduce maintenance efforts and allowing for the completion of the mill’s general arrangements. A design review at an engineering completion level of 60% illustrated the need for an additional row of floatation cells; these cells were subsequently added to the design. In addition, further analytical test work established a higher criterion for recirculation in the concentrate cleaner circuit resulting in modifications. Design of the tailings delivery system is complete. All long lead equipment has been purchased with the manufacturing of some complete, delivered and placed in storage pending construction authorization. Currently the engineering design of the concentrator is 75% complete.

Procurement

Commercial activity in 2008 focused on maintaining the critical long lead manufacturing time for required equipment, monitoring escalation factors of the overall Oyu Tolgoi Project and booking of manufacturing slots for less critical equipment. The second half of 2008 was largely centered on the sale of specific equipment to Rio Tinto.

At the close of the third quarter of 2008 IVN received \$47.0 million from Rio Tinto for the purchase of large equipment to be used in the construction of the Oyu Tolgoi. This agreement was executed in August 2008 between IVN and Rio Tinto. The agreement provides for Rio Tinto to purchase certain project equipment already purchased or ordered by IVN while IVN and Rio Tinto continue to engage the Government of Mongolia in discussions on an acceptable Investment Agreement. IVN received a further \$74.5 million on November 12, 2008, as part of the agreement, bringing the aggregate amount received from the sale of the equipment to approximately \$121.5 million. IVN will use these funds for future development of the Oyu Tolgoi Project.

Site / Infrastructure

The completion of No.1 Shaft on January 27, 2008 marked a significant milestone at Oyu Tolgoi allowing for the commencement of underground development, a new phase in the history of the copper-gold mining district. The balance of construction activity focussed on completion of underground camp utilities and installing a construction and potable water line. This activity is in line with the strategy to support the construction workforce upon full project release. Long term generator power, multiple water wells, and a sewage treatment plant create a viable camp suited to the Gobi's harsh conditions.

The Infrastructure Engineering team, led by Fluor China, in Shanghai progressed from basic to detailed design for work packages developed in 2007. This advancement of engineering allowed for better definition of costs estimates and build out of required materials. Additionally, engineering was commenced on a heavy equipment truck shop, power plant and power integration design, and the procurement preparation for a fleet of construction mobile equipment.

Underground Construction

IMMI completed the construction of N^o.1 Shaft to the full depth of 1,380m in January 2008 as planned. Shaft N^o.1 has a diameter of 7.3 m, is concrete lined to a finished diameter of 6.7 m, and includes a headframe, hoisting facilities, power station, air compressors and ventilation equipment. The design allows for future conversion to permit the shaft to be used as a permanent hoisting facility. Following completion of the shaft loadout facilities in March 2008, two lateral characterisation drives were commenced at the proposed Lift 1 elevation of the Hugo North block cave mine. The drives have enabled further resource drilling which will provide geotechnical information to support completion of the mine design and become part of pre-production program for the development of the initial block cave.

A total of 594 m was developed laterally at 1300 level by the underground mining contractor utilising IMMI's fleet of underground mining equipment. The development included the establishment of the "station" at the 1300 level and incorporated a substation, refuge chamber, pump station and heavy equipment workshop. On August 16, 2008 an incident occurred which involved the bottom half of a tank, weighing approximately 1600kgs, falling down the shaft from the 205m to the 1300m level. There were no injuries, however, the consequence of the incident was significant damage to the shaft infrastructure including ventilation ducting, pump stations, electrical and other services. Shaft repairs were subsequently performed and concluded in February 2009.

Other work conducted during 2008 was the development of the pre-production development implementation plan. The draft plan, which was developed during Q3 2008, outlines the schedule and methodology with the objective being to maximise the value from Shaft N^o. 1 before Shaft N^o. 2 is commissioned. In November 2008, underground operations were scaled back with a reduction of the workforce by 50%. Work has continued on day shift only.

Construction of N^o.2 Shaft started in 2007 with the excavation of the shaft collar. By December 2007, concrete work had been completed back up to a point 13 m below the surface. Shaft N^o. 2 will be a combined production/service shaft and is being designed to accommodate two 54 tonne capacity skips and a cage with a payload capacity of 44 tonnes. The shaft will have a finished diameter of 10 m and will be sunk to an initial depth of 1,466 m. No work was undertaken on site for Shaft N^o.2 during 2008, however detailed engineering progressed as planned.

Current Exploration Activities

In 2008, IVN completed approximately 36,092 m of drilling on the Oyu Tolgoi project with 19,224 m on Heruga and 9000m on the area between Heruga and SW Oyu. An additional 870 m of drilling has been completed on the area between Heruga and SW Oyu in early 2009.

The 30 holes drilled up to 15th February 2008 have been included in the last Heruga resource estimate, since that date 14 drillholes have been drilled that have targeted the western, southwestern and northern ends of the Heruga deposit.

Drilling at the northern end of Heruga has significantly extended the strike length of the Heruga deposit, in particular, hole EJD0034, the easternmost hole on the 4759500N section located just south of the Entrée Gold-IMMI JV licence boundary intersected approximately 200m of 1.8 g/t Au and 0.43 Cu between 1602m and 1830m. This mineralisation is open to the east.

In the next section, 200m to the north across the JV boundary in IMMI mining licence, three holes have been drilled on the 4759700N section, mineralisation appears to be offset to the east by a NE directed fault, the easternmost hole in the section OTD1490 intersected 224m of 0.65g/t Au and 0.43 Cu from 1540m, including 68m of 1.1g/t Au and 0.35 Cu from 1696m. The mineralisation is open to the east and north.

Additional drilling is still outstanding within the main Heruga Ore zone to complete the initial inferred pattern, once this is complete in 2009 Ivanhoe intends to update the Heruga resource estimate. Approximately five holes are still outstanding to complete the pattern.

Further to the north, drill holes OTD1487 and OTD1484 targeted a deep IP feature 1.5km south of SW Oyu and 1.5km north of Heruga. OTD1487A intersected 369.3m of 0.83g/t Au and 0.53% Cu, including 78.3m of 2.13Au and 0.82 Cu below 2258m. The hole ended at 2336.3m in mineralisation. Drilling is continuing on this section; ultimately it is hoped that the weak IP anomaly connecting Heruga to SW Oyu might be proven to represent a continuous zone of mineralisation between the two deposits, albeit faulted and displaced by later events.

During 2008, detailed ground magnetometer surveys with continuous readings on 25m line spacing were carried out over Heruga and its extensions to the southwest and northeast; and also over the Hugo Dummett North extension area. Detailed geological mapping is ongoing at Heruga over the same area as the ground magnetometer survey. These surveys have resulted in a far better understanding of the geology. The most important feature of note is a north-northeast striking belt of andesitic dykes intruding a belt of Carboniferous Ignimbrites and volcanics that is the surface manifestation of the zone between the east and west Bor Tolgoi faults.

Broader reconnaissance geological mapping is also ongoing south of the OT licence. The highlight of this mapping is the discovery of a faulted extension to the surface geology that hosts Heruga. The extension is displaced 2-3km to the west of the southern end of Heruga and continues for another 3 km before being cut off by younger granites. An IP anomaly is present where mineralisation might be expected at depth below the Devonian cover rocks.

Ovoot Tolgoi Coal Mine, Mongolia

The information in this section regarding the Ovoot Tolgoi Coal Mine is derived from the Ovoot Tolgoi Technical Report. The scientific and technical information relating to the Ovoot Tolgoi Technical Report was prepared by or under the supervision of Stephen Torr, P. Geo and Gene Wusaty, P. Eng, both non-independent qualified persons within the meaning of NI 43-101.

Project Description and Location

The Ovoot Tolgoi Coal Mine is located in the southwest corner of the Omnogovi Aimag (South Gobi Province) of Mongolia within the administrative unit of Gurvantes Soum, 320 km southwest of the provincial capital of Dalanzadgad and 950 km south of Ulaanbaatar, the capital of Mongolia.

The Ovoot Tolgoi Coal Mine resource areas are adjacent to the existing Mak-Qin Hua Mine, which currently consists of two open-pit mines on MAK-Qin Hua's 2,876 ha mining licence. The MAK-Qin Hua Mine is mining coal from the 5 Seam, which contains premium steam and coking quality coal.

The Ovoot Tolgoi Coal Mine is composed of three resource areas: the West Field, the South-East Field (both of which are surface projects) and the Underground which is the down dip extension of the West Field. The West Field and South-East Field are contained entirely within the Ovoot Tolgoi Mining Licence that was granted to SouthGobi on September 20, 2007 (and which expires on September 20, 2037) and covers an area of 9,308 hectares. The Ovoot Tolgoi Mining Licence provides for the development of an open-pit coal mine, and allows for both surface and underground mining methodology, although SouthGobi will have to file additional information on an underground mine once the data becomes available. SouthGobi also controls an additional three MELs on the Ovoot Tolgoi Coal Mine area covering approximately 109,664 hectares.

In April 2008, SouthGobi received an approval to mine from the Mongolian Government and subsequently commenced mining and stockpiling coal from the West Field. Coal sales at the mine gate were initiated in September 2008.

The Mongolian government grants exploration licenses for a period of three years with the right to extend the period twice for two additional years each. Exploration license holders are subject to various environmental protection obligations. Following a successful exploration program, an exploration license holder can apply for a mining license to any portion of the exploration license. A mining license is granted for a period of 30 years, with the right to extend the period twice for 20 additional years with each extension.

Any coal extracted and sold during exploration is subject to a royalty rate of 2.5% and 5% of the sales value for domestic and international sales, respectively.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The surface expression at the Ovoot Tolgoi Coal Mine ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1515 to 1555 m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The region experiences a continental desert climate. Temperatures typically range from 0 degrees Celsius to -30 degrees Celsius in the winter, increasing to 30 degrees Celsius to 35 degrees Celsius in the summer months. High winds occur frequently, particularly

throughout the spring. Average rainfall is approximately 530 mm with most precipitation occurring during the summer months. The weather is acceptable for exploration activities from mid-March through October. The climate is conducive to year-round mining operations.

An on-site airport was permitted in September 2006 and completed in September 2007, and Ovoot Tolgoi can now be reached via chartered aircraft from Ulaanbaatar via twice-weekly chartered flights. Regular air service is also available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to Ovoot Tolgoi takes approximately seven hours over unpaved roads. All parts of the property can be reached with four-wheel-drive vehicles.

A new Chinese rail line was completed to the Mongolian border and became operational during 2006, connecting the Ovoot Tolgoi area with the interior of China. The railroad terminus is approximately 45 km south of the resource areas at Ovoot Tolgoi. Coal trucks travel overland from the neighbouring MAK-Qin Hua Mine to the railroad terminus located on the Chinese side of the border. Electrical power is available from a powerline, if required, distributing power from China to the MAK-Qin Hua Mine. There is currently no surface water available in the immediate area of the Ovoot Tolgoi deposit. Water for the camp and shop complexes is being supplied from water supply wells drilled near each location as part of hydrological investigations. The infrastructure plans include water treatment to allow well water to be used for potable purposes.

Detailed mine planning is on-going including: design of potential waste disposal areas; equipment acquisition; on-site housing; water usage; mine staffing requirements; and mine management.

History

The first geological investigations at Ovoot Tolgoi occurred between 1951 and 1952 and included mapping at a scale of 1:500,000. Coal was first identified at Ovoot Tolgoi in 1971. The first comprehensive study of the Ovoot Tolgoi deposit was undertaken in 1991. This study included field mapping, trenching, the drilling of 34 boreholes, analysis of coal quality, and the calculation of resources for the two most promising resource areas, now controlled by MAK-Qin Hua.

The Ovoot Tolgoi Coal Mine is adjacent to and surrounds the MAK-Qin Hua Mine, which commenced operating in 2003. The MAK-Qin Hua Mine is currently extracting coal from two open pits in the 5 Seam. The mine operates with a mixed Chinese and Mongolian workforce estimated at approximately 100 miners. Coal and overburden are removed by excavators and front loaders. Road-hauling tractor-trailer trucks are loaded directly in the mine.

SouthGobi acquired its interest in the Ovoot Tolgoi Coal Mine from Ivanhoe in May 2007 pursuant to the terms of the Coal Transaction.

Production began at the Ovoot Tolgoi Coal Mine in April, 2008. Monthly production for 2008 is set out in the table below.

Production Report	Units	2008 Production		
		Forecast Year	Budget Year	Actual *
Total Waste Mined	BCM	2,300,423	1,500,000	2,535,520
Total Coal Mined	Tonnes	1,299,258	1,000,000	1,158,212
Thermal	Tonnes			218,310
Premium	Tonnes			939,902
Coking	Tonnes	—	—	—
Stripping ratio	bcm/ton	1.77	1.50	2.19

* Note: Actual production is for calendar year 2008.

Geological Setting

The South Gobi region of Mongolia has a geologic history of continental accretion and Basin and Range style crustal extension followed by compressional folding and faulting. The region is dominated by elongate, east-west trending mountain ranges and intervening basins, which comprise sedimentary rocks of Late Cretaceous to Permian age, overlain by a relatively thin Quaternary gravel layer or thin Aeolian deposits. Mountain ranges between the basins comprise mostly crystalline basement rocks dominated by intermediate to high angle faults that show evidence for both compressional and extensional movement. The most prominent structure relating to the coal deposit is the arcuate, east-west-trending, moderately-dipping Nariin Sukhait fault where the Late Permian coal-bearing section is exposed in a window adjacent to it in the MAK Mine West Pit.

Coal Occurrences

Initial geological work at Nariin Sukhait was undertaken by Exploration Unit No.15 of the Ulaanbaatar Geological Research Group in 1991 and a summary report by the Mongolian State Geological Centre described the existence of 10 coal seams. The overall estimated thickness of the coal-bearing section is 1,370 m with the cumulative thickness of the coal ranging from 68 to 250m, which is mostly within the No. 5 Seam.

Exploration by SouthGobi Sands focused on the No. 5 Seam and defined additional resources in packages of “upper seams” located above this horizon. This work showed that what was previously named as a single seam often contains a number of discrete seams separated by rock partings of highly variable thickness and extent. Interburden between the coal seams is dominated by sandstones and conglomerates, whereas partings within the seams are mostly mudstones and carbonaceous mudstones. Modeling organized the coal seams into coal series. The original No. 5 seam has retained that designation, but with the discovery of correlatable splits above and below they were included into the No. 5 Series.

No. 5 Seam dips at about 30 to 60 degrees and is 20 to 50m in true thickness. The projected depth of overburden reaches 650m in the underground No. 5 Seam resource block. Additional resource potential exists in the No. 5L Seam below the No. 5 Seam, which is present within the planned open pit area. Current data indicates the No. 5L Seam averages 53m in thickness and is 79m on average below the No. 5 Seam, but varies between 0m (coalesces) and 157m. The remainder of the coal resource is found in the Nos. 8, 9, and 10 Series that each contains multiple discrete seams. Nos. 4 and 7 Seams are recognized in drill holes, but are not significant resources. Nos. 1, 2, and 3 Seams that were described in the early work at Nariin Sukhait have not been identified on SouthGobi Sands property.

The coal-bearing rocks at Ovoot Tolgoi are believed to be of late Permian age. Coal was deposited along the margins of tectonically active continental basins. The region has subsequently undergone basin and range style extensional tectonics followed by a period of compressional folding and faulting.

The South Gobi region of Mongolia reflects a complex geologic history of continental accretion and basin and range style crustal extension. The region is dominated by elongated, east-west trending mountain ranges and intervening basins. The intervening basins comprise sediments of Late Cretaceous to Permian age, overlain by a relatively thin Quaternary gravel layer or thin aeolian deposit. The mountain ranges separating these sedimentary basins comprise mostly crystalline basement rocks dominated by intermediate to high angle faults that show evidence for both compressional and extensional movement.

Coal Quality

Composite quality analyses previously performed in 2005 and 2006 on SouthGobi's Ovoot Tolgoi mining license area indicate the coal rank to be high volatile B to high volatile A bituminous, based on the ASTM D388 standard. Previous Soviet-Mongolian government studies utilized Soviet standards and determined the rank to be of the GJO and IGJO groups, equivalent to high-volatile bituminous coals. High volatile B and A bituminous coals are hard black coals. High volatile B produces between 7212 to 7785 kcal/kg and high volatile A produces greater than 7785 kcal/kg heat output.

The 2007 and 2008 exploration drilling results continue to indicate potential coking and semi-soft coals at the West Field, as well as lower ranked thinner coals. Detailed sample analyses have identified the coal at Ovoot Tolgoi to be a mixture of thermal and metallurgical grade coal. Regionally, the coal is generally low ash (less than 20 percent, air-dried basis) and sulphur approximately one percent. Inherent (or residual moisture) in the coal is less than 2 percent of the coal. Free Swelling Index ranges in values from non-coking (less than 2) to coking (greater than 4).

Structural Geology

West Field

The West Field is on Southgobi sands land near the southwest corner of the MAK mining license. Coal resources occur west of the MAK open pit mine. Current data indicates that a thrust fault system controls the distribution of coal, which previously was interpreted as a southwest-plunging anticline. This interpretation divides the West Field into the southern and northern resource blocks with the more steeply dipping rocks of the southern block moved over the northern block, which contains a repeat of the upper series (Nos. 8, 9, and 10 Seams). The coal seams in the north block flatten out (30 — 40 degree dip) and indicate a number of small folds and faults. The majority of resources are in the No. 5 Series, but significant resources are also in the Nos. 8, 9, and 10 Series.

South-East Field

The No. 5 Seam is currently being mined by MAK in this area. The coal-bearing section is a southeast-dipping homocline.

Underground

The Underground resources in the West Field area represent the down dip extension of the stratigraphy discussed for the West Field. Current exploration has been focussed on the delineation of 5 Seam resources. Overburden above the No. 5 seam can reach up to 650 metres and consists of sandstones and conglomerates. The apparent average thickness for the No 5 seam is 53m.

Deposit Types

The Ovoot Tolgoi deposit has been subjected to a relatively high degree of tectonic deformation. Coal seams explored to date sit in the hanging wall (upper plate) of an east-west trending, regional thrust fault. The hanging wall stratum has been further modified by secondary folding, normal and reverse faulting. Coal seams within the two fields are typically inclined in excess of 35 degrees. Fold segments and fault-bounded blocks however, generally retain normal stratigraphic thicknesses and continuity. The Geology Type for the West Field has been determined to be “complex”. The Deposit Type at Ovoot Tolgoi West and South-East Field is considered to be a “surface” mineable deposit, while the deposit type for the Underground is considered to be a potential “Deep” mineable deposit at depths greater than 250 m.

Mineralisation

Mineralized zones in the Ovoot Tolgoi deposit are in a zone of upper-Permian sedimentary rocks exposed in the hanging wall of the Nariin Sukhait fault as described above. Early work adopted the seam nomenclature with the thickest in the middle of the sequence designated the No. 5 Seam and upper seams named in ascending order. Re-organization into a series basis was done following additional discoveries (see table below).

Ovoot Tolgoi Coal Seam Characteristics

South-East Field				
Series	Seam	Count	Thickness Range (m)*	Mean Thickness (m)*
5-Series	592U	1	21.9 – 21.9	21.9
	590U	14	1 – 23.4	8.8
	580U	15	0.96 – 8.6	4.5
	570U	17	0.6 – 11.7	4.5
	5U	38	1.04 – 74.1	24.2
	5UB	28	0.9 – 53.1	6.0
	580	26	1.06 – 16.6	3.6
	570	48	1.2 – 30.7	8.1
	5	97	0.9 – 156.7	53.4
	5B	44	0.6 – 100.1	15.5
4-Series	4	19	1 – 30.3	7.67
West Field				
Series	Seam	Count	Thickness Range (m)*	Mean Thickness (m)*
10-Series	1050	23	0.34 – 16	2.7
	1040	33	0.36 – 14	3.4
	1030	39	0.5 – 4.7	2.2
	1020	49	0.78 – 10.28	3.4
	1010	45	0.6 – 6.08	2.9
	10	57	1.9 – 19.76	9.4
	9-Series	998	19	0.48 – 4.16
996		15	0.44 – 5.5	3.0
990		56	0.46 – 5.1	1.6
980		77	1 – 27.9	8.5
970		68	0.6 – 9.18	3.2
960		65	0.6 – 6.8	2.2
950		67	0.46 – 11.7	1.7
942		43	0.28 – 5.16	1.5
940		88	2.1 – 31	13.0
9		75	0.7 – 7	2.3

Series	Seam	Count	West Field	
			Thickness Range (m)*	Mean Thickness (m)*
8-Series	811	25	0.5 – 4.4	1.9
	810	84	0.16 – 17.6	4.6
	8	44	0.34 – 12	2.2
5-Series	5	47	1.38 – 134.24	51.5
	5B	12	1.26 – 14.7	6.4
	5L	15	3.56 – 141.24	43.1

(*Based on apparent thickness from drill intercepts)

Coal seam characteristics from the surface resources exploration programs have been used to characterise, interpret, and project the stratigraphy and structure of the Underground mine area. Coal seam characteristics from the 2007 or 2008 exploration program have not been taken into account for the Underground resource estimate. The Underground resource estimate focuses on the mineralisation of the No. 5 Seam in the West Field within the potential underground coal mining area. The potential underground mine areas are down-dip and adjacent to the proposed surface mine for the No. 5 Seam in the South-East Field and the West field where drilling information was prevalent.

Exploration

Exploration began in late 2004 with the completion of five boreholes in the Ovoot Tolgoi deposit area now within the mine license controlled by SouthGobi. Exploration continued in 2005, 2006 and 2007 with the emphasis on delineating surface resource potential, but also included general exploration activities along the entire Nariin Sukhait trend. Exploration in 2008 focused on expanding the underground resource potential. Exploration activities included: geological mapping; satellite imagery; geophysical surveys; trenching; and drilling.

Contractors

Exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data field logs, and database development, was contracted primarily to Sapphire, supervised initially by IMMI, then later by SouthGobi. Norwest provided assistance in the review of activities and interpretation of results in 2005 and 2006, while SouthGobi directly supervised and provided assistance to Sapphire in the review of activities and interpretation of results in 2007 and 2008. Sapphire has a three-year service record of providing competent exploration geologists for mapping, drilled lithology description records, rock quality determination, fracture frequency, field point-load testing records, field free swelling index tests, sampling, sample preparation, and sample security in accordance with quality assurance procedures implemented in 2005. Standardized log forms for recording all geologic data and laboratory instruction forms are in English and have been employed since 2005.

Results

Geological mapping, analysis of satellite imagery, 3-D and 2-D surface resistivity surveys were used to define the trend of the coal seams and interpret structure and geology. Potential targets identified with these techniques were tested with trenches cut perpendicular to the apparent strike, exposing coal seams near the surface. Coal seams were subsequently tested by drilling.

Exploration work has identified five different coal zones, or packages, consisting of one or more coal seams within a distinct stratigraphic horizon. Most of the work has focused on identifying resources within the thick seams of the 5-Zone, with additional resources in the 8-, 9-, and 10-Zone above this.

Drilling

Limited drilling took place under Soviet/Mongolian government-sponsored exploration programs. Below is a table setting out the historic drilling at the West and South-East Fields. The table below sets out the drilling history at the Ovoot Tolgoi Coal Mine. Drilling in 2008 in the underground area is included in the West Field meters.

Drilling History at Ovoot Tolgoi

Field	Year	Reverse Circulation		Rotary		Core		Combination		Management Company/Field Geologist Company
		No. Holes	Meters Drilled	No. Holes	Meters Drilled	No. Holes	Meters Cored	No. Holes	Meters Drilled /Cored	
South-East	2004					5	750			IMMI
	2006	76	14,425	18	2,807	34	5,525			IMMI
	2007	11	4,855	12	1,999	5	1,860			SouthGobi/Sapphire
West Field	2005	70	12,861	17	2,223	13	2,034	—	—	Norwest/Sapphire
	2006	48	10,203	—	—	25	5,737	—	—	Norwest/Sapphire
	2007	—	—	22	4,936	5	1,958	3	1,236	SouthGobi/Sapphire
	2008							41	21,189	SouthGobi/Sapphire

Major Drilling Mongolia and Tanan Drilling provided drilling services for SouthGobi during 2005 and 2006. Holes drilled in West Field in 2007 used either rotary, core drilling, or a combination of the two, and were approximately 96 to 495m in total depth. Exploration continued in the deeper underground area of the west field in 2008 with hole lengths between 100m and 800m.

Core logging and sample handling was performed by Sapphire under Norwest supervision during the 2005 and 2006 drilling programs and under SouthGobi supervision for the 2007 drilling program. Core was retrieved, logged, and sealed according to Norwest conventions established in 2005. Each core run was measured for total core cut versus core recovered. Photographs were taken at 0.5m intervals. Coal showing distinct lithologic variation was sampled separately, as were partings over 0.05m. Otherwise, coal intervals with a uniform appearance were bagged in 0.6m sample increments as per the core box length. When zones of core loss greater than 0.1m were encountered, separate samples were collected both above and below the zone. Intercept depths and seam thickness are reported in apparent thickness.

Sampling Method and Approach

The majority of exploration holes have been drilled with rotary techniques which offer the opportunity only to sample drill cuttings. All quality analyses used for modeling have been restricted to core samples, and, for the 2005, 2006 and 2007 drill programs, this has been restricted to triple-tube coring equipment. Forty-two core holes have been drilled at the West Field representing approximately 26% of the total number of core holes drilled.

Some of the initial core holes at Ovoot Tolgoi were drilled with single-tube Russian made core equipment. The bulk of the core drilling at Ovoot Tolgoi has been done with wireline drilling systems and modern, triple-tube core barrels. All of the triple-tube coring during the 2005 and 2006 drill programs was performed under Norwest supervision, while triple-tube coring completed during 2007 was performed under SouthGobi's supervision. Core logging and sample handling was performed by Sapphire under Norwest supervision during 2005 and 2006 and under SouthGobi's supervision during 2007.

Core was retrieved, logged and sealed according to Norwest conventions established in 2005. Each core run was measured for core cut and recovered. Photographs were taken at 0.5 m intervals. Coal showing distinct lithologic variation was sampled separately, as were partings over 0.05 m. Otherwise, coal intervals with a uniform appearance were bagged in 0.6 m sample increments as per the capacity of the core box length. When zones of core loss greater than 0.1 m were encountered, separate samples were collected both above and below the zone.

In 2005 and 2006, reverse circulation drilling provided cuttings samples of relatively good integrity. Samples were collected at 1.0 m intervals, and the cuttings were laid out in rows on the ground. The site geologist would then examine the cuttings and produce a geologic log. Intervals with coal were sampled and sealed in plastic bags. A portion of the reverse circulation samples collected were used for basic proximate and thermal analysis as a comparison to the core samples.

The remainder have been stored in Ulaanbaatar. A number of additional holes were drilled with a conventional air-rotary system. Cuttings were generally logged in a similar fashion as for reverse circulation drilling. Core drilling has been used where it is desirable to collect complete representative samples of the coal seams, observe structural details, and to more accurately measure the depths of lithologic contacts. In 2007, all holes were drilled with conventional air-rotary drills or were cored.

Sample Preparation, Analysis and Security

Samples have been collected from drill core and reverse circulation cuttings and recorded by field geologists employed by Sapphire under the supervision of Norwest during the 2005 and 2006 drilling program and under SouthGobi's supervision for the 2007 drilling program. Collected samples were submitted for analysis using methods that are standard for the coal industry. The specific process used by Norwest for the Ovoot Tolgoi drilling program is described below.

Core drill Samples

Core drilling was used to collect complete representative samples of the coal seams, observe structural details, and to accurately measure the depths of lithologic contacts. Although some of the initial holes were drilled with single-tube Russian made core equipment, the majority of core drilling was done with wireline drilling systems and triple-tube core barrels. Work was conducted by Sapphire under Norwest supervision during the 2005 and 2006, whereas in 2007 it was under SouthGobi supervision.

Core was retrieved, logged, and sealed according to Norwest conventions established in 2005. Each core run was measured for total core cut versus core recovered. Photographs were taken at 0.5m intervals. Coal intervals with a uniform appearance were bagged in 0.6m sample increments as per the core box length; however, coal with distinct lithologic variations and partings over 0.05m were sampled separately. When zones of core loss were greater than 0.1m, separate samples were collected above and below the zone

Reverse Circulation Samples

Samples are collected at 1.0 m intervals into plastic bags. The bags are labeled on the outside with both the drill hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then grouped by hole into larger bags, packaged and transported to Ulaanbaatar. A portion of these samples have been sent to the Mining Institute Laboratory in Ulaanbaatar for proximate and thermal analysis. The remainder of the samples have been stored at SouthGobi's facilities. SouthGobi elected to eliminate reverse circulation samples for the 2007 drilling program and only cored sample analyses was used as the most reliable data.

In coal work, additional special security methods for the shipping and storage of samples are not commonly employed, as coal is a relatively low-value bulk commodity.

Data Verification

Between 2005 and 2006, Norwest directly managed the exploration program from conceptual planning of exploration targets, through data collection, to interpretation and analysis and has provided on-site management throughout the great majority of the exploration project.

Data collection was performed under a defined set of protocols in which Norwest site geologists are responsible for the training and administration of data collection procedures and for reviewing all data.

Upon completion of a drill hole, the geologic and geophysical logs were reviewed by a Norwest geologist. All geologic, geophysical, and sampling data is entered and maintained in an electronic database. All mapping was entered and maintained in electronic format on a CAD-based system. The geologic data was entered into an electronic system on-site. The data was then forwarded on a routine basis to Norwest's office in Salt Lake City. Results from the coal quality testing were then added.

During 2007, although Norwest was no longer involved with the Ovoot Tolgoi Coal Mine, those field protocols established by Norwest and implemented by Sapphire field geologists were continued, supervised by SGS personnel.

Mineral Processing and Metallurgical Testing

Mineral processing and metallurgical testing has included testing to determine sulphur, thermal value, coking characteristics, grindability and trace element analysis. Testing has also included proximate analysis for moisture, ash, volatile matter and fixed carbon.

The sample analyses show that the coal at Ovoot Tolgoi includes both thermal and metallurgical grades. Regionally, the coal generally has an ash content that is less than 20% (dry basis) and sulphur at about 1%. Free swell index is variable and ranges up to 4 or more. Inherent moisture in the coal is less than 2%.

Coking characteristic tests include the Gieseler Plastometer, Audibert-Arnu Dilatometer, Reactive Maceral Analysis (petrographics), Phosphorous content, free swelling index and Trace Element Analyses. A Hardgrove Grindability index (test) has also been conducted in order to describe the coal handling characteristics.

Geologic reviews conducted by TAG in 2007 indicate the distribution of the three coal product types, hard coking coal, semi-soft coking coal and thermal coal is not uniform throughout individual or between separate coal seams at West Field. Coal is of hvA rank with relatively low sulphur values with a variable free swelling index which ranges up to 6.5.

Mineral Resource Estimates

Approach

CIM Standards referenced the GSC Paper 88-21 were used during the classification, estimation and reporting of coal resources for the Ovoot Tolgoi Coal Mine. Under GSC Paper 88-21 guidelines, the term "resource" is utilised to quantify coal contained in seams occurring within specified limits of thickness and depth from surface. The resource estimations contained within are based on in-situ tonnage and are not adjusted for mining losses or recovery. However, minimum mineable seam thickness and maximum removable parting thickness are considered, with coal intervals not meeting these criteria not being included in the resources.

Resources are classified as to the assurance of their existence into one of three categories: measured, indicated or inferred. The category to which a resource is assigned depends on the level of confidence in the geological

information available. GSC Paper 88-21 provides guidance for categorising various types of coal deposits by levels of assurance. Resources and reserves are further classified in GSC Paper 88-21 as to the assurance of their existence into one of four categories, using the criteria for coals found in Geology Type “complex” conditions, as shown in the table below.

Criteria Used to Define Assurance of Existence for Coals in Complex Geology Type

Criteria	Assurance of existence category		
	Measured	Indicated	Inferred
Cross-section spacing (m)	150	300	600
Minimum number data points per section	3	3	3
Mean data point spacing (m)	100	200	400
Maximum data point spacing (m)	200	400	800

Surface coal resources at the Ovoot Tolgoi Coal Mine are estimated for the categories of measured indicated and inferred and are shown in the table below. The West Field resource estimate is as of June 20, 2008 based on data to December 31, 2007. The resource estimate for the South-East Field is as of December 31, 2006.

Ovoot Tolgoi West Field and South-East Field In-Place Surface Coal Resources Summary⁽¹⁾

Resource Area	ASTM Coal Rank	Measured (Tonnes)	Indicated (Tonnes)	Inferred (Tonnes)
South East Field	hvB to hvA	49,752,000	15,987,000	6,502,000
West Field	hvB to hvA	74,973,000	27,687,000	18,761,000
Total		168,399,000 ⁽²⁾		25,263,000

- (1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
(2) Measured plus indicated.

Holes drilled in the 2007 exploration program were included in the resource estimation for the west field. 2008 drilling which concentrated on extending the 5 seam at depth were not included in the 2008 estimate of the west field.

Underground

The potential underground mine area for the West Field No. 5 Seam is currently located down-dip and adjacent to the planned surface mining operation where the prevalent amount of drilling information exists. The underground coal resources identified for the purpose of this study are from 250 m depth to a depth of approximately 650 m below the surface.

The criteria and guidelines used to estimate the underground resources are substantially similar to those used to estimate the resources on the West Field and South-East Field, as described above.

TAG completed resource estimations effective as of March 13, 2008 for the No. 5 Seam in the potential underground mining area in the West Field. The resources estimates are based on data acquired by SouthGobi’s exploration program through December 2006. Drilling results from the 2007 and 2008 exploration program were not included in the resource estimation.

The underground coal resources as of March 13, 2008 for the No. 5 Seam in the West Field are as follows:

West Field Underground Resources⁽¹⁾

Resource Area	ASTM Coal Rank	Measured (Tonnes)	Indicated (Tonnes)	Inferred (Tonnes)
West Field (underground)	mhB to hvA	3,867,000	12,590,000	36,735,000
Total		16,457,000 ⁽²⁾		36,735,000

(1) Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.

(2) Measured plus indicated.

Mining Operations

Mining Method

The resources at the surface of the West Field are best mined through multiple open pits. Hydraulic excavators and trucks have been determined to be the optimum and proven method for surface mining of dipping, complex coals with multiple pits.

Production Forecast

The ramp up schedule to increase production at the West Field is as follows:

Production Forecast

Period	Coal Production Tonnes (000)
Year 1	1,000
Year 2	1,500
Year 3	3,000
Year 4	4,000
Year 5 and beyond	5,000

In order to achieve the targets set out above, the border crossing scale-house and corresponding section of road must be completed and the transport of coal on public roads must be approved by the relevant authorities.

Coal Beneficiation

SouthGobi's management currently believe there is no requirement for washing of Coal at Ovoot Tolgoi in the present market. The in-situ raw coal quality for the No. 5 Seam is low ash, low sulphur and hence there is limited value to be added through beneficiation. There may be value to be added with Nos. 8, 9 and 10 seams which have partings or higher ash content. Despite the high in-situ coal quality, the seams dip at a relatively steep angle and there is the possibility that the narrower seams may be effected by dilution from partings during mining. This will be a function of equipment size and production rates and hence the degree of dilution may change over time. SouthGobi has started initial screening and washability tests on the Nos. 8, 9 and 10 seams. At some point in the future it may also be possible for SouthGobi to access the more lucrative export market where tight coal specifications generally require that coal be washed to produce a standardized product.

Markets

Currently all production from the West Field mining operations will be marketed and sold into China. This includes thermal, premium thermal, and coking coal production. Company management continues to develop markets for the premium quality coals.

Contracts for Sale of Products

As of March 23, 2009, a total of 200,600 tonnes of coal have been exported. Four contracts totalling 1.2 million tonnes of sales for 2009 are in place and additional tonnages are presently being negotiated. Currently shipping and border crossing logistics are in place and continue to improve.

Environmental Conditions

The West Field mining operation has received approval of its detailed Environmental Impact Assessment and Environmental Protection plan from the Mongolian Ministry of Nature and Environment.

SouthGobi is constructing a large pond to contain all pit water. Standards being used to construct of the pond were typical of international standards, with a clay material being layered and compacted for a berm and pond base.

Topsoil is being removed and stored for final reclamation. Acid/Base analysis of rock has not been completed; however, acid drainage is not anticipated due to the low sulphur value of the coals. Should acid material exist, the plan would be to excavate and encapsulate separately in the waste dumps.

There are no endangered plants in the Ovoot Tolgoi Mining Licence area. SouthGobi is planning to purchase environmental monitoring equipment (dust gauges) to monitor dust generating for the West Field mining operations.

Recycling of waste oil is completed by the fuel contractor and completed inexpensively on a dead-head haulage back to Ulaanbaatar. Other non-toxic waste recyclables are given to a local village to add income and provide work opportunities.

Taxes

The following lists taxes, royalties, and other government levies applicable to the West Field mining operation: royalties — 5% for export coal sales at mine gate; property tax — 0.6% on acquisition value; mining licence — US\$5/ha x 9,308 ha = US\$46,540/year; VAT — 10% refundable; income tax — 10% of the first 3B MNT, 25% thereafter; and depreciation — 7 years on equipment, 40 years on fixed assets.

Payback of Capital

SouthGobi has not completed an economic analysis that complies with securities regulation which effectively precludes disclosure of a discussion of the payback period of capital with imputed or actual interest. It is expected that a discussion of the payback period of capital will be prepared and disclosed as part of a future feasibility study.

Exploration and Development

In 2008 a major exploration program was undertaken to infill the underground area. The results of this program are still being interpreted, however the initial lithological logging confirms the down dip and lateral continuity of the 5 seam in the potential underground area. It is intended to update the underground resources

of the west field in the 2nd quarter of 2009. This same type of program is planned to be carried out in 2009 on the South-East Field.

Other Projects

Mongolia

IVN, through its 100% subsidiary IMMI, operates an exploration program in Mongolia. The program has been reduced substantially from previous years; IVN now holds approximately 250,000 hectares of land in 10 separate licenses including JV licenses, compared with 3,829,519 hectares at the start of 2008. Of these licenses, 25,936 hectares constitute the Kharmagtai group of three licenses (a joint venture with SouthGobi), 68,376 hectares constitute the Javkhlant Uul group of four licenses, 53,290 hectares constitute the Tumen-Ulzii Uul license (a joint venture with GoviEx Uranium Inc. (“GoviEx”)), and approximately 50,000 hectares constitute the Ulaan Khuud group of two licenses (a joint venture with BHP Billiton (“BHP”)).

At Kharmagtai, 7,500 metres of trenching and sampling was carried out over the Burged prospect, which has potential for an open pittable low grade gold resource. The trenching confirmed previous results but did not find new mineralization. Bottle roll tests show that only the oxide ore has potential for heap leaching, with up to 70% recovery. Drill core from 15 drill holes at Altan Tolgoi was re-logged, with the conclusion that potential exists to improve the current ore resource by step-out drilling in tourmaline breccias, which are more extensive than previously thought.

The Javkhlant group abuts the Javkhlant JV area with Entrée to the south of the Oyu Tolgoi Project. In 2008, the area was mapped at 1:5000 scale. The licence mainly comprises carboniferous basaltic volcanics and sedimentary rocks, intruded by Late Carboniferous granite to granodiorite, and the west side is especially tightly folded. Older rocks are exposed in limited areas, but Late Devonian or older intrusions and associated alteration systems, comparable to those found at the Oyu Tolgoi Project have not been identified.

The Tumen — Ulzii Uul licence abuts the Tsagaan Survarga licence held by MAK. Tsagaan Survarga is believed to be the second largest copper deposit in the South Gobi desert with similarities to the Oyu Tolgoi Project. Exploration in 2008 comprised geological mapping and prospecting. A joint venture was entered into with GoviEx in September 2008 to explore for mineralization under cover rocks using IP; as yet no work has been done in respect of this JV.

The Ulaan Khuud licence group of licences abuts the northern end of the Shivee Tolgoi JV licence, it is a joint venture in which BHP is the operator. An extensive dipole- dipole IP survey was carried out over the southern part of the eastern license in 2008, but no significant anomalies were found. Two deep diamond drill holes are planned in 2009 to test the northern extension of the OT Trend.

Kazakhstan

IVN holds a 49% interest in Altynalmas Gold Ltd. (“Altynalmas Gold”), a company focused exclusively on mining projects in the Republic of Kazakhstan. Altynalmas Gold was created as a vehicle to combine IVN’s 70% interest in the Bakyrchik Mining Venture (“BMV”) with the remaining 30% interest in BMV, and a 100% interest in the Bolshevik gold mine, held by certain Kazakh entities, who now own a 51% interest in Altynalmas Gold. Through its wholly-owned Kazakh subsidiaries, BMV and Inter Gold Capital LLP (“IGC”), Altynalmas Gold holds a 100% interest in the Bakyrchik gold mine and the Bolshevik gold mine, both of which are located in the northeast region of the Republic of Kazakhstan, approximately 1,100 km north-east of Almaty, Kazakhstan’s largest city and former capital, 750 km east of the present capital, Astana, and 100 km west of Ust-Kamenogorsk, which is considered the industrial centre of East Kazakhstan.

IVN originally acquired its interest in BMV in 1996. BMV, which was originally established as a joint venture with the government of Kazakhstan, holds a sub-soil use contract for the Bakyrchik gold mine, which consists of a number of mine shafts and associated facilities, process plant, workshops, warehouses, administration buildings and accommodations. A total of five shafts have been sunk on the Bakyrchik deposit, and the underground has been explored and developed for mining from a series of development drifts driven at 40 m vertical intervals.

Mining operations began at Bakyrchik in 1957 with the excavation of an initial shaft and underground production commenced in 1963. During the Soviet era, the Bakyrchik gold mine produced sulphide mineralization and concentrates, which were sold as flux to copper smelters in Armenia, Uzbekistan, and Kazakhstan. Operations at the Bakyrchik gold mine continued until 1998 when low gold prices made the mine uneconomic to operate and it was placed on care and maintenance status.

Exploration of the Bolshevik deposit began in 1956. Intermittent mining of the deposit occurred between 1960 and 1994. The early operations focused on high grade oxide material, a history similar to the Bakyrchik gold mine where the oxide mineralization became exhausted and the remaining sulphide mineralization was difficult to process. During the Soviet era, as at Bakyrchik, sulphide mineralization was sold as flux to copper smelters in Armenia, Uzbekistan, and Kazakhstan.

In 1996 the ownership of subsoil use rights for development of the Bolshevik gold deposit were transferred to IGC. A gravity and flotation concentrator plant, designed to process 100,000 tonnes per year of sulphide material from the open pit, was constructed and commissioned in December 2002 and operated through 2003. In 2004, the operations at the Bolshevik gold deposit were placed on care and maintenance.

The gold deposits at Bakyrchik consist of a series of mineralized lenses or lodes lying within a large shear zone, which is 11.5 km in length. Gold mineralization is hosted within sheared carbonaceous sediments of the fault zones, and is principally contained within sulphide mineralization occurring in association with quartz stockworks, which crosscuts and parallels the foliation of the sediments. Mineralogical studies indicate that the majority of the gold is encapsulated by arsenopyrite and, to a lesser extent, pyrite. As the associated sediments contain up to 4% carbon, the deposit is said to be “double-refractory” in nature, which makes processing very difficult.

For the past several years, IVN has been investigating and testing a variety of metallurgical processes in an effort to more efficiently process the sulphide ore deposits found at Bakyrchik. IVN is currently pursuing a processing strategy involving fluid bed roasting. A pilot roasting plant, capable of processing 100,000 tpy was completed in February 2009 at a capital cost of US\$32 million. Target production from the pilot roasting plant is estimated at 20,000 ounces of dore alloy per year. The initial ore feed source for the pilot roasting plant will be from surface stockpiles of ore. Additional ore is expected to be sourced from underground starting in October 2009 following the commencement of an underground redevelopment program.

China

IVN has conducted active exploration programs in Inner Mongolia and Northern China since 2003. The programs have been principally conducted through joint ventures with Chinese governing bodies. The original joint venture projects have now been terminated or suspended. In March 2008, IVN re-commenced reconnaissance field exploration after a winter-induced break, focusing on northern Hebei and surrounding provinces. The program consisted of the field geological assessment of over three-hundred licensed orogenic gold, porphyry-related copper-gold, epithermal vein and breccia-hosted gold-silver and copper deposits. In mid-2008, exploration targets assessed included ultramafic-hosted Ni-Cr-PGM deposits. Exploration has involved detailed data reviews, field traverses and systematic rock chip and channel sampling of all properties. Work in this region will continue in 2009, re-assessing targets gazetted for follow-up, as well as first-pass

exploration assessments of areas not yet covered in the program. The aim of the program has been to identify high-quality, semi-advanced projects for acquisition through joint venture formation with, or direct purchase from the existing license holders.

Other Business Matters

Equity Holdings

IVN holds equity investments in a number of publicly traded, non-subsiary mineral exploration and development companies.

The following table outlines the publicly traded equity investments held by the IVN Group and their quoted market value as at December 31, 2008:

Company	Number of Shares	Value (US\$)
Entrée Gold Inc.	13,799,333	\$11,322,065
Intec Limited	41,174,840	\$ 520,730
Asia Now Resources Corp.	969,036	\$ 59,631
Exco Resources NL	50,595,976 ⁽¹⁾	\$ 2,558,649
Jinshan Gold Mines Inc.	1,500,000	\$ 553,823

(1) IVN's interest in Exco Resources NL is indirect, as Ivanhoe Australia owns the 50,595,976 shares Exco Resources NL.

Employees

As at December 31, 2008, IVN had approximately 1,139 employees working at various locations.

DIVIDENDS

IVN has not paid any dividends on its outstanding Common Shares since its incorporation and does not anticipate that it will do so in the foreseeable future. The declaration of dividends on the Common Shares is, subject to certain statutory restrictions described below, within the discretion of the Board of Directors based on their assessment of, among other factors, IVN's earnings or lack thereof, its capital and operating expenditure requirements and its overall financial condition. Under the Yukon *Business Corporations Act*, the Board of Directors has no discretion to declare or pay a dividend on the Common Shares if they have reasonable grounds for believing that IVN is, or after payment of the dividend would be, unable to pay its

liabilities as they become due or that the realizable value of its assets would, as a result of the dividend, be less than the aggregate sum of its liabilities and the stated capital of the Common Shares.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of IVN consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As at March 27, 2009 there were 378,089,424 Common Shares and no preferred Shares issued and outstanding. Rights and restrictions in respect of the Common Shares and the Preferred Shares are set out in IVN's articles of continuance, IVN's by-laws and in the *Business Corporations Act* (Yukon), and its regulations.

Common Shares

The holders of Common Shares are entitled to one vote per Common Share at all meetings of shareholders except meetings at which only holders of another specified class or series of shares of IVN are entitled to vote separately as a class or series. Subject to the prior rights of the holders of Preferred Shares, the holders of Common Shares are entitled to receive dividends as and when declared by the directors, and to receive a pro rata share of the remaining property and assets of IVN in the event of liquidation, dissolution or winding up of IVN. The Common Shares have no pre-emptive, redemption, purchase or conversion rights. Neither the *Business Corporations Act* (Yukon) nor the constating documents of IVN impose restrictions on the transfer of Common Shares on the register of IVN, provided that IVN receives the certificate representing the Common Shares to be transferred together with a duly endorsed instrument of transfer and payment of any fees and taxes which may be prescribed by the Board of Directors from time to time. There are no sinking fund provisions in relation to the Common Shares and they are not liable to further calls or to assessment by IVN. The *Business Corporations Act* (Yukon) provides that the rights and provisions attached to any class of shares may not be modified, amended or varied unless consented to by special resolution passed by a majority of not less than two-thirds of the votes cast in person or by proxy by holders of shares of that class.

Preferred Shares

The Preferred Shares are issuable in one or more series, each consisting of such number of Preferred Shares as may be fixed by IVN's directors. IVN's directors may from time to time, by resolution passed before the issue of any Preferred Shares of any particular series, alter the constating documents of IVN to determine the designation of the Preferred Shares of that series and to fix the number of Preferred Shares therein and alter the constating documents to create, define and attach special rights and restrictions to the shares of that series, including, without limitation, the following: (i) the nature, rate or amount of dividends and the dates, places and currencies of payment thereof; (ii) the consideration for, and the terms and conditions of, any purchase of the Preferred Shares for cancellation or redemption; (iii) conversion or exchange rights; (iv) the terms and conditions of any share purchase plan or sinking fund; and (v) voting rights and restrictions.

Registered holders of both the Preferred Shares and Common Shares are entitled, at their option, to a certificate representing their shares of IVN.

MARKET FOR SECURITIES

The Common Shares of IVN are traded in Canada on the TSX, and in the United States on the New York Stock Exchange and Nasdaq Stock Market. The closing price of IVN's Common Shares on the TSX on March 27, 2009 was Cdn.\$7.31.

The following sets forth the high and low market prices and the volume of the Common Shares traded on the TSX during the periods indicated:

(stated in Canadian dollars)

PERIOD	HIGH	LOW	VOLUME
January 2008	\$11.28	\$ 7.80	34,736,897
February 2008	\$13.54	\$ 9.33	20,599,835
March 2008	\$13.10	\$ 9.75	20,765,845
April 2008	\$11.54	\$ 9.55	16,613,616
May 2008	\$10.00	\$ 8.80	14,994,761
June 2008	\$11.32	\$ 9.04	26,089,095
July 2008	\$12.60	\$10.00	31,016,054
August 2008	\$12.22	\$10.49	20,603,551
September 2008	\$11.89	\$ 5.51	37,601,766
October 2008	\$ 6.71	\$ 2.06	59,969,673
November 2008	\$ 4.03	\$ 2.06	22,411,311
December 2008	\$ 3.50	\$ 2.26	19,160,111

DIRECTORS AND OFFICERS

Name and Occupation

The name, province or state, and country of residence and position with IVN of each director and executive officer of IVN, and the principal business or occupation in which each director or executive officer has been engaged during the immediately preceding five years is as follows:

Name and Municipality of Residence	Position with Corporation	Principal Occupation During Past Five Years
ROBERT M. FRIEDLAND Singapore	Executive Chairman and Director (Director since March 1994)	Chairman of IVN (March 1994 to present); Chief Executive Officer of IVN (March 1994 to May 2006); Executive Chairman and CEO of Ivanhoe Energy Inc. (May 2008 to present); Chairman and President, Ivanhoe Capital Corporation (a venture capital company) (1988 to present); Deputy Chairman, Capital Markets for Ivanhoe Energy Inc. (June 1999 to March 2008).
PETER G. MEREDITH Vancouver, Canada	Deputy Chairman and Director (Director since March 2005)	Deputy Chairman of IVN (May 2006 to present); Chief Financial Officer of IVN (May 2004 to May 2006); Chief Financial Officer of Ivanhoe Capital Corporation (a venture capital company) (1996 to March 2009); Chief Executive Officer, SouthGobi Energy Resources (June 2007 to present).

Name and Municipality of Residence	Position with Corporation	Principal Occupation During Past Five Years
JOHN MACKEN Massachusetts, USA	Director, President and Chief Executive Officer (Director since January 2003)	Chief Executive Officer of IVN (May 2006 to present); President of IVN (January 2004 to present); Chairman of SouthGobi Energy Resources (June 2007 to present); Consultant (2000 to January 2004); and Senior Vice President of Freeport McMoran Copper & Gold (a mining company) (1996 to 2000).
DAVID HUBERMAN Vancouver, Canada	Director (lead director) (Director since September 2003)	President, Coda Consulting Corp. (business consulting firm) (1993 to present).
R. EDWARD FLOOD London, England	Director (Director since March 1995)	Managing Director, Investment Banking, Haywood Securities (UK) Limited (investment dealer) (March 2007 to present); Chairman of Western Uranium Corporation (March 2007 to present); Deputy Chairman of IVN (May 1999 to February 2007); Senior Mining Analyst, Haywood Securities Inc. (investment dealer) (May 1999 to November 2001).
KJELD THYGESEN London, England	Director (Director since February 2001)	Managing Director, Lion Resource Management (investment firm and fund manager) (May 1989 to present)
HON. ROBERT HANSON London, England	Director (Director since February 2001)	Chairman, Hanson Capital Investments Limited (investment and finance company) (February 1998 to present); Chairman, Hanson Transport Group Limited (May 1990 to present); Hanson Westhouse Limited (City of London merchant bank) (2006 to present).
DR. MARKUS FABER Hong Kong, China	Director (Director since February 2002)	Managing Director, Marc Faber Limited (investment advisory firm and fund manager) (June 1990 to present).
HOWARD BALLOCH Beijing, China	Director (Director since March 2005)	President, The Balloch Group (investment and consulting company) (July 2001 to present); Vice-Chairman, Canada-China Business Council (July 2001 to present); Canadian Ambassador to China, Mongolia and Democratic Republic of Korea (April 1996 to July 2001).
DAVID KORBIN West Vancouver, Canada	Director (Director since May 2006)	Independent Management and Financial Consultant (May 1998 to present).

Name and Municipality of Residence	Position with Corporation	Principal Occupation During Past Five Years
BRET CLAYTON Surrey, England	Director (Director since May 2007)	Chief Executive, Rio Tinto Copper & Diamonds (July 2006 to present); President and CEO of Rio Tinto America (October 2002 to July 2006); Executive Committee and Board of Directors of the International Copper Association (July 2006 to present).
LIVIA MAHLER Vancouver, Canada	Director (Director since March 2009)	Partner and co-founder, Greenstone Venture Partners (February 2000 to present).
TONY GIARDINI Vancouver, Canada	Chief Financial Officer	Chief Financial Officer of IVN (May 2006 to present); Vice-President and Treasurer, Placer Dome Inc. (a mining company) (December 2003 to April 2006); Treasurer, Placer Dome Inc. (November 2002 to December 2003).
DOUGLAS KIRWIN Bangkok, Thailand	Executive Vice-President, Exploration	Executive Vice-President, Exploration of IVN (September 1995 to present).
STEVEN GARCIA North Carolina, USA	Executive Vice President	Executive Vice President of IVN (October 2005 to present); Project Director of IVN (May 2005 to present); CEO Chamoia Farm, Inc. (a wholesale landscaping and nursery company) (2001 to present).
DAVID WOODALL Western Australia, Australia	President, Gold Division	President, Gold Division of IVN (August 2006 to present); Operations Manager of Robe River Associates (a mining company) (March 2005 to August 2006); General Manager, Operations of Sino Gold Limited (a mining company) (April 2004 to January 2005); Mine General Manager of Placer Dome Inc. (a mining company) (July 2001 to 2004).
RICHARD GOSSE Richmond, Canada	Vice President, Exploration	Vice President, Exploration of IVN (January 2009 to present); Vice President, Exploration, Metals Division of SouthGobi Energy Resources (February 2004 to December 2008); Exploration Manager, India, Hudson Bay Exploration and Development Company Ltd. (January 2000 to December 2003)
JAY GOW Burnaby, Canada	Vice President, Marketing	Vice President, Marketing of IVN (May 2004 to present); Marketing Manager, Copper & Molybdenum, Compania Minera Antamina S.A. (a mining company) (January 2001 to December 2003).

Name and Municipality of Residence	Position with Corporation	Principal Occupation During Past Five Years
PIERRE MASSE West Vancouver, Canada	Vice President, Finance	Vice President, Finance of IVN (May 2007 to present); Vice President and Treasurer of IVN (May 2004 to May 2007); Chief Financial Officer of IVN (November 2001 to May 2004).
BEVERLY A. BARTLETT New Westminster, Canada	Vice President and Corporate Secretary	Vice President of IVN (May 2006 to present); Vice President of SouthGobi (May 2007 to present); Vice President of Ivanhoe Energy Inc. (August 2006 to present); Vice President of Jinshan Gold Mines Ltd. (May 2007 to May 2008); Corporate Secretary of IVN (June 2001 to present); Corporate Secretary of SouthGobi (August 2003 to present); Corporate Secretary of Ivanhoe Energy Inc. (oil and gas company) (May 2001 to present); Corporate Secretary of Jinshan Gold Mines (May 2003 to May 2008).
CATHERINE BARONE Port Moody, Canada	Vice President and Corporate Controller	Vice President of IVN (May 2008 to present); Controller of IVN (November 2002 to present)
GEOFFREY HARDING Vancouver, Canada	Vice President, Project Evaluation and Development	Vice President, Project Evaluation and Development of IVN (May 2008 to present); Manager of Mining of IVN (July 2003 to May 2008).

Each director's term of office expires at the next annual general meeting of IVN.

Shareholdings of Directors and Executive Officers

As at March 27, 2009, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 97,731,387 Common Shares of IVN representing approximately 25.8% of the outstanding Common Shares of IVN.

Committees of the Board

The committees of the Board of Directors of IVN consist of an Audit Committee, a Compensation and Benefits Committee, a Corporate Governance and Nominating Committee, an Executive Committee and a Currency Advisory Committee. The members of the Audit Committee are David Korbin, Kjeld Thygesen and Markus Faber. The members of the Compensation and Benefits Committee are David Huberman, Robert Hanson, David Korbin, Kjeld Thygesen, Howard Balloch and Markus Faber. The members of the Corporate Governance and Nominating Committee are David Huberman, Kjeld Thygesen, Robert Hanson, David Korbin, Markus Faber and Howard Balloch. The members of the Executive Committee are Robert Friedland, John Macken, Peter Meredith and David Huberman. The members of the Currency Advisory Committee are David Korbin, Tony Giardini, Peter Meredith and Markus Faber.

Conflicts of Interest

Certain directors of IVN and its subsidiaries are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the *Yukon Business Corporations Act*, directors and officers of IVN are required to disclose to IVN the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with IVN, if the director or officer is: (a) a party to the contract or transaction; (b) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction; or (c) has a material interest in a party to the contract or transaction.

IVN has adopted a Code of Business Conduct and Ethics (the "Ethics Policy") that applies to all directors, officers and employees of IVN and its subsidiaries. As required by the Ethics Policy, individuals representing IVN must not enter into outside activities, including business interests or other employment that might interfere with or be perceived to interfere with their performance at IVN.

Audit Committee Information

Information concerning the Audit Committee of IVN, as required by National Instrument 52-110, is provided in Schedule A to this Annual Information Form.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below or elsewhere in this Annual Information Form, no insider, director nominee or associate or affiliate of any such insider or director nominee, has any material interest, direct or indirect, in any material transaction since the commencement of IVN's last financial year or in any proposed transaction, which, in either case, has materially affected or would materially affect IVN.

At the end of 2007 and during the course of 2008, subsidiaries of IVN holding the Savage River Project owed approximately \$5.1 million to Mr. Robert M. Friedland, Chairman of IVN, which indebtedness originated as a result of the December 2000 acquisition by IVN of the Savage River Project. Repayment of this indebtedness was contingent upon IVN receiving proceeds in excess of approximately \$111 million from the sale of the Savage River Project. In October 2008, IVN discharged this obligation to Mr. Friedland by payment of \$4.3 million in final settlement of this obligation.

IVN is a party to cost sharing agreements with other companies in which Mr. Friedland has a material direct or indirect beneficial interest. Through these agreements, IVN shares, on a cost-recovery basis, office space, furnishings, equipment and communications facilities in Vancouver, Singapore, Beijing and London, and an aircraft. IVN also shares the costs of employing administrative and non-executive management personnel in these offices. During the year ended December 31, 2008, IVN's share of these costs was U.S.\$12.6 million. The companies with which IVN is a party to the cost sharing agreements, and Mr. Friedland's ownership interest in each of them, as at December 31, 2008, are as follows:

Corporation Name	Robert Friedland Ownership Interest
Ivanhoe Energy Inc.	17.6%
Ivanhoe Capital Corporation	100%
Ivanhoe Nickel & Platinum Ltd.	36.09%
Jinshan Gold Mines Inc.	_(1)
SouthGobi Energy Resources Ltd.	_(1)
GoviEx Uranium Inc.	0%
GoviEx Gold Inc.	0%

- (1) As at December 31, 2008, Mr. Friedland owned 25.6% of the Common Shares of IVN, which owned 80.19% of the common shares of SouthGobi and 0.92% of the common shares of Jinshan Gold Mines Inc.

TRANSFER AGENTS AND REGISTRARS

The registrar and transfer agent for the Common Shares in Canada is CIBC Mellon Trust Company at its principal offices in Vancouver and Toronto.

MATERIAL CONTRACTS

Reference is made to the material contracts that IVN has filed with Canadian securities regulatory authorities, coincident with the filing of this Annual Information Form, on the SEDAR website at www.sedar.com.

Below is a list of the contracts, including the particulars thereof, that are material to IVN and were entered into between January 2008 and December 2008 or were entered into before that date but are still in effect, other than those entered into in the ordinary course of business. No disclosure is made regarding any contract that was entered into prior to January 1, 2003.

- Equity Participation and Earn-in Agreement dated October 15, 2004 between IVN and Entrée, as amended November 9, 2004 setting forth the terms and conditions of the Entrée Joint Venture. See “DESCRIPTION OF THE BUSINESS — Oyu Tolgoi Copper and Gold Project, Mongolia — Project Description and Location” for further details.
- Head Agreement dated February 4, 2005 among IVN, Stemcor Pellets AG, Stemcor Holdings Ltd. and Dominant Holdings AG, setting forth the terms and conditions of the sale of the Savage River Project. Under the terms of the agreement, IVN sold its interest in the Savage River Project for two initial cash payments totalling \$21.5 million, plus a series of five contingent, annual payments that commenced on March 31, 2006. To date, IVN has received \$99.2 million in proceeds from the sale of the Savage River Project. At December 31, 2008, IVN had accrued a \$28.0 million receivable in relation to the fourth contingent annual payment due on March 31, 2009. This amount is calculated based upon the actual tonnes of iron ore sold during the nine-month period that ended December 31, 2008, under the escalating price formula in the agreement.
- Private Placement Agreement dated October 18, 2006, as amended as of November 16, 2006 between IVN and Rio Tinto International Holdings Limited and as further amended by an Amending and Additional Rights Agreement between the parties dated October 24, 2007. See “GENERAL DEVELOPMENT OF THE BUSINESS — Three Year History — 2006 and 2007” for further details.
- Credit Agreement dated October 24, 2007 between IVN and Rio Tinto International Holdings Limited setting forth the terms of the Rio Tinto Credit Agreement. See “GENERAL DEVELOPMENT OF THE BUSINESS — Three Year History — 2007” for further details.
- Contract Assignment Arrangement Agreement dated August 13, 2008 (the “CAAA”) between IVN, Rio Tinto Alcan Pte Ltd. (“Rio Tinto Alcan”), and IMMI. Under the terms of the CAAA, IMMI received \$47.0 million from Rio Tinto Alcan for the purchase of large equipment to be used in the construction of the Oyu Tolgoi Project in Mongolia, representing the first tranche of funds paid under a purchase and sale agreement entered into in August 2008. The CAAA provided for Rio Tinto Alcan to purchase certain Oyu Tolgoi Project equipment already acquired or on order by IMMI pending the successful completion of negotiations with the Government of Mongolia for an Investment Agreement. IMMI received a further \$74.5 million in November 2008, as a second tranche of the purchase and sale transactions contemplated by the CAAA, bringing the aggregate amount received from the sale of the equipment to approximately \$121.5 million.

6. Put Agreement dated August 13, 2008 between IVN, Rio Tinto Alcan and IMMI setting forth the terms of a put option whereby Rio Tinto can require IMMI to re-purchase the equipment if an acceptable Investment Agreement is reached with the Government of Mongolia. IMMI also has a right of first refusal to re-purchase the equipment if Rio Tinto intends to deploy the equipment elsewhere or sell it to a third party.

INTERESTS OF EXPERTS

Deloitte & Touche LLP is the independent auditor of IVN.

IVN has relied on the work of the following experts in connection with the verification of IVN's mineral reserve and resource estimates and certain other scientific and technical information in respect of its material mineral properties, as referenced in the Annual Information Form:

- GRD Minproc for the Oyu Tolgoi Technical Report.
- Stephen Torr, P. Geo and Gene Wusaty P. Eng. for the Ovoot Tolgoi Technical Report.

The Oyu Tolgoi Technical Report and the Ovoot Tolgoi Technical Report are available for review on SEDAR at www.sedar.com.

To the knowledge of IVN, none of the experts referred to above nor the qualified persons employed by the company responsible for preparation of the reports or other qualified persons who contributed to the reports, hold Common Shares or securities exercisable to acquire Common Shares equal to or greater than 1% of the issued and outstanding Common Shares.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of IVN's securities, options to purchase IVN's Common Shares and interests of insiders in material transactions is contained in the management proxy circular for the annual general meeting of IVN to be held on May 8, 2009, which will be made available on SEDAR concurrent with the delivery of the document to IVN's shareholders. Additional financial information is contained in IVN's comparative financial statements and MD&A as at and for the years ended December 31, 2008 and 2007. Copies of the proxy circular (when filed), financial statements and MD&A are available on SEDAR, and may also be obtained upon request from IVN at 654 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1.

Additional information relating to IVN may be found on SEDAR at www.sedar.com.

SCHEDULE A**Audit Committee Information***Composition of Audit Committee*

IVN's Audit Committee consists of Messrs. David Korbin, Kjeld Thygesen and Dr. Markus Faber. Mr. Korbin has been Chairperson of the Audit Committee since May 11, 2007. The Board of Directors has determined that all members of the Audit Committee are "independent" and "financially literate" as defined in National Instrument 52-110. In addition, in accordance with New York Stock Exchange corporate governance listing standards, the Board of Directors has determined that David Korbin is an audit committee financial expert.

*Relevant Education and Experience**David Korbin*

Mr. Korbin holds a Chartered Accountant designation. For 16 of his 25 years in the accounting profession, he was managing partner of a number of firms including the Vancouver office of Deloitte Haskins & Sells and Deloitte & Touche LLP. He is currently working as a management and financial consultant and has been a director of E-Comm Emergency Communications for Southwest British Columbia Incorporated since 2001 serving as Chair of the board of directors since 2004 and Chair of their audit committee from 2002 to 2003. He is currently a member of the Board of Directors of Seaspan Corporation and Chair of their audit committee. Prior thereto, Mr. Korbin served on the board of directors for Vancouver General Hospital and the Vancouver Hospital and Health Sciences Centre and Chair of the Board from 1995 — 1998.

Markus Faber

Dr. Faber holds a PhD in economics from the University of Zurich. He has over 35 years experience in the finance industry, including acting as manager of an investment bank in the United States in which he routinely performed financial analysis of a range of different companies. His current occupation is principal of Marc Faber Limited, an investment advisory firm and fund manager. He also acts as a director and advisor to a number of investment funds.

Kjeld Thygesen

Mr. Thygesen holds a bachelor of commerce, majoring in economics and accounting. He has been a resource investment analyst and fund manager for over 30 years. He has been the Managing Director of Lion Resource Management since 1989, and prior thereto was the Director, Natural Resources Department and fund manager for Rothschild Asset Management.

Audit Fees

Deloitte & Touche LLP, Chartered Accountants, will be nominated at the Meeting for re-appointment as auditors of the Corporation with their remuneration to be fixed by the Board of Directors. Deloitte & Touche LLP have been the Corporation's auditors since January 1995.

Fees billed by Deloitte & Touche LLP and its affiliates during fiscal 2008 and fiscal 2007 were approximately Cdn\$3,330,000 and Cdn\$1,838,000, respectively. The aggregate fees billed by the auditors in fiscal 2008 and fiscal 2007 are detailed below.

<i>(Canadian \$ in 000's)</i>	2008	2007
Audit Fees (a)	\$1,030	\$ 935
Audit Related Fees (b)	\$1,960	\$ 439
Tax Fees (c)	\$ 43	\$ 411
All Other Fees (d)	\$ 297	\$ 53
Total	\$3,330	\$1,838

(a) Fees for audit services billed or expected to be billed relating to fiscal 2008 and 2007 consisted of:

- audit of the Corporation's annual statutory financial statements; and
- audit of its subsidiaries (SouthGobi Energy Resources Ltd. and Ivanhoe Australia Limited), annual statutory financial statements.

In addition, in 2008 and 2007 fees were paid for services provided in connection with review pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the required attestations relating to internal controls.

(b) Fees for audit-related services provided during fiscal 2008 and 2007 consisted of:

- translation services;
- financial accounting and reporting consultations;
- reviews of IVN's quarterly financial statements; and
- comfort letters, consents, and other services related to SEC, Canadian and other securities regulatory authorities' matters.

The 2008 audit-related services were substantially higher than those incurred in 2007 due to the incursion of \$1,182,000 relating to services provided in respect of SouthGobi's potential Asian stock exchange listing and \$370,000 relating to services provided in respect of Ivanhoe Australia's initial public offering.

(c) Fees for tax services provided during fiscal 2008 and 2007 consisted of income tax compliance, and tax planning and advice relating to transactions and proposed transactions of the Corporation and its subsidiaries.

(d) The Corporation incurred fees of Cdn.\$297,000 for products and services provided by its principal accountant during fiscal 2008 and 2007 not disclosed in subsections (a), (b) or (c).

Pre-Approval Policies and Procedures

All services to be performed by the Corporation's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee ("Designated Member"). The Designated Member

is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any *de minimis* non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve a permitted service are reported to the Audit Committee at its regularly scheduled meetings.

Pre-approval from the Audit Committee or Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees.

Pursuant to these procedures, 100% of each of the services provided by the Corporation's external auditors relating to the fees reported as audit, audit-related, tax and all other fees were pre-approved by the Audit Committee or the Designated Member.

IVANHOE MINES LTD.
AUDIT COMMITTEE CHARTER

I. Purpose

The primary objective of the Audit Committee (the “Committee”) of Ivanhoe Mines Ltd. (the “Company”) is to act as a liaison between the Board and the Company’s independent auditors (the “Auditors”) and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by the Company to its shareholders, the public and others, (b) the Company’s compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) the Company’s risk management and internal financial and accounting controls, and management information systems.

Although the Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company’s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

The responsibilities of a member of the Committee are in addition to such member’s duties as a member of the Board.

II. Organization

The Committee shall consist of three or more directors and shall satisfy the laws governing the Company and the independence, financial literacy, expertise and experience requirements under applicable securities law, stock exchange and any other regulatory requirements applicable to the Company.

The members of the Committee and the Chair of the Committee shall be appointed by the Board on the recommendation of the Corporate Governance & Nominating Committee. A majority of the members of the Committee shall constitute a quorum. A majority of the members of the Committee shall be empowered to act on behalf of the Committee. Matters decided by the Committee shall be decided by majority votes. The chair of the Committee shall have an ordinary vote.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director.

The Committee may form and delegate authority to subcommittees when appropriate.

III. Meetings

The Committee shall meet as frequently as circumstances require, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company’s financial and

accounting officer(s) and the Auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

The Chair of the Committee shall be an independent chair who is not Chair of the Board. In the absence of the appointed Chair of the Committee at any meeting, the members shall elect a chair from those in attendance at the meeting. The Chair, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each upcoming meeting.

The Committee will appoint a Secretary who will keep minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. The Secretary for the Committee can be changed by simple notice from the Chair.

The Chair shall ensure that the agenda for each upcoming meeting of the Committee is circulated to each member of the Committee as well as the other directors in advance of the meeting.

The Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Company's accounting and financial officer(s) and the Auditors shall attend any meeting when requested to do so by the Chair of the Committee.

IV. Authority and Responsibilities

The Board, after consideration of the recommendation of the Committee, shall nominate the Auditors for appointment by the shareholders of the Company in accordance with applicable law. The Auditors report directly to the Audit Committee. The Auditors are ultimately accountable to the Committee and the Board as representatives of the shareholders.

The Committee shall have the following responsibilities:

(a) Auditors

1. Recommend to the Board the independent auditors to be nominated for appointment as Auditors of the Company at the Company's annual meeting and the remuneration to be paid to the Auditors for services performed during the preceding year; approve all auditing services to be provided by the Auditors; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.
2. When there is to be a change of the Auditor, review all issues related to the change, including any notices required under applicable securities law, stock exchange or other regulatory requirements, and the planned steps for an orderly transition.
3. Review the Auditor's audit plan and discuss the Auditor's scope, staffing, materiality, and general audit approach.
4. Review on an annual basis the performance of the Auditors, including the lead audit partner.

5. Take reasonable steps to confirm the independence of the Auditors, which include:
 - (a) Ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;
 - (b) Considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;
 - (c) Approving in advance any non-audit related services provided by the Auditor to the Company, and the fees for such services, with a view to ensure independence of the Auditor, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors; and
 - (d) As necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.
6. Review and approve any disclosures required to be included in periodic reports under applicable securities law, stock exchange and other regulatory requirements with respect to non-audit services.
7. Confirm with the Auditors and receive written confirmation at least once per year (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies in the United States, Australia and elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Audit Committee for confirmation as to their qualifications to act as the Company's Auditors.
8. Consider the tenure of the lead audit partner on the engagement in light of applicable securities law, stock exchange or applicable regulatory requirements.
9. Review all reports required to be submitted by the Auditors to the Committee under applicable securities laws, stock exchange or other regulatory requirements.
10. Receive all recommendations and explanations which the Auditors place before the Committee.

(b) Financial Statements and Financial Information

11. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to filing or distribution of such statements and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.

12. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's interim financial statements, including management's discussion and analysis, and the Auditor's review of interim financial statements, prior to filing or distribution of such statements.
13. Review any earnings press releases of the Company before the Company publicly discloses this information.
14. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information and extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.
15. Discuss with the Auditor the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit including:
 - (a) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices;
 - (b) the management letter provided by the Auditor and the Company's response to that letter; and
 - (c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management.
16. Discuss with management and the Auditors major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.
17. Prepare any report under applicable securities law, stock exchange or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company's annual proxy statement.

(c) Ongoing Reviews and Discussions with Management and Others

18. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.
19. Periodically review separately with each of management, the financial and accounting officer(s) and the Auditors; (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements, (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information and (c) management's response to each.

20. Periodically discuss with the Auditors, without management being present, (a) their judgments about the quality and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting and (b) the completeness and accuracy of the Company's financial statements.
21. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
22. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.
23. Enquire of the Company's financial and accounting officer(s) and the Auditors on any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company.
24. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.
25. Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e. discussion of the types of information to be disclosed and the types of presentations made).
26. Review and discuss with management any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.
27. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and policies.

(d) Risk Management and Internal Controls

28. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.

29. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.
30. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.
31. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to insure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.
32. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
33. Review the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting and (ii) the Auditors' attestation, and report, on the assessment made by management.
34. Review the appointment of the chief financial officer and any key financial executives involved in the financial reporting process and recommend to the Board any changes in such appointment.

(f) Other Responsibilities

35. Create an agenda for the ensuing year and confirm a timetable for the Audit Committee for the ensuing year.
36. Review and approve related-party transactions if required under applicable securities law, stock exchange or other regulatory requirements.
37. Review and approve (a) any change or waiver in the Company's code of ethics applicable to senior financial officers and (b) any disclosures made under applicable securities law, stock exchange or other regulatory requirements regarding such change or waiver.
38. Establish, review and approve policies for the hiring of employees or former employees of the Company's Auditors.
39. Review and reassess the duties and responsibilities set out in this Charter annually and recommend to the Corporate Governance & Nominating Committee and to the Board any changes deemed appropriate by the Committee.
40. Review its own performance annually, seeking input from management and the Board.
41. Perform any other activities consistent with this Charter, the Company's articles and by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

V. Reporting

The Committee shall report regularly to the Board and shall submit the minutes of all meetings of the Audit Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of the Company's financial and accounting group.

VI. Resources and Access to Information

The Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Committee.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct access to anyone in the organization and may request any officer or employee of the Company or the Company's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have access to any and all books and records of the Company necessary for the execution of the Committee's obligations.

The Committee shall consider the extent of funding necessary for payment of compensation to the Auditors for the purpose of rendering or issuing the annual audit report and recommend such compensation to the Board for approval. The Audit Committee shall determine the funding necessary for payment of compensation to any independent legal, accounting and other consultants retained to advise the Committee.

Report of Independent Registered Chartered Accountants and Consolidated Financial Statements of
IVANHOE MINES LTD.
December 31, 2008 and 2007

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Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
IVANHOE MINES LTD.

We have audited the accompanying consolidated balance sheets of Ivanhoe Mines Ltd. and subsidiaries (the “Company”) as at December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ivanhoe Mines Ltd. and subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2009 expressed an unqualified opinion on the Company’s internal control over financial reporting.

(signed) Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
March 30, 2009

**Comments by Independent Registered Chartered Accountants on Canada-United States
of America Reporting Difference**

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the changes described in Note 2 to the consolidated financial statements. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) our report to the Board of Directors and Shareholders, dated March 30, 2009, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the financial statements.

(signed) Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
March 30, 2009

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Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
IVANHOE MINES LTD.

We have audited the internal control over financial reporting of Ivanhoe Mines Ltd. and subsidiaries (the “Company”) as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated March 30, 2009 expressed an unqualified opinion on those financial statements and included a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference referring to changes in accounting principles.

(signed) Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
March 30, 2009

IVANHOE MINES LTD.
Consolidated Balance Sheets

	December 31,	
	2008	2007
	(Stated in thousands of U.S. dollars)	
ASSETS		
CURRENT		
Cash and cash equivalents (Note 6)	\$ 384,110	\$ 145,694
Accounts receivable (Note 7)	47,520	37,076
Inventories (Note 8)	16,136	1,996
Prepaid expenses	11,160	7,183
Other current assets	144	144
TOTAL CURRENT ASSETS	459,070	192,093
LONG-TERM INVESTMENTS (Note 9)	55,945	52,010
OTHER LONG-TERM INVESTMENTS (Note 10)	22,301	47,132
NOTE RECEIVABLE FROM RELATED PARTY (Note 11)	—	7,512
PROPERTY, PLANT AND EQUIPMENT (Note 12)	199,281	225,623
DEFERRED INCOME TAXES (Note 18)	—	770
OTHER ASSETS	5,605	5,030
TOTAL ASSETS	\$ 742,202	\$ 530,170
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 13)	\$ 41,103	\$ 109,310
Amounts due under credit facilities (Note 14)	15,963	17,050
TOTAL CURRENT LIABILITIES	57,066	126,360
CONVERTIBLE CREDIT FACILITY (Note 15)	349,128	137,854
LOANS PAYABLE TO RELATED PARTIES (Note 16)	—	5,088
DERIVATIVE CONTRACT (Note 17)	5,320	—
DEFERRED INCOME TAXES (Note 18)	9,512	1,511
ASSET RETIREMENT OBLIGATIONS (Note 19)	3,922	9,160
TOTAL LIABILITIES	424,948	279,973
COMMITMENTS AND CONTINGENCIES (Note 27)		
MINORITY INTERESTS (Note 20)	20,692	—
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 21)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
378,046,013 (2007 — 375,073,433) common shares	1,485,864	1,477,457
SHARE PURCHASE WARRANTS AND SHARE ISSUANCE COMMITMENT (Note 21(b) and(c))	32,560	26,619
BENEFICIAL CONVERSION FEATURE (Note 15)	28,883	11,869
ADDITIONAL PAID-IN CAPITAL	293,485	52,649
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Note 22)	(24,222)	17,498
DEFICIT	(1,520,008)	(1,335,895)
TOTAL SHAREHOLDERS' EQUITY	296,562	250,197
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	\$ 742,202	\$ 530,170

APPROVED BY THE BOARD:

/s/ D. Korbin	/s/ K. Thygesen
D. Korbin, Director	K. Thygesen, Director

The accompanying notes are an integral part of these consolidated financial statements.

IVANHOE MINES LTD.
Consolidated Statements of Operations

	Year Ended December 31,	
	2008	2007
	(Stated in thousands of U.S. dollars, except for share and per share amounts)	
REVENUE	\$ 3,126	\$ —
COST OF SALES		
Production and delivery	(1,931)	—
Depreciation and depletion	(314)	—
COST OF SALES	(2,245)	—
EXPENSES		
Exploration (Note 3 and 21(a))	(260,281)	(304,024)
General and administrative (Note 21(a))	(27,453)	(27,074)
Depreciation	(4,957)	(4,222)
Mining property care and maintenance	(10,342)	(6,533)
Accretion of convertible credit facility (Note 15)	(9,658)	(901)
Accretion of asset retirement obligations (Note 19)	(429)	(698)
Write-down of carrying values of property, plant and equipment	(515)	(1,078)
TOTAL EXPENSES	(315,880)	(344,530)
OPERATING LOSS	(312,754)	(344,530)
OTHER INCOME (EXPENSES)		
Interest income	13,182	12,936
Interest expense	(17,599)	(2,547)
Foreign exchange (losses) gains	(62,946)	11,891
Share of income from investment held for sale (Note 5)	—	427
Write-down of carrying value of investment held for sale (Note 5)	—	(134,309)
Write-down of carrying value of long-term investments (Note 9)	(7,103)	—
Write-down of carrying value of other long-term investments (Note 10)	(18,009)	(24,541)
Gain on sale of long-term investment and note receivable (Note 9)	201,428	1,018
Other (expense) income (Note 23)	(14,171)	—
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(217,972)	(479,655)
Provision for income taxes (Note 18)	(4,314)	(795)
Share of loss of significantly influenced investees (Note 9)	(10,092)	(9,165)
Minority interests (Note 20)	14,270	—
NET LOSS FROM CONTINUING OPERATIONS	(218,108)	(489,615)
INCOME FROM DISCONTINUED OPERATIONS (Note 4)	33,995	31,902
NET LOSS	\$(184,113)	\$(457,713)
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE FROM		
CONTINUING OPERATIONS	\$ (0.58)	\$ (1.31)
DISCONTINUED OPERATIONS	0.09	0.09
	\$ (0.49)	\$ (1.22)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000's)	375,801	374,504

The accompanying notes are an integral part of these consolidated financial statements.

IVANHOE MINES LTD.

Consolidated Statements of Shareholders' Equity

	Share Capital		Share Purchase Warrants and Share Issuance Commitment	Beneficial Conversion Feature	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Deficit	Total
	Number of Shares	Amount						
	(Stated in thousands of U.S. dollars, except for share amounts)							
Balances, December 31, 2006	373,463,637	\$1,462,039	\$23,062	\$ —	\$ 33,705	\$ 13,233	\$ (878,182)	\$ 653,857
Net loss	—	—	—	—	—	—	(457,713)	(457,713)
Other comprehensive income (Note 22)	—	—	—	—	—	4,265	—	4,265
Comprehensive loss								(453,448)
Shares issued for:								
Exercise of stock options	1,520,634	14,232	—	—	(4,372)	—	—	9,860
Bonus shares	57,741	830	—	—	—	—	—	830
Share purchase plan	28,561	331	—	—	—	—	—	331
Share purchase warrants	2,860	25	—	—	—	—	—	25
Convertible credit facility and share purchase warrants (Notes 15 and 21(c))	—	—	3,557	11,869	—	—	—	15,426
Dilution gains	—	—	—	—	6,073	—	—	6,073
Stock compensation charged to operations	—	—	—	—	17,243	—	—	17,243
Balances, December 31, 2007	375,073,433	\$1,477,457	\$26,619	\$11,869	\$ 52,649	\$ 17,498	\$(1,335,895)	\$ 250,197
Net loss	—	—	—	—	—	—	(184,113)	(184,113)
Other comprehensive loss (Note 22)	—	—	—	—	—	(41,720)	—	(41,720)
Comprehensive loss								(225,833)
Shares issued for:								
Acquisition of investment (Note 9(d)(v)), net of issue costs of \$31	2,224,698	4,339	—	—	—	—	—	4,339
Exercise of stock options	463,127	3,022	—	—	(1,663)	—	—	1,359
Private placement (Note 21(b))	243,772	612	—	—	—	—	—	612
Share purchase plan	40,983	434	—	—	—	—	—	434
Share purchase warrants (Note 21(b))	—	—	94	—	—	—	—	94
Convertible credit facility and share purchase warrants (Notes 15 and 21(c))	—	—	5,847	17,014	—	—	—	22,861
Dilution gains	—	—	—	—	213,285	—	—	213,285
Stock compensation charged to operations	—	—	—	—	29,214	—	—	29,214
Balances, December 31, 2008	378,046,013	\$1,485,864	\$32,560	\$28,883	\$293,485	\$(24,222)	\$(1,520,008)	\$ 296,562

The accompanying notes are an integral part of these consolidated financial statements.

IVANHOE MINES LTD.
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
	(Stated in thousands of U.S. dollars)	
OPERATING ACTIVITIES		
Cash used in operating activities (Note 24(a))	<u>\$(318,749)</u>	<u>\$(238,791)</u>
INVESTING ACTIVITIES		
Proceeds from sale of discontinued operations	29,230	20,314
Reclassification of other long-term investments (Note 10)	—	(70,691)
Purchase of long-term investments	(39,497)	(16,523)
Loan to related party (Note 11)	—	(7,014)
Proceeds from sale of long-term investments and note receivable (Note 9)	216,730	1,163
Cash reduction on commencement of equity accounting (Note 9(a))	(2,865)	—
Expenditures on property, plant and equipment	(143,897)	(93,581)
Proceeds from sale of property, plant and equipment (Note 12(f))	121,498	—
Expenditures on other assets	<u>(1,113)</u>	<u>(1,106)</u>
Cash provided by (used in) investing activities	<u>180,086</u>	<u>(167,438)</u>
FINANCING ACTIVITIES		
Proceeds from convertible credit facility (Note 15)	200,000	150,000
Proceeds from credit facilities (Note 14)	—	17,243
Issue of share capital	2,374	10,216
Repayment of loan payable to related party (Note 16)	(4,250)	—
Minority interests' investment in subsidiaries	<u>246,293</u>	<u>2,399</u>
Cash provided by financing activities	<u>444,417</u>	<u>179,858</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(67,338)</u>	<u>8,493</u>
NET CASH INFLOW (OUTFLOW)	238,416	(217,878)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>145,694</u>	<u>363,572</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 384,110</u>	<u>\$ 145,694</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash on hand and demand deposits	\$ 119,458	\$ 29,427
Short-term money market instruments	<u>264,652</u>	<u>116,267</u>
	<u>\$ 384,110</u>	<u>\$ 145,694</u>

Supplementary cash flow information (Note 24)

The accompanying notes are an integral part of these consolidated financial statements.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements (Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

1. NATURE OF OPERATIONS

Ivanhoe Mines Ltd. (the “Company”), together with its subsidiaries (collectively referred to as “Ivanhoe Mines”), is an international mineral exploration, development and production company holding interests in and conducting operations on mineral resource properties principally located in Central Asia and Australia.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles (“U.S. GAAP”). The significant accounting policies used in these consolidated financial statements are as follows:

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries. The principal subsidiaries of the Company are Ivanhoe Mines Mongolia Inc. (B.V.I.), Ivanhoe Australia Limited (83% owned) (“Ivanhoe Australia”), and SouthGobi Energy Resources Ltd. (B.C., Canada) (80% owned) (“SouthGobi”), and their respective subsidiaries.

Altynalmas Gold Ltd. (B.C., Canada) (“Altynalmas”), along with its subsidiary Bakyrchik Mining Venture (Kazakhstan) (“BMV”), ceased being a subsidiary of the Company in October 2008 and from October 3, 2008 onwards it has been accounted for as an equity method investment (Note 9 (a)). At December 31, 2008, Ivanhoe Mines owns 49% of Altynalmas.

On February 27, 2007, the investment held for sale ceased being accounted for using the equity method. From February 28, 2007 onwards, the investment held for sale has been accounted for under the cost method (Note 5).

All intercompany transactions and balances have been eliminated.

Variable Interest Entities (“VIE’s”), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (Revised 2003) (“FIN 46R”) “Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51”, are entities in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE’s are subject to consolidation by the primary beneficiary who will absorb the majority of the entities’ expected losses and/or expected residual returns.

(b) Measurement uncertainties

Generally accepted accounting principles require management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, among other things, the recoverability of accounts receivable and investments, the proven and probable ore reserves, the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of inventories, the provision for income taxes and composition of deferred income tax assets and deferred income tax liabilities, the expected economic lives of and the estimated future operating results and net cash flows from property, plant and equipment, depreciation and depletion, stock-based compensation, beneficial conversion feature, estimated fair value of share purchase warrants and share issuance commitment, estimated fair value of derivative contracts, and the anticipated costs and timing of asset retirement obligations.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements (Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

(c) Foreign currencies

The Company has determined the U.S. dollar to be its functional currency as it is the currency of the primary economic environment in which the Company and its subsidiaries operate. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in operations.

For foreign subsidiaries whose functional currency is the local currency, assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date, while revenues and expenses are translated at average rates in effect for the period. The related translation gains and losses are included in accumulated other comprehensive income (loss) within shareholders' equity. As a result of Ivanhoe Australia's initial public offering in August 2008, it was determined that Ivanhoe Australia's functional currency changed from the U.S. dollar to the Australian dollar.

(d) Revenue recognition

Sales revenues are recognized when the risks and rewards of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable. This occurs when coal is either loaded onto a train or truck or when it is unloaded at the final destination, depending on the terms of the sales contract.

(e) Cash and cash equivalents

Cash and cash equivalents include short-term money market instruments with terms to maturity, at the date of acquisition, not exceeding 90 days.

(f) Inventories

Stockpiles are valued at the lower of production cost and net realizable value. Production cost includes direct and indirect labour, operating materials and supplies, transportation costs, and an applicable portion of operating overhead, including depreciation. Net realizable value is the expected difference between the average selling price of the finished product less the costs to get the product into saleable form and to the selling location.

Mine stores and supplies are valued at the lower of the weighted average cost, less allowances for obsolescence, and replacement cost.

(g) Long-term investments

Long-term investments in companies in which Ivanhoe Mines has voting interests between 20% and 50%, or where Ivanhoe Mines has the ability to exercise significant influence, are accounted for using the equity method. Under this method, Ivanhoe Mines' share of the investees' earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends received are credited to the investment accounts.

The other long-term investments are classified as "available-for-sale" investments. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income as a separate component of shareholders' equity, unless the declines in market value are judged to be other than temporary, in which case the losses are recognized in income in the period. Realized gains and losses from the sale of these investments are included in income in the period.

(h) Exploration and development

All direct costs related to the acquisition of mineral property interests are capitalized in the period incurred.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements (Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

Generally, exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

Certain costs incurred constructing surface assets for an exploration shaft have been capitalized (Note 12 (b)). These surface assets included the shaft head frame, control room, hoisting equipment and ancillary facilities. The Company determined that these costs met the definition of an asset and that they were recoverable through salvage value or transfer of the assets to other locations. These costs were tested for impairment using estimated future cash flows based on reserves and resources beyond proven and probable reserves, in accordance with accounting policy Note 2 (i) for property, plant and equipment.

(i) Property, plant and equipment

Property, plant and equipment are carried at cost (including development and preproduction costs, capitalized interest, other financing costs and all direct administrative support costs incurred during the construction period, net of cost recoveries and incidental revenues), less accumulated depletion and depreciation including write-downs. Following the construction period, interest, other financing costs and administrative costs are expensed as incurred.

On the commencement of commercial production, depletion of each mining property is provided on the unit-of-production basis, using estimated proven and probable reserves as the depletion basis.

Property, plant and equipment are depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method or the straight-line method (over one to twenty years).

Capital works in progress are not depreciated until the capital asset has been put into operation.

Ivanhoe Mines reviews the carrying values of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. An impairment is considered to exist if total estimated future cash flows, or probability-weighted cash flows on an undiscounted basis, are less than the carrying value of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows associated with values beyond proven and probable reserves and resources. In estimating future cash flows, assets are grouped at the lowest level for which there is identifiable future cash flows that are largely independent of cash flows from other asset groups. Generally, in estimating future cash flows, all assets are grouped at a particular mine for which there is identifiable cash flows.

(j) Stripping costs

Stripping costs incurred during the production phase of a mine are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred.

(k) Asset retirement obligations

Ivanhoe Mines recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of that asset and the cost is amortized as an expense over the economic life of the related asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability 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
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

(l) Stock-based compensation

The Company has an Employees' and Directors' Equity Incentive Plan which is disclosed in Note 21. Under SFAS No. 123(R) the fair value of stock options at the date of grant is amortized to operations, with an offsetting credit to additional paid-in capital, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of additional paid-in capital are transferred to share capital.

(m) Deferred income taxes

The Company computes income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". SFAS 109 requires that the provision for deferred income taxes be based on the liability method. Deferred taxes arise from the recognition of the tax consequences of temporary differences by applying statutory tax rates applicable to future years to differences between the financial statement's carrying amounts and the tax bases of certain assets and liabilities. The Company records a valuation allowance against any portion of those deferred income tax assets that management believes will, more likely than not, fail to be realized.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation clarifies the recognition threshold and measurement of a tax position taken or expected to be taken on a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. No cumulative effect adjustment to the January 1, 2007 balance of the Company's deficit was required upon the implementation of FIN 48.

The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

(n) Loss per share

The Company follows SFAS No. 128, "Earnings Per Share", which requires the presentation of basic and diluted earnings per share. The basic loss per share is computed by dividing the net loss attributable to common stock by the weighted average number of common shares outstanding during the year. All stock options and share purchase warrants outstanding at each period end have been excluded from the weighted average share calculation. The effect of potentially dilutive stock options and share purchase warrants was antidilutive in the years ending December 31, 2008 and 2007.

The potentially dilutive shares excluded from the loss per share calculation due to antidilution are as follows:

	December 31,	
	2008	2007
Options	18,810,470	14,563,900
Share purchase warrants	128,493,450	127,053,044
Convertible credit facility	37,416,459	15,237,788
Total potentially dilutive shares	<u>184,720,379</u>	<u>156,854,732</u>

(o) Segmented reporting

The Company has two operating segments, its coal division located in Mongolia and Indonesia, and its exploration and development division with projects located primarily in Mongolia and Australia.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

(p) Accounting changes

- Effective January 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (“FAS 157”). In February 2008, the FASB issued a staff position that delays the effective date of FAS 157 for all nonfinancial assets and liabilities except those recognized or disclosed at least annually. Therefore, the Company has adopted the provision of FAS 157 with respect to its financial assets and liabilities only. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

In October 2008, the FASB staff issued FSP SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active” (“FSP FAS 157-3”), which clarifies the application of FAS 157 in an inactive market. The intent of this FSP is to provide guidance on how the fair value of a financial asset is to be determined when the market for that financial asset is inactive. FSP FAS 157-3 states that determining fair value in an inactive market depends on the facts and circumstances, requires the use of significant judgement and in some cases, observable inputs may require significant adjustment based on unobservable data. Regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make for non-performance and liquidity risks when determining the fair value of an asset in an inactive market. FSP FAS 157-3 was effective upon issuance. The Company has incorporated the principles of FSP FAS 157-3 in determining the fair value of financial assets when the market for those assets is not active.

Valuation techniques used to measure fair value under FAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of the fair value hierarchy under FAS 157 are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The adoption of this statement did not have a material impact on the Company’s financial position or results of operations. All fair value adjustments at December 31, 2008 represent assets or liabilities measured at fair value on a recurring basis. Fair values as of December 31, 2008, were calculated as follows:

	Fair Value at December 31, 2008			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Long-term investments	\$20,430	\$15,017	\$5,413	\$ —
Other long-term investments	<u>22,301</u>	<u>—</u>	<u>—</u>	<u>22,301</u>
	<u>\$42,731</u>	<u>\$15,017</u>	<u>\$5,413</u>	<u>\$22,301</u>
Liabilities:				
Derivative contract	<u>\$ 5,320</u>	<u>\$ —</u>	<u>\$5,320</u>	<u>\$ —</u>
	<u>\$ 5,320</u>	<u>\$ —</u>	<u>\$5,320</u>	<u>\$ —</u>

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

The Company’s long-term investments are classified within Level 1 and 2 of the fair value hierarchy as they are valued using quoted market prices of certain investments, as well as quoted prices for similar investments.

The Company’s other long-term investments are classified within Level 3 of the fair value hierarchy and consist of asset backed commercial paper.

The Company’s derivative contract is classified within Level 2 of the fair value hierarchy as it is determined using a Black-Scholes option pricing model, which uses readily observable market inputs, such as risk-free interest rates and volatility factors.

The table below sets forth a summary of changes in the fair value of the Company’s Level 3 financial assets (other long-term investments) for the year ended December 31, 2008.

Balance at beginning of year	\$ 47,132
Foreign exchange losses	(6,822)
Write-down of carrying value of other long-term investments	<u>(18,009)</u>
Balance at end of year	<u>\$ 22,301</u>

- Effective January 1, 2008, the Company adopted FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“FAS 159”) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not elect to apply the fair value option under this Statement to any instruments.

(q) Recent accounting pronouncements

- In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact that SFAS 141(R) may have on its financial position, results of operations, and cash flows.
- In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards pertaining to (i) the nature and classification of the noncontrolling interest in the Consolidated Statement of Financial Position, (ii) attributing net income and comprehensive income to the parent and the noncontrolling interest, (iii) changes in a parent’s ownership interest in a subsidiary, and (iv) the deconsolidation of subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS 160 requires the classification of the noncontrolling interest as a separate component of stockholders’ equity. The Company is currently assessing the impact that SFAS 160 may have on the financial position, results of operations, and cash flows.
- In November 2008, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 08-6, “Equity Method Investment Accounting Considerations” (“EITF 08-6”), which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 provides guidance on a number of factors, including, determination of the initial carrying value of an equity method investment, performing an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment, accounting for an equity method investee’s issuance of shares,

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements
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and accounting for a change in an investment from the equity method to the cost method. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact EITF 08-6 may have on its financial position, results of operations and cash flows.

- In May 2008, the FASB issued FASB Staff Position (“FSP”) No. APB 14-1, “Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”). FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless embedded conversion option is required to be separately accounted for as a derivative under FAS 133. Convertible debt instruments within the scope of FSP APB 14-1 are not addressed by the existing APB 14-1. FSP APB 14-1 requires that the liability and equity components of convertible debt instruments within the scope of FSP APB 14-1 be separately accounting for in a manner that reflects the entity’s nonconvertible borrowing rate. This requires an allocation of the convertible debt proceeds between the liability component and the embedded conversion option (i.e., the equity component). The difference between the principal amount of the debt and the amount of the proceeds allocated to the liability component will be reported as a debt discount and subsequently amortized to earnings over the instrument’s expected life using the effective interest method. FSP APB 14-1 is effective for fiscal years beginning on or after December 15, 2008 and will be applied retrospectively to all periods presented. The Company is currently assessing the impact of FSP APB 14-1 may have on its financial position, result of operations and cash flows.

3. EXPLORATION EXPENSES

Generally, exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, at which time subsequent exploration costs and the costs incurred to develop a property are capitalized. Included in exploration costs are engineering and development costs associated with the Company’s Oyu Tolgoi Project located in Mongolia. It is expected that the Company will commence capitalizing costs of this nature once an Investment Agreement with the Government of Mongolia is finalized.

Ivanhoe Mines incurred exploration and development costs as follows:

	<u>Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Mongolia		
Oyu Tolgoi	\$155,999	\$245,520
Coal Division	44,696	14,760
Other Mongolia Exploration	6,560	14,595
	207,255	274,875
Australia	46,457	22,096
Indonesia	4,547	3,669
Other	2,022	3,384
	<u>\$260,281</u>	<u>\$304,024</u>

4. DISCONTINUED OPERATIONS

In February 2005, Ivanhoe Mines sold the Savage River Iron Ore Project (the “Project”) in Tasmania, Australia for two initial payments totalling \$21.5 million, plus a series of five contingent, annual payments that commenced on March 31, 2006. The annual payments are based on annual iron ore pellet tonnes sold and an escalating price formula based on the prevailing annual Nibrasco/JSM pellet price.

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In 2006, Ivanhoe Mines received the first annual contingent payment of \$28.2 million. In 2007, Ivanhoe Mines received the second annual contingent payment of \$20.3 million. In 2008, Ivanhoe Mines received the third annual contingent payment of \$29.2 million. At December 31, 2008 Ivanhoe Mines has accrued \$28.0 million in relation to the fourth contingent annual payment due in March 2009.

To date, Ivanhoe Mines has received \$99.2 million in proceeds from the sale of the Project.

5. INVESTMENT HELD FOR SALE

As part of the agreement that established a strategic partnership with Rio Tinto International Holdings Ltd. (“Rio Tinto”) in 2006, Ivanhoe Mines agreed to divest all of its business interests and assets in Myanmar — including its indirect interest in the Monywa Copper Project — that were held through its Monywa subsidiary. On February 27, 2007, Ivanhoe Mines transferred ownership of the Monywa subsidiary to a company owned by an independent third-party trust (the “Trust”) in consideration for a promissory note. The sole purpose of the Trust is to sell the shares of the Monywa subsidiary to one or more arm’s-length third parties. Other than the promissory note, Ivanhoe Mines retains no interest in the Monywa subsidiary or any of its assets.

Upon transfer of the Myanmar assets to the Trust effective February 27, 2007, Ivanhoe Mines ceased accounting for the investment held for sale under the equity method due to an inability to exercise significant influence. The investment held for sale is now accounted for under the cost method.

At December 31, 2007, Ivanhoe Mines reviewed the carrying value of the investment held for sale and concluded it was impaired. As a result of this review Ivanhoe Mines recorded a \$134.3 million write-down of the carrying amount of the investment held for sale.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2008 included SouthGobi’s balance of \$10.3 million (December 31, 2007 — \$1.4 million) and Ivanhoe Australia’s balance of \$40.5 million (December 31, 2007 — \$0.1 million), which were not available for Ivanhoe Mines’ general corporate purposes.

7. ACCOUNTS RECEIVABLE

	December 31,	
	2008	2007
Contingent income (Note 4)	\$28,045	\$23,280
Trade receivables	1,743	—
Refundable taxes	13,988	12,537
Related parties (Note 25)	142	248
Accrued interest	3,090	361
Other	512	650
	\$47,520	\$37,076

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements
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8. INVENTORIES

	December 31,	
	2008	2007
Stockpiles	\$13,158	\$ —
Materials and supplies	2,978	1,996
	<u>\$16,136</u>	<u>\$1,996</u>

9. LONG-TERM INVESTMENTS

	December 31,	
	2008	2007
Investments in Companies subject to significant influence:		
Altynalmas Gold Ltd.(a)	\$31,290	\$ —
Exco Resources N.L.(b).	6,785	—
Jinshan Gold Mines Inc.(c)	—	5,354
Investments “available for sale”(d)	<u>17,870</u>	<u>46,656</u>
	<u>\$55,945</u>	<u>\$52,010</u>

(a) On October 3, 2008, Ivanhoe Mines closed an agreement with several strategic partners whereby Altynalmas issued shares to acquire a 100% participating interest in BMV and a 100% participating interest in Intergold Capital LLP (“IGC”). Both IGC and BMV are limited liability partnerships established under the laws of Kazakhstan that are engaged in the exploration and development of minerals in Kazakhstan. As a result of this transaction, Ivanhoe Mines’ investment in Altynalmas was diluted to 49%. Ivanhoe Mines ceased consolidating Altynalmas on October 3, 2008 and commenced equity accounting for its investment.

	December 31, 2008
Amount due from Altynalmas on commencement of equity accounting	\$ 51,112
Advances and accrued interest	<u>6,885</u>
Amount due from Altynalmas	57,997
Carrying amount of equity method investment on commencement of equity accounting	(20,438)
Equity losses	<u>(6,269)</u>
	<u>(26,707)</u>
Net investment in Altynalmas	<u>\$ 31,290</u>

Amounts advanced to Altynalmas bear interest compounded monthly at a rate per annum equal to the one month London Inter-bank Offered Rate plus 3.0% and are due on demand.

(b) During 2007, Ivanhoe Mines purchased 26.4 million common shares of Exco Resources N.L. (“Exco”) and 21.1 million Exco share purchase options for a total cost of \$6,726,000 (Aud\$7,920,000). Each Exco share purchase option was exercisable until June 1, 2008 to purchase an additional Exco common share at a price of Aud\$0.35.

During May 2008, Ivanhoe Mines exercised its full option entitlement of 21.1 million Exco share purchase options to acquire 21.1 million shares of Exco at a cost of \$6,926,000 (Aud\$7,392,000). Also during June 2008,

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Ivanhoe Mines acquired an additional 3.0 million shares of Exco at a cost of \$990,000 (Aud\$1,050,000). As a result of these purchases and the subsequent appointment of an Ivanhoe Mines' representative to the Board of Directors of Exco, Ivanhoe Mines commenced equity accounting for its investment in Exco on July 1, 2008. During 2008, Ivanhoe Mines recorded a \$3,015,000 (Aud\$4,291,000) equity loss on this investment. At December 31, 2008 the carrying value of Ivanhoe Mines' investment in Exco was greater than its share of the underlying book value of Exco's net assets by approximately \$1,662,000 (Aud\$2,572,000). This difference has resulted in an other-than-temporary impairment charge on Ivanhoe Mines investment in Exco of \$1,662,000. At December 31, 2008, the market value of Ivanhoe Mines' 19.9% investment in Exco was \$2,560,000 (Aud\$3,643,000).

- (c) During May 2008, Ivanhoe Mines completed the sale of 67.5 million shares of Jinshan Gold Mines Inc. ("Jinshan") and the Jinshan note receivable (Note 11) for total proceeds of \$216,730,000 (Cdn\$217,662,000). This transaction resulted in a gain on sale of \$201,428,000 being recognized.

During 2008, Ivanhoe Mines recorded a \$809,000 (2007 — \$9,165,000) equity loss on its investment in Jinshan.

- (d) Investments "available for sale"

	December 31, 2008				December 31, 2007			
	Equity Interest	Cost Basis	Unrealized Loss	Fair Value	Equity Interest	Cost Basis	Unrealized Gain	Fair Value
Entrée Gold Inc.(i)	14.6%	\$19,957	\$(8,635)	\$11,322	14.8%	\$19,957	\$13,354	\$33,311
Exco Resources N.L. (Note 9(b))	—	—	—	—	12.0%	6,726	2,075	8,801
Jinshan Gold Mines Inc.(ii)	0.9%	554	—	554	—	—	—	—
Intec Ltd. (iii)	6.1%	521	—	521	6.1%	916	1,726	2,642
GoviEx Gold Inc.(iv)	1.5%	1,043	—	1,043	—	—	—	—
Ivanhoe Nickel & Platinum Ltd.(v)	1.9%	4,370	—	4,370	—	—	—	—
Other(vi)	—	60	—	60	—	1,559	343	1,902
		<u>\$26,505</u>	<u>\$(8,635)</u>	<u>\$17,870</u>		<u>\$29,158</u>	<u>\$17,498</u>	<u>\$46,656</u>

- (i) During 2007, Ivanhoe Mines exercised 2.5 million share purchase warrants of Entrée Gold Inc. ("Entrée") to acquire 1.2 million shares of Entrée at a cost of \$3,340,000 (Cdn\$3,552,000).

Also during 2007 Ivanhoe Mines acquired an additional 2.1 million shares of Entrée at a total cost of \$6,460,000 (Cdn\$6,385,000).

- (ii) During 2008, Ivanhoe Mines exercised its full warrant entitlement of 1.5 million Jinshan warrants to acquire 1.5 million shares of Jinshan at a cost of \$3,776,000 (Cdn\$3,750,000).

Also during 2008, Ivanhoe Mines recorded an other-than-temporary impairment of \$3,223,000 against this investment based on an assessment of the fair value of Jinshan.

- (iii) During 2008, Ivanhoe Mines acquired 6.9 million shares of Intec Ltd. ("Intec") at a cost of \$328,000 (Aud\$343,000).

Also during 2008, Ivanhoe Mines recorded an other-than-temporary impairment of \$724,000 against this investment based on an assessment of the fair value of Intec.

During 2007, Ivanhoe Mines sold 5.4 million shares of Intec for \$1,163,000. These transactions resulted in a gain on sale of \$1,018,000 being recognized.

- (iv) During 2008, Ivanhoe Mines acquired 1.0 million shares of GoviEx Gold Inc. ("GoviEx") in exchange for a geophysics exploration team and certain mineral exploration equipment.

Also during 2008, Ivanhoe Mines acquired an additional 42,500 shares of GoviEx at a cost of \$43,000.

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- (v) During 2008, Ivanhoe Mines acquired 1.0 million common shares of Ivanhoe Nickel and Platinum Ltd. (“Ivanplats”) and 3.4 million Ivanplats special warrants in exchange for 2.2 million common shares of Ivanhoe Mines.
- (vi) During 2008, Ivanhoe Mines recorded an other-than-temporary impairment of \$1,451,000 against the investment in Redox Diamonds Ltd. (“Redox”) based on an assessment of the underlying fair value of Redox’s net assets.

Also during 2008, Ivanhoe Mines recorded an other-than-temporary impairment of \$43,000 against other investments based on an assessment of their fair values.

10. OTHER LONG-TERM INVESTMENTS

At December 31, 2008, the Company held non-bank-sponsored asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$60.2 million. This ABCP was rated by DBRS as R-1 (high) at the date of investment and met the criteria of the Company’s investment policy. An R-1 (high) rating by DBRS is the highest rating for commercial paper. These investments matured during the third quarter of 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity.

On August 16, 2007, it was announced that a group representing banks, asset providers and major investors had agreed to a standstill with regard to all non-bank sponsored ABCP (the “Montreal Proposal”). Under the proposal, the affected ABCP was to be converted into term floating-rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for investors to continue to roll their ABCP during the standstill period. The Company was not a signatory to this agreement.

On September 6, 2007, a pan-Canadian restructuring committee (the “Committee”) consisting of major investors was formed to propose a solution to the liquidity problem affecting the ABCP market. On March 17, 2008, the Committee filed an application in the Ontario Superior Court of Justice (the “Court”) under the Companies’ Creditors Arrangement Act asking the Court to call a meeting of the ABCP noteholders. On March 20, 2008, the Committee made available additional documents outlining the details of the proposed restructuring plan. On April 25, 2008, the plan was approved by the noteholders and was sanctioned by the Court in June 5, 2008 (the “Sanction Order”). On June 25 and 26, 2008, the Court of Appeal for Ontario heard motions from a group of Montreal Proposal ABCP holders seeking leave to appeal, and an appeal of, the Sanction Order (the “Appeal”). The Appeal was heard and a denial decision was rendered on August 18, 2008. Some of these noteholders (including Ivanhoe Mines) sought leave to appeal that decision to the Supreme Court of Canada (the “SCC”). On September 19, 2008, the SCC announced that it would not grant leave to hear the appeal. On December 24, 2008, an agreement was reached with all key stakeholders to amend the terms of the Committee Restructuring Plan (the “Amended Plan”).

On January 12, 2009, the Court granted the Amended Plan Implementation Order. On January 21, 2009, the Amended Plan restructuring was completed. Upon closing of the Amended Plan, the Company received:

- \$22.7 million of MAV2 Class A-1 Notes;
- \$22.7 million of MAV2 Class A-2 Notes;
- \$4.1 million of MAV2 Class B Notes;
- \$1.5 million of MAV2 Class C Notes;
- \$1.3 million of MAV2 IA Class 1 Notes;
- \$1.0 million of MAV2 IA Class 2 Notes;
- \$0.9 million of MAV2 IA Class 3 Notes;
- \$1.2 million of MAV2 IA Class 13 Notes;

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- \$1.6 million of MAV3 TA Class 14 Notes; and
- \$3.2 million of MAV3 TA Class 25 Notes.

There is a significant amount of judgment required in estimating the amount and timing of cash flows associated with the new long-term notes. The Company has estimated the fair value of the notes considering information provided on the restructuring, the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

The Company has used a discounted cash flow approach to value the notes incorporating the following assumptions:

Accrued Interest from August 2007:	\$2.7 million
Bankers Acceptance Rate:	1.5%
Discount Rates:	9% to 25%
Maturity Dates:	7.92 years
Expected Return of Principal:	
A-1 Notes	100%
A-2 Notes	100%
B Notes	10%
C Notes	0%
IA Notes	0%
TA Notes	100%

Based on the discounted cash flow model as at December 31, 2008, the fair value of the Company's long-term notes was estimated at \$22.3 million. As a result of this valuation, the Company recorded a write-down of \$18.0 million in the fourth quarter of 2008 in addition to the \$24.5 million recorded in 2007.

Continuing uncertainties regarding the value of the assets that underlie the notes, the amount and timing of cash flows and changes in general economic conditions could give rise to a further change in the fair value of the Company's investment in the notes, which would impact the Company's results from operations. A 1.0% increase, representing 100 basis points, in the discount rate will decrease the fair value of the long-term notes by approximately \$1.5 million.

11. NOTE RECEIVABLE FROM RELATED PARTY

On June 26, 2007, Ivanhoe Mines participated in Jinshan's private placement of senior unsecured promissory notes. Ivanhoe Mines purchased \$7.0 million (Cdn\$7.5 million) of units. Each unit consisted of one promissory note and 200 transferable share purchase warrants. Each note had a par value of Cdn\$1,000 and earned 12% interest per annum, paid quarterly. Each warrant was exercisable into one common share for twenty-four months from the date of closing and had an exercise price of Cdn\$2.50 per share.

Ivanhoe Mines disposed of the Jinshan note receivable as part of the transaction that took place in May 2008 (Note 9(c)). As a part of the Jinshan sale transaction, Ivanhoe Mines retained the share purchase warrants and subsequently exercised its entitlement (Note 9(d)(ii)) in June 2008.

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12. PROPERTY, PLANT AND EQUIPMENT

	December 31,					
	2008			2007		
	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value
Mining properties						
Bakyrchik Mining Venture, Kazakhstan(a)	\$ —	\$ —	\$ —	\$ 87,541	\$ (87,541)	\$ —
Mining plant and equipment						
Bakyrchik Mining Venture, Kazakhstan(a)	\$ —	\$ —	\$ —	\$ 3,107	\$ (3,107)	\$ —
Other mineral property interests						
Oyu Tolgoi, Mongolia(b)	\$ 43,860	\$ (6,274)	\$ 37,586	\$ 43,740	\$ (6,255)	\$ 37,485
Ovoot Tolgoi, Mongolia(c)	13,969	(64)	13,905	416	(53)	363
Cloncurry, Australia(d)	20,291	(126)	20,165	6,293	(126)	6,167
Mamahak, Indonesia(e)	13,182	—	13,182	—	—	—
Other exploration projects	1,270	(62)	1,208	1,271	(62)	1,209
	<u>\$ 92,572</u>	<u>\$ (6,526)</u>	<u>\$ 86,046</u>	<u>\$ 51,720</u>	<u>\$ (6,496)</u>	<u>\$ 45,224</u>
Other capital assets						
Oyu Tolgoi, Mongolia(b)	\$ 17,925	\$(10,736)	\$ 7,189	\$ 23,614	\$ (9,634)	\$ 13,980
Ovoot Tolgoi, Mongolia(c)	42,833	(437)	42,396	1,393	(269)	1,124
Cloncurry, Australia(d)	3,364	(706)	2,658	2,745	(400)	2,345
Other exploration projects	6,547	(5,825)	722	2,187	(1,793)	394
	<u>\$ 70,669</u>	<u>\$(17,704)</u>	<u>\$ 52,965</u>	<u>\$ 29,939</u>	<u>\$ (12,096)</u>	<u>\$ 17,843</u>
Capital works in progress						
Oyu Tolgoi, Mongolia(b)(f)	\$ 53,466	\$ —	\$ 53,466	\$144,878	\$ —	\$144,878
Ovoot Tolgoi, Mongolia(c)	6,804	—	6,804	—	—	—
Bakyrchik Mining Venture, Kazakhstan(a)	—	—	—	17,678	—	17,678
	<u>\$ 60,270</u>	<u>\$ —</u>	<u>\$ 60,270</u>	<u>\$162,556</u>	<u>\$ —</u>	<u>\$162,556</u>
	<u>\$223,511</u>	<u>\$(24,230)</u>	<u>\$199,281</u>	<u>\$334,863</u>	<u>\$(109,240)</u>	<u>\$225,623</u>

(a) Ivanhoe Mines placed the Bakyrchik Mining Venture on a care and maintenance basis in 1998. As a result of the transaction described in Note 9 (a), the Bakyrchik Mining Venture ceased being consolidated on October 3, 2008.

(b) Ivanhoe Mines has a 100% interest in the Oyu Tolgoi copper-gold project located in Mongolia. In 2007, the project's four mining licenses were re-issued as Special Permits for Mining, which are each valid for 30 years and may be extended two times for 20 years per extension.

Capital works in progress at December 31, 2008 consisted mainly of surface assets being constructed at Oyu Tolgoi for Shaft No. 1, Shaft No. 2, and the concentrator.

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A significant portion of exploration expenses incurred during the year relate directly to the development of Oyu Tolgoi. Included in exploration expenses are shaft sinking, engineering, and development costs that have been expensed and not capitalized (Note 3).

- (c) Ivanhoe Mines, through its majority owned subsidiary, SouthGobi, holds a 100% interest in the Ovoot Tolgoi coal project located in Mongolia. In 2007, the Ovoot Tolgoi coal project's mining license was granted for its open-pit coal mine, which is valid for 30 years. In 2008, SouthGobi received its permit to mine for the Ovoot Tolgoi open pit operations.
- (d) Ivanhoe Mines through its majority owned subsidiary, Ivanhoe Australia, owns certain copper-gold and uranium mining and exploration leases in Queensland, Australia.
- (e) Ivanhoe Mines, through its majority owned subsidiary, SouthGobi, holds a 85% working interest in the Mamahak coal project located in Indonesia.
- (f) During 2008, Ivanhoe Mines received \$121.5 million from Rio Tinto from the sale of large equipment to be used in the construction of the Oyu Tolgoi copper and gold mining complex in Mongolia under an equipment-sale agreement that was executed in August 2008 between Ivanhoe Mines and Rio Tinto. Rio Tinto can require Ivanhoe Mines to purchase the equipment that has been sold to Rio Tinto — and any other equipment purchased by Rio Tinto as part of this agreement — if an acceptable Investment Agreement is reached with the Government of Mongolia. Ivanhoe Mines also has a right of first refusal to repurchase the equipment if Rio Tinto deems it appropriate to use the equipment elsewhere.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31,	
	2008	2007
Accounts payable	\$24,449	\$ 55,349
Payroll and other employee related payables	617	974
Accrued construction costs	12,820	49,008
Amounts payable to related parties (Note 25).	3,217	3,979
	\$41,103	\$109,310

14. AMOUNTS DUE UNDER CREDIT FACILITIES

In October 2007, Ivanhoe Mines obtained non-revolving bank loans which are due on demand and secured against certain of the ABCP products (Note 10).

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15. CONVERTIBLE CREDIT FACILITY

	December 31,	
	2008	2007
Principal amount of convertible credit facility	\$350,000	\$150,000
Accrued interest	24,165	2,379
	374,165	152,379
(Deduct) add		
Beneficial conversion feature	(28,883)	(11,869)
Share purchase warrants	(9,403)	(3,557)
Accretion of discount	13,249	901
	<u>\$349,128</u>	<u>\$137,854</u>

In September 2007, Rio Tinto provided Ivanhoe Mines with a \$350.0 million convertible credit facility to finance ongoing mine development activities at the Oyu Tolgoi Project pending the finalization of an Investment Agreement between Ivanhoe Mines and the Government of Mongolia. In October 2007, Ivanhoe Mines made an initial draw against the credit facility of \$150.0 million. A second draw of \$100.0 million was made in January 2008. The final draw on the credit facility of \$100.0 million was made in April 2008.

The proceeds of the credit facility were used to ensure that long-lead-time orders for the manufacture of mining equipment such as trucks, tires, electric motors and ball mills, and development work at Oyu Tolgoi, remained on schedule pending a satisfactory conclusion of an Investment Agreement with the Mongolian Government.

Amounts advanced under the credit facility bear interest at a rate per annum equal to the three-month London Inter-Bank Offered Rate plus 3.3%, and mature on September 12, 2010. The outstanding principal amount and up to \$108.0 million in interest are convertible into a maximum of 45.8 million common shares of Ivanhoe Mines at a price of US\$10.00 per share and will be automatically converted into common shares upon maturity.

As part of the credit facility transaction, Rio Tinto also received share purchase warrants exercisable to purchase up to 35.0 million common shares of Ivanhoe Mines at a price of US\$10.00 per share for a period of five years (Note 21 (c)). These warrants may be exercised on a basis proportionate to the amount of funds drawn down by Ivanhoe Mines under the credit facility, plus interest.

Amounts drawn on the credit facility are allocated to the convertible credit facility liability and incremental exercisable share purchase warrants based on their respective fair values at the time of the draw. The existence of a beneficial conversion feature is then assessed using an effective conversion price based on the proceeds allocated to the convertible credit facility liability in accordance with EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments".

Allocating proceeds to share purchase warrants and, if necessary, a beneficial conversion feature results in discounts on the convertible credit facility liability. These discounts are recognized as accretion expense over the life of the credit facility using the effective interest rate method. Any unamortized balance of the beneficial conversion feature discount will be expensed immediately upon conversion of the credit facility.

The accounting treatment for paid-in-kind interest is the same as that described above for amounts drawn on the credit facility.

During 2008, Ivanhoe Mines capitalized \$4.7 million of interest expense and \$2.7 million of accretion expense incurred on the convertible credit facility.

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16. LOANS PAYABLE TO RELATED PARTIES

These loans were payable to the Chairman of the Company or a company controlled by him. They were non-interest bearing, unsecured and repayable in U.S. dollars. Repayment of these loans had been postponed until Ivanhoe Mines received an aggregate of \$111.1 million from the sale of the Savage River Project. At December 31, 2008, \$99.2 million has been received from the sale with a further \$28.0 million accrued as receivable (Note 4 and 7). During 2008, Ivanhoe Mines discharged the obligation and recorded a gain of \$838,000 on settlement of the debt.

17. DERIVATIVE CONTRACT

In November 2008, Ivanhoe Mines entered into a Share Purchase Agreement with a third party (the "Transferor") to acquire two million shares of SouthGobi for an initial payment of \$7.0 million. Contemporaneously, Ivanhoe Mines entered into an Option Agreement which provides the Transferor with the option to acquire up to two million SouthGobi shares from Ivanhoe Mines at any time on or before the third anniversary of the agreements at an escalating price agreed upon in the Option Agreement.

The Option Agreement is a freestanding contract indexed to the stock of a consolidated subsidiary and is initially recorded at fair value and subsequently marked to fair value through earnings in accordance with EITF 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary".

The fair value of the option was determined using a Black-Scholes option pricing model, using the following assumptions at December 31, 2008:

	2008
Risk-free interest rate	1.05%
Expected life	1.4 years
Expected volatility	84%
Expected dividends	\$ Nil

During 2008, Ivanhoe Mines recorded a derivative loss of \$3.2 million on the Option Agreement.

18. INCOME TAXES

As referred to in Note 2(b), Ivanhoe Mines must make significant estimates in respect of its provision for income taxes and the composition of its deferred income tax assets and liabilities. Ivanhoe Mines' operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question that may, upon resolution in the future, result in adjustments to the amount of deferred income tax assets and liabilities, and those adjustments may be material to Ivanhoe Mines' financial position and results of operations.

Ivanhoe Mines' provision for income and capital taxes for continuing operations consists of the following:

	Years Ended December 31,	
	2008	2007
Deferred income taxes	\$4,003	\$585
Capital taxes	311	210
	\$4,314	\$795

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Deferred income tax assets and liabilities for continuing operations at December 31, 2008 and 2007 arise from the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Deferred income tax assets		
Long-term investments	\$ 35,375	\$ 3,764
Loss carry-forwards	250,429	306,570
Other	<u>12,792</u>	<u>8,351</u>
	298,596	318,685
Valuation allowance	<u>(298,596)</u>	<u>(317,915)</u>
Net deferred income tax assets	<u>—</u>	<u>770</u>
Deferred income tax liabilities		
Property, plant and equipment	9,512	1,230
Long-term investments	<u>—</u>	<u>281</u>
	<u>9,512</u>	<u>1,511</u>
Deferred income tax liabilities, net	<u>\$ 9,512</u>	<u>\$ 741</u>

A reconciliation of the provision for income and capital taxes for continuing operations is as follows:

	<u>Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Recovery of income taxes based on the combined Canadian federal and provincial statutory tax rates of 31.0% in 2008 and 34.1% in 2007 applied to the net loss from continuing operations	\$ 66,276	\$ 166,785
Deduct		
Lower foreign tax rates	(13,593)	(9,912)
Tax benefit of losses not recognized	(57,376)	(151,267)
Non-taxable portion of realized capital gains	24,714	—
Capital taxes	(311)	(210)
Foreign exchange and other	<u>(24,024)</u>	<u>(6,191)</u>
Provision for income and capital taxes	<u>\$ (4,314)</u>	<u>\$ (795)</u>

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At December 31, 2008, Ivanhoe Mines had the following unused tax losses from continuing operations, for which no deferred income tax assets had been recognized:

		<u>Local Currency</u>	<u>U.S. Dollar Equivalent(i)</u>	<u>Expiry Dates</u>
Non-capital losses:				
Canada	Canadian	\$ 147,040	\$120,644	2009 to 2028
Australia	Australian	\$ 93,569	\$ 65,741	(a)
Mongolia	Mongolian Tugrik	975,849,140	\$760,149	(b)
Mongolia	Mongolian Tugrik	41,997,934	\$ 32,715	2009 to 2018
Mongolia	Mongolian Tugrik	50,223,018	\$ 39,122	2009 to 2010
Indonesia	Indonesian Rupiah	137,714,378	\$ 12,384	2012 to 2013
Singapore	Singapore	\$ 3,442	\$ 2,406	(a)

(i) Translated using the year-end exchange rate.

(a) These losses are carried forward indefinitely, subject to continuity of ownership and business tests.

(b) These losses are carried forward until production from a mine commences; thereafter, they can be amortized on a straight-line basis over a period of ten years.

Ivanhoe Mines also has deductible temporary differences and unused tax losses in certain other foreign jurisdictions that are not disclosed above, as it is currently highly unlikely that these items will be utilized.

Ivanhoe Mines had no unrecognized tax benefits as of December 31, 2008 and 2007. Under current conditions and expectations, management does not foresee any significant changes in unrecognized tax benefits that would have a material impact on the Company's financial statements.

During 2008 and 2007, Ivanhoe Mines did not recognize any accrued interest or penalties related to unrecognized tax benefits within the statement of operations or balance sheet.

Ivanhoe Mines is subject to taxes in Canada, Mongolia, Australia, Indonesia and various foreign countries. The tax years of major tax jurisdictions which remain subject to examination as of December 31, 2008 are as follows:

Canada	2001 to 2008
Mongolia	2000 to 2008
Australia	2003 to 2008
Indonesia	2006 to 2008

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19. ASSET RETIREMENT OBLIGATIONS

	December 31,	
	2008	2007
Balance, beginning of year	\$ 9,160	\$6,353
Increase (decrease) in obligations for:		
Changes in estimates	2,582	1,866
Amounts incurred	(11)	—
Foreign exchange	(546)	243
Accretion expense	429	698
Reduction on commencement of equity accounting (Note 9(a))	(7,692)	—
Balance, end of year	\$ 3,922	\$9,160

The total undiscounted amount of estimated cash flows required to settle the obligations is \$20.1 million (2007 — \$34.1 million), which has been discounted using credit adjusted risk free rates ranging from 5.6% to 11.3%. The majority of reclamation obligations are not expected to be paid for several years and will be funded from Ivanhoe Mines' cash balances and environmental bonds restricted for the purpose of settling asset retirement obligations.

20. MINORITY INTERESTS

At December 31, 2008 there were minority interests in SouthGobi and Ivanhoe Australia. Altynalmas, along with its subsidiary BMV, ceased being consolidated on October 3, 2008 (Note 9 (a)).

	Minority Interests		
	SouthGobi	Ivanhoe Australia	Total
Balance, December 31, 2006 and December 31, 2007	\$ —	\$ —	\$ —
Increase in minority interests arising from share issuances by subsidiaries	28,847	8,784	37,631
Minority interests' share of loss	(11,224)	(3,046)	(14,270)
Minority interests' share of other comprehensive loss (Note 22)	—	(2,669)	(2,669)
Balance, December 31, 2008	\$ 17,623	\$ 3,069	\$ 20,692

21. SHARE CAPITAL

(a) Equity Incentive Plan

The Company has an Employees' and Directors' Equity Incentive Plan (the "Equity Incentive Plan"), which includes three components: (i) a Share Option Plan; (ii) a Share Bonus Plan; and (iii) a Share Purchase Plan.

(i) The Share Option Plan authorizes the Board of Directors of the Company to grant options to directors and employees of Ivanhoe Mines to acquire Common Shares of the Company at a price based on the weighted average trading price of the Common Shares for the five days preceding the date of the grant. Options vest over four years and have five year contractual terms unless otherwise determined from time to time by the Board of Directors, on the recommendation of the Compensation and Benefits Committee. The Share Option Plan also provides that these options may, upon approval of the Board of Directors, be converted into stock appreciation rights.

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(ii) The Share Bonus Plan permits the Board of Directors of the Company to authorize the issuance, from time to time, of Common Shares of the Company to employees of the Company and its affiliates.

(iii) The Share Purchase Plan entitles each eligible employee of Ivanhoe Mines to contribute up to seven percent of each employee's annual basic salary in semi-monthly instalments. At the end of each calendar quarter, each employee participating in the Share Purchase Plan is issued Common Shares of the Company equal to 1.5 times the aggregate amount contributed by the participant, based on the weighted average trading price of the Common Shares during the preceding three months.

The Company is authorized to issue a maximum of 37,000,000 Common Shares pursuant to the Equity Incentive Plan. At December 31, 2008, an aggregate of 439,893 Common Shares were available for future grants of awards under the plan.

Under SFAS No. 123(R), the value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the option award and stock price volatility. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behaviour. Expected volatility is based on the historical volatility of the Company's stock. These estimates involve inherent uncertainties and the application of management judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest. As a result, if other assumptions had been used, the recorded stock-based compensation expense could have been materially different from that reported.

The weighted average grant-date fair value of stock options granted during 2008 and 2007 was Cdn\$2.50 and Cdn\$5.39, respectively. The fair value of these options was determined using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	2.86%	4.10%
Expected life	3.6 years	3.2 years
Expected volatility	57%	51%
Expected dividends	\$ Nil	\$ Nil

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

A summary of stock option activity and information concerning outstanding and exercisable options at December 31, 2008 is as follows:

	<u>Options Outstanding</u>		<u>Weighted Average Exercise Price</u> (Expressed in Canadian dollars)
	<u>Options Available for Grant</u>	<u>Number of Common Shares</u>	
Balances, December 31, 2006	2,961,648	13,644,434	\$ 8.99
Increase in amount authorized	5,000,000	—	—
Options granted	(2,915,500)	2,915,500	13.45
Options exercised	—	(1,520,634)	7.15
Options cancelled	475,400	(475,400)	8.32
Bonus shares	(57,741)	—	—
Shares issued under share purchase plan	(28,561)	—	—
Balances, December 31, 2007	5,435,246	14,563,900	\$10.10
Options granted	(5,604,070)	5,604,070	5.68
Options exercised	—	(707,800)	5.70
Options cancelled	649,700	(649,700)	7.49
Shares issued under share purchase plan	(40,983)	—	—
Balances, December 31, 2008	<u>439,893</u>	<u>18,810,470</u>	<u>\$ 9.04</u>

At December 31, 2008, the U.S. dollar equivalent of the weighted average exercise price was \$7.42 (December 31, 2007 — \$10.12).

The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007 was \$3.6 million and \$9.5 million, respectively.

As at December 31, 2008, options vested and expected to vest totalled 18,810,470 (December 31, 2007 — 14,563,900) and had an aggregate intrinsic value of \$0.9 million (December 31, 2007 — \$10.2 million).

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Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

The following table summarizes information concerning outstanding and exercisable options at December 31, 2008:

<u>Range of Exercise Prices</u> (Expressed in Canadian dollars)	Options Outstanding			Options Exercisable	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life (in years)</u>	<u>Weighted Average Exercise Price per Share</u> (Expressed in Canadian dollars)	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price per Share</u> (Expressed in Canadian dollars)
\$ 2.82 to \$ 3.50	2,558,070	6.87	\$ 2.82	—	\$ —
\$ 3.51 to \$ 7.69	754,500	1.65	7.23	442,700	7.38
\$ 7.70 to \$ 8.20	1,558,000	3.96	7.87	1,345,000	7.86
\$ 8.21 to \$ 8.99	3,183,000	4.01	8.42	590,000	8.73
\$ 9.00 to \$10.27	6,589,700	4.10	9.73	4,470,200	9.73
\$10.28 to \$12.70	1,712,200	4.47	12.22	1,319,600	12.28
\$12.71 to \$16.79	2,455,000	5.35	13.52	796,500	13.51
	<u>18,810,470</u>	<u>4.55</u>	<u>\$ 9.04</u>	<u>8,964,000</u>	<u>\$ 9.98</u>

As at December 31, 2008 there was \$24.2 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 1.9 years.

As at December 31, 2008 the aggregate intrinsic value for fully vested stock options was \$Nil (December 31, 2007 — \$10.3 million).

Stock-based compensation charged to operations was allocated between exploration expenses and general and administrative expenses as follows:

	Year Ended December 31,	
	2008	2007
Exploration	\$20,542	\$11,669
General and administrative	8,672	5,574
	\$29,214	\$17,243

Stock-based compensation charged to operations was incurred by Ivanhoe Mines as follows:

	Year Ended December 31,	
	2008	2007
Ivanhoe Mines Ltd.	\$13,106	\$10,416
SouthGobi Energy Resources Ltd.	7,506	6,827
Ivanhoe Australia Ltd.	8,602	—
	\$29,214	\$17,243

(b) Rio Tinto Placement

In 2006, Ivanhoe Mines and Rio Tinto formed a strategic partnership whereby Rio Tinto would invest in Ivanhoe Mines and form a joint Ivanhoe Mines — Rio Tinto Technical Committee, to engineer, construct and

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements (Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

operate Ivanhoe Mines's Oyu Tolgoi project in Mongolia. The agreement provides for Rio Tinto to make investments in the equity of Ivanhoe Mines, under defined conditions, totalling approximately \$1.5 billion.

In October 2006, Rio Tinto completed a first private placement tranche under the agreement by purchasing approximately 37.1 million shares at a price of \$8.18 per share, for proceeds totalling \$303.4 million.

Rio Tinto will take up a \$388.0 million second tranche private placement following the satisfactory conclusion of an Investment Agreement for the Oyu Tolgoi Project between Ivanhoe Mines and the Mongolian Government. Rio Tinto has the option to exercise the second tranche earlier.

In addition to the two private placements, Rio Tinto was granted 92,053,044 warrants, divided into two series. The lives of these warrants are determined by the date an approved Investment Agreement is reached. The Warrant Determination Date within the warrant terms presented below is the earlier of the date an approved Investment Agreement is reached or October 27, 2009.

The 46,026,522 Series A Warrants are non-transferable. Each warrant entitles Rio Tinto to purchase one Common Share of the Company at a price of:

- (i) \$8.38 during the period commencing November 30, 2006 and ending 180 days following the Warrant Determination Date; and
- (ii) \$8.54 during the period commencing 181 days after the Warrant Determination Date and ending 365 days after the Warrant Determination Date.

The 46,026,522 Series B Warrants are non-transferable. Each warrant entitles Rio Tinto to purchase one Common Share of the Company at a price of:

- (i) \$8.38 during the period commencing November 30, 2006 and ending 180 days following the Warrant Determination Date;
- (ii) \$8.54 during the period commencing 181 days after the Warrant Determination Date and ending 365 days after the Warrant Determination Date;
- (iii) \$8.88 during the period commencing 366 days after the Warrant Determination Date and ending 545 days after the Warrant Determination Date; and
- (iv) \$9.02 during the period commencing 546 days after the Warrant Determination Date and ending 725 days after the Warrant Determination Date.

During 2008, Rio Tinto received 243,772 shares and 1,440,406 additional share purchase warrants (the "Anti-Dilution Warrants"), divided into two series. The lives of the Anti-Dilution Warrants are identical to the Series A Warrants and Series B Warrants above. Each Anti-Dilution Warrant entitles Rio Tinto to purchase one Common Share of the Company at a price of Cdn\$3.15.

Ivanhoe Mines has recorded an amount of \$23.2 million in shareholders' equity, attributable to the fair value of the Rio Tinto share purchase warrants and second tranche share issuance commitment. As at December 31, 2008, all of the Series A Warrants, Series B Warrants and Anti-Dilution Warrants were outstanding.

(c) Rio Tinto Financing

As part of the credit facility transaction disclosed in Note 15, Rio Tinto received share purchase warrants exercisable to purchase up to 35.0 million common shares of Ivanhoe Mines at a price of US\$10.00 per share at any time on or before October 24, 2012. These warrants may be exercised on a basis proportionate to the sum of all amounts drawn down on the facility and interest added to the principal amount of the facility. As at December 31, 2008, 35.0 million share purchase warrants were exercisable.

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Notes to the Consolidated Financial Statements
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22. ACCUMULATED OTHER COMPREHENSIVE INCOME

	December 31,	
	2008	2007
Accumulated OCI at beginning of year		
Investments, net of tax of \$nil, \$nil	\$ 17,498	\$13,233
Currency translation adjustment, net of tax of \$nil, \$nil.	—	—
Non-controlling interests	—	—
	\$ 17,498	\$13,233
Other comprehensive (loss) income for the year:		
Changes in fair value of investments	\$(35,703)	\$ 5,235
Currency translation adjustments	(18,256)	—
Non-controlling interests	2,669	—
Less: reclassification adjustments for gains/losses recorded in earnings:		
Investments:		
Other than temporary impairment charges	3,990	—
Gains realized on sale	—	(970)
Less: reclassification on commencement of equity accounting:		
Exco Resources N.L. (Note 9(b))	5,580	—
Other comprehensive (loss) income, before tax	(41,720)	4,265
Income tax recovery (expense) related to OCI	—	—
Other comprehensive (loss) income, net of tax	\$(41,720)	\$ 4,265
Accumulated OCI at end of year		
Investments, net of tax of \$nil, \$nil	\$ (8,635)	\$17,498
Currency translation adjustment, net of tax of \$nil, \$nil.	(18,256)	—
Non-controlling interests (Note 20)	2,669	—
	\$(24,222)	\$17,498

23. OTHER INCOME/EXPENSE

	December 31,	
	2008	2007
Gain on sale of equipment (Note 9(d)(v))	\$ 911	\$ —
Loss on sale of equipment (Note 12(f))	(5,996)	—
Loss on derivative contract (Note 17)	(3,209)	—
Gain on settlement of debt (Note 16)	838	—
Listing fees — SouthGobi	(6,715)	—
Balance, end of year	\$(14,171)	\$ —

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Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

24. CASH FLOW INFORMATION

(a) Reconciliation of net loss to net cash flow used in operating activities

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Net loss	\$(184,113)	\$(457,713)
Income from discontinued operations	(33,995)	(31,902)
Items not involving use of cash		
Stock-based compensation	29,214	17,243
Accretion expense	10,087	1,599
Accrued mining property care and maintenance	448	—
Depreciation	5,271	4,222
Write-down of carrying values of property, plant and equipment	6,080	1,078
Share of income from investment held for sale, net of cash distribution	—	23,428
Write-down of carrying value of investment held for sale	—	134,309
Accrued interest income	(3,646)	(982)
Accrued interest expense	17,054	2,378
Unrealized foreign exchange losses (gains)	57,790	(9,270)
Share of loss of significantly influenced investees	10,092	9,165
Write-down of carrying value of other long-term investments	18,009	24,541
Gain on sale of long-term investments	(201,428)	(1,018)
Write-down of carrying value of long-term investments	7,103	—
Write-down of carrying value of loan receivable	—	908
Loss on derivative contract	3,209	—
Gain on settlement of debt	(838)	—
Gain on sale of equipment	(911)	—
Loss on sale of equipment	5,996	—
Deferred income taxes	4,003	585
Minority interests	(14,270)	—
Bonus shares	—	830
Net change in non-cash operating working capital items:		
(Increase) decrease in:		
Accounts receivable	(2,688)	(749)
Inventories	(11,616)	3,317
Prepaid expenses	(4,669)	473
Other current assets	—	142
(Decrease) increase in:		
Accounts payable and accrued liabilities	(34,931)	38,625
Cash used in operating activities	<u>\$(318,749)</u>	<u>\$(238,791)</u>

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements
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(b) Other supplementary information

	Years Ended December 31,	
	2008	2007
Interest paid	\$470	\$169
Income taxes paid	\$311	\$210

25. OTHER RELATED PARTY TRANSACTIONS

The following tables summarize related party expenses incurred by Ivanhoe Mines, primarily on a cost-recovery basis, with an officer of a subsidiary of Ivanhoe Mines, a company subject to significant influence by Ivanhoe Mines, a company affiliated with Ivanhoe Mines, or with companies related by way of directors or shareholders in common. The tables summarize the transactions with related parties and the types of expenditures incurred with related parties:

	Years Ended December 31,	
	2008	2007
Global Mining Management Corporation(a)	\$ 8,147	\$ 8,577
Ivanhoe Capital Aviation LLC(b)	3,840	3,840
Fognani & Faught, PLLC(c)	621	1,583
Ivanhoe Capital Pte. Ltd.(d)	—	10
Ivanhoe Capital Services Ltd.(e)	601	958
Rio Tinto plc(f)	4,783	1,330
	<u>\$17,992</u>	<u>\$16,298</u>

	Years Ended December 31,	
	2008	2007
Exploration	\$ 4,783	\$ 1,330
Legal	621	1,583
Office and administrative	2,451	2,756
Salaries and benefits	6,297	6,789
Travel (including aircraft rental)	3,840	3,840
	<u>\$17,992</u>	<u>\$16,298</u>

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.

Accounts receivable and accounts payable at December 31, 2008, included \$142,000 and \$3,217,000, respectively (December 31, 2007 — \$248,000 and \$3,979,000, respectively), which were due from/to a company under common control, a company affiliated with Ivanhoe Mines, or companies related by way of directors in common.

(a) Global Mining Management Corporation (“Global”) is a private company based in Vancouver owned equally by seven companies, one of which is Ivanhoe Mines. Global has a director in common with the Company. Global provides administration, accounting, and other office services to the Company on a cost-recovery basis.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

(b) Ivanhoe Capital Aviation LLC (“Aviation”) is a private company 100% owned by the Company’s Chairman. Aviation operates an aircraft which is rented by the Company on a cost-recovery basis.

(c) An officer of a subsidiary of Ivanhoe Mines is a partner with Fognani & Faught, PLLC, a legal firm which provides legal services to Ivanhoe Mines.

(d) Ivanhoe Capital Pte. Ltd. (“ICPL”) is a private company 100% owned by the Company’s Chairman. ICPL provides administration, accounting, and other office services in Singapore and London on a cost-recovery basis.

(e) Ivanhoe Capital Services Ltd. (“ICS”) is a private company 100% owned by the Company’s Chairman. ICS provides management services out of Singapore and London on a cost-recovery basis.

(f) Rio Tinto owns 9.9% of Ivanhoe Mines. Rio Tinto provides engineering related services for the Oyu Tolgoi Project on a cost-recovery basis.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

26. SEGMENT DISCLOSURES

	<u>Year Ended December 31, 2008</u>			
	<u>Exploration</u>	<u>Coal</u>	<u>Corporate</u>	<u>Consolidated</u>
REVENUE	\$ —	\$ 3,126	\$ —	\$ 3,126
COST OF SALES				
Production and delivery	—	(1,931)	—	(1,931)
Depreciation and depletion	—	(314)	—	(314)
COST OF SALES	<u>—</u>	<u>(2,245)</u>	<u>—</u>	<u>(2,245)</u>
EXPENSES				
Exploration	(207,673)	(52,608)	—	(260,281)
General and administrative	—	—	(27,453)	(27,453)
Depreciation	(4,133)	(244)	(580)	(4,957)
Mining property care and maintenance	—	—	(10,342)	(10,342)
Accretion of convertible credit facility	—	—	(9,658)	(9,658)
Accretion of asset retirement obligations	(75)	(10)	(344)	(429)
Write-down of carrying values of property, plant and equipment	(7)	(504)	(4)	(515)
TOTAL EXPENSES	<u>(211,888)</u>	<u>(55,611)</u>	<u>(48,381)</u>	<u>(315,880)</u>
OPERATING LOSS	<u>(211,888)</u>	<u>(52,485)</u>	<u>(48,381)</u>	<u>(312,754)</u>
OTHER INCOME (EXPENSES)				
Interest income	1,396	1,857	9,929	13,182
Interest expense	—	—	(17,599)	(17,599)
Foreign exchange (losses) gains	(1,483)	(4,630)	(56,833)	(62,946)
Share of income from investment held for sale	—	—	—	—
Write-down of carrying value of investment held for sale	—	—	—	—
Write-down of carrying value of long-term investments	(1,662)	—	(5,441)	(7,103)
Write-down of carrying value of other long-term investments	—	—	(18,009)	(18,009)
Gain on sale of long-term investment and note receivable	—	—	201,428	201,428
Other (expense) income	(5,996)	(6,715)	(1,460)	(14,171)
(LOSS) INCOME BEFORE INCOME TAXES AND OTHER ITEMS	(219,633)	(61,973)	63,634	(217,972)
Provision for income taxes	(88)	(121)	(4,105)	(4,314)
Share of loss of significantly influenced investees	(3,015)	—	(7,077)	(10,092)
Minority interests	3,046	—	11,224	14,270
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(219,690)	(62,094)	63,676	(218,108)
INCOME FROM DISCONTINUED OPERATIONS	—	—	33,995	33,995
NET (LOSS) INCOME	<u>\$(219,690)</u>	<u>\$(62,094)</u>	<u>\$ 97,671</u>	<u>\$(184,113)</u>
CAPITAL EXPENDITURES	<u>\$ 63,947</u>	<u>\$ 62,496</u>	<u>\$ 17,454</u>	<u>\$ 143,897</u>
TOTAL ASSETS	<u>\$ 206,349</u>	<u>\$110,523</u>	<u>\$425,329</u>	<u>\$ 742,202</u>

During the year ended December 31, 2008, all of the coal division's revenue arose from coal sales in Mongolia to two customers. Total revenues by customer were \$1.9 million and \$1.2 million.

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Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

	Year Ended December 31, 2007			
	Exploration	Coal	Corporate	Consolidated
REVENUE	\$ —	\$ —	\$ —	\$ —
COST OF SALES				
Production and delivery	—	—	—	—
Depreciation and depletion	—	—	—	—
COST OF SALES	—	—	—	—
EXPENSES				
Exploration	(280,862)	(23,162)	—	(304,024)
General and administrative	—	—	(27,074)	(27,074)
Depreciation	(3,633)	(64)	(525)	(4,222)
Mining property care and maintenance	—	—	(6,533)	(6,533)
Accretion of convertible credit facility	—	—	(901)	(901)
Accretion of asset retirement obligations	(417)	—	(281)	(698)
Write-down of carrying values of property, plant and equipment	(9)	—	(1,069)	(1,078)
TOTAL EXPENSES	<u>(284,921)</u>	<u>(23,226)</u>	<u>(36,383)</u>	<u>(344,530)</u>
OPERATING LOSS	<u>(284,921)</u>	<u>(23,226)</u>	<u>(36,383)</u>	<u>(344,530)</u>
OTHER INCOME (EXPENSES)				
Interest income	103	44	12,789	12,936
Interest expense	—	—	(2,547)	(2,547)
Foreign exchange (losses) gains	(5,872)	48	17,715	11,891
Share of income from investment held for sale	—	—	427	427
Write-down of carrying value of investment held for sale	—	—	(134,309)	(134,309)
Write-down of carrying value of long-term investments	—	—	—	—
Write-down of carrying value of other long-term investments	—	—	(24,541)	(24,541)
Gain on sale of long-term investment and note receivable	—	—	1,018	1,018
Other (expense) income	—	—	—	—
(LOSS) INCOME BEFORE INCOME TAXES AND OTHER ITEMS	(290,690)	(23,134)	(165,831)	(479,655)
Provision for income taxes	(166)	—	(629)	(795)
Share of loss of significantly influenced investees	—	—	(9,165)	(9,165)
Minority interests	—	—	—	—
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	(290,856)	(23,134)	(175,625)	(489,615)
INCOME FROM DISCONTINUED OPERATIONS	—	—	31,902	31,902
NET (LOSS) INCOME	<u>\$(290,856)</u>	<u>\$(23,134)</u>	<u>\$(143,723)</u>	<u>\$(457,713)</u>
CAPITAL EXPENDITURES	<u>\$ 79,146</u>	<u>\$ 1,031</u>	<u>\$ 13,404</u>	<u>\$ 93,581</u>
TOTAL ASSETS	<u>\$ 261,339</u>	<u>\$ 5,565</u>	<u>\$ 263,266</u>	<u>\$ 530,170</u>

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Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

	December 31,	
	2008	2007
Property, plant and equipment at the end of the year:		
Mongolia	\$161,346	\$197,830
Australia	22,823	8,512
Indonesia	13,182	—
Kazakhstan	—	17,678
Canada	341	860
Other	1,589	743
	<u>\$199,281</u>	<u>\$225,623</u>

27. COMMITMENTS AND CONTINGENCIES

Ivanhoe Mines has, in the normal course of its business, entered into various long-term contracts, which include commitments for future operating payments under contracts for drilling, engineering, equipment rentals and other arrangements as follows:

2009	\$40,039
2010	2,079
2011	1,733
2012	1,642
2013 onwards	<u>1,368</u>
	<u>\$46,861</u>

As a result of the equipment-sale agreement (Note 12 (f)), Ivanhoe Mines may be obligated to purchase the equipment that has been sold to Rio Tinto — and any other equipment purchased by Rio Tinto as part of the agreement — once an acceptable Investment Agreement is reached with the Government of Mongolia.

28. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

(a) The estimated fair value of Ivanhoe Mines' financial instruments was as follows:

	December 31,			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$384,110	\$384,110	\$145,694	\$145,694
Accounts receivable	47,520	47,520	37,076	37,076
Other current assets	144	144	144	144
Long-term investments	55,945	78,427	52,010	231,217
Other long-term investments	22,301	22,301	47,132	47,132
Note receivable from related party	—	—	7,512	7,512
Accounts payable and accrued liabilities	41,103	41,103	109,310	109,310
Amounts due under credit facilities	15,963	15,963	17,050	17,050
Loans payable to related parties	—	—	5,088	4,625
Derivative contract	5,320	5,320	—	—

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Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

The fair value of Ivanhoe Mines' long-term investments was determined by reference to published market quotations, which may not be reflective of future values.

The fair value of Ivanhoe Mines' other long-term investments, consisting of ABCP, was determined by considering the best available data regarding market conditions for such investments, which may not be reflective of future values.

The fair value of loans payable to related parties was estimated by discounting future payments to their present value.

The fair values of Ivanhoe Mines' remaining financial instruments were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity of these financial instruments.

(b) Ivanhoe Mines is exposed to credit risk with respect to its accounts receivable. The significant concentrations of credit risk are situated in Mongolia and Australia. Ivanhoe Mines does not mitigate the balance of this risk in light of the credit worthiness of its major debtors.

(c) Ivanhoe Mines is exposed to interest rate risk with respect to the variable rates of interest incurred on the convertible credit facility (Note 15) and amounts due under credit facilities (Note 14). Interest rate risk is concentrated in Canada. Ivanhoe Mines does not mitigate the balance of this risk.

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

(Stated in U.S. dollars except where noted)

INTRODUCTION

This discussion and analysis of the financial condition and results of operations (MD&A) of Ivanhoe Mines Ltd. should be read in conjunction with the audited consolidated financial statements of Ivanhoe Mines Ltd. and the notes thereto for the year ended December 31, 2008. These financial statements have been prepared in accordance with United States of America generally accepted accounting principles (U.S. GAAP). In this MD&A, unless the context otherwise dictates, a reference to the Company refers to Ivanhoe Mines Ltd. and a reference to Ivanhoe Mines refers to Ivanhoe Mines Ltd., together with its subsidiaries.

Additional information about the Company, including its Annual Information Form, is available at www.sedar.com.

References to "C\$" refer to Canadian dollars, "A\$" to Australian dollars, and "\$" to United States dollars.

This MD&A contains forward-looking statements. Please refer to the cautionary language on page 44.

The effective date of this MD&A is March 31, 2009.

OVERVIEW

HIGHLIGHTS

- **Completion of an Investment Agreement for the development of the Oyu Tolgoi copper-gold mining complex will continue to be a principal priority for Mongolia's coalition government when the Parliament reconvenes during the first week of April in its 2009 spring session. A draft agreement was approved in principle by the Mongolian Cabinet and National Security Council in March and Ivanhoe Mines is awaiting Parliament's review and approval.**
- **In December 2008, Ivanhoe Mines discovered a new zone of high-grade gold and copper mineralization at Oyu Tolgoi, between the previously discovered Heruga Deposit and the Southwest Oyu Deposit.**
- **The Oyu Tolgoi mineralized structural corridor, as currently defined, now has a total strike length in excess of 20 kilometres — encompassing Oyu Tolgoi in the centre and more recent extensions to the south and north onto the joint Ivanhoe-Entrée agreement area.**
- **Ivanhoe Mines' 80%-owned subsidiary, SouthGobi Energy Resources (SouthGobi) (SGQ — TSX.V), commenced sales of high-quality thermal coal at its Ovoot Tolgoi mine in southern Mongolia in September 2008.**
- **SouthGobi received an initial NI 43-101 resource report for its Mamahak metallurgical coal project in East Kalimantan, Indonesia. SouthGobi is studying the opportunity to begin surface coal mining at the Mamahak Project later this year.**
- **Ivanhoe Mines' 83%-owned subsidiary, Ivanhoe Australia Limited (Ivanhoe Australia) (IVA — ASX), has discovered a new, high-grade molybdenum and rhenium deposit at its Merlin Project on its Cloncurry tenements in northwestern Queensland. Drilling continues to encounter significant intercepts of high-grade molybdenum and rhenium and expand the size of the deposit, which is open along strike and to depth.**
- **Ivanhoe Australia has significantly expanded the mineralization of its Swan high-grade copper-gold zone at the Mount Elliott Project.**

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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- **Ivanhoe Mines, together with several Kazakh strategic partners, is advancing the Altynalmas Gold Project in Kazakhstan.**
- **In May 2008, Ivanhoe Mines sold its shareholdings of Jinshan Gold Mines. Proceeds received totalled \$216.7 million. Ivanhoe Mines recorded a \$201.4 million gain on the sale of its interest in Jinshan in Q2'08.**
- **Ivanhoe Mines incurred \$260.3 million in exploration and mine development expenses in 2008, down from \$304.0 million in 2007.**

FINANCIAL RESULTS

Ivanhoe Mines is primarily engaged in exploration activities, although a significant portion of its expenditures relate directly to development work at its Oyu Tolgoi Project. Exploration costs are charged to operations in the period incurred and often represent the bulk of Ivanhoe Mines' operating loss for that period. Ivanhoe Mines expects to commence capitalizing Oyu Tolgoi construction and development costs once an Investment Agreement is finalized with the Government of Mongolia.

In 2008, Ivanhoe Mines recorded a net loss of \$184.1 million (or \$0.49 per share), compared to a net loss of \$457.7 million (or \$1.22 per share) in 2007, representing a decrease of \$273.6 million. Results for 2008 were mainly affected by \$260.3 million in exploration expenses, \$27.5 million in general and administrative expenses, \$17.6 million in interest expense, \$62.9 million in mainly unrealized foreign exchange losses, offset by a \$201.4 million gain on the sale of the Company's controlling stake in Jinshan Gold Mines Inc. and \$34.0 million in income from discontinued operations.

Exploration expense of \$260.3 million in 2008 decreased \$43.7 million from \$304.0 million in 2007. The exploration expenses included \$207.3 million spent in Mongolia, primarily for Oyu Tolgoi and Ovoot Tolgoi (\$274.9 million in 2007), and \$46.5 million incurred by Ivanhoe Australia (\$22.1 million in 2007).

Ivanhoe Mines' cash position, on a consolidated basis at December 31, 2008, was approximately \$384.1 million.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
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SELECTED ANNUAL FINANCIAL INFORMATION

This selected financial information is in accordance with U.S. GAAP as presented in the annual consolidated financial statements.

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(\$ in millions of U.S. dollars, except per share information)		
Revenue	\$ 3.1	\$ —	\$ —
Exploration expenses	(260.3)	(304.0)	(213.0)
General and administrative	(27.5)	(27.1)	(28.2)
Foreign exchange (losses) gains	(62.9)	11.9	0.4
Gain on sale of long-term investment and note receivable	201.4	1.0	2.7
Write-down of carrying value of investment held for sale	—	(134.3)	—
Write-down of carrying value of long-term investments	(7.1)	—	(1.0)
Write-down of carrying value of other long-term investments	(18.0)	(24.5)	—
Net loss from continuing operations	\$(218.1)	\$(489.6)	\$(218.3)
Net income from discontinued operations	<u>34.0</u>	<u>31.9</u>	<u>19.6</u>
Net loss	<u>\$(184.1)</u>	<u>\$(457.7)</u>	<u>\$(198.7)</u>
Net loss per share from continuing operations	\$ (0.58)	\$ (1.31)	\$ (0.65)
Net income per share from discontinued operations	<u>0.09</u>	<u>0.09</u>	<u>0.06</u>
Net loss per share	<u>\$ (0.49)</u>	<u>\$ (1.22)</u>	<u>\$ (0.59)</u>
Total assets	<u>\$ 742.2</u>	<u>\$ 530.2</u>	<u>\$ 703.2</u>
Total long-term financial liabilities	<u>\$ 354.4</u>	<u>\$ 142.9</u>	<u>\$ 5.1</u>

REVIEW OF OPERATIONS

Ivanhoe Mines is an international mining company with operations in Central Asia and the Asia Pacific region. Principal assets include:

- Ivanhoe Mines' 100%-owned Oyu Tolgoi Copper and Gold Project in southern Mongolia.
- Ivanhoe Mines' 80% stake in SouthGobi, which is producing and selling coal from its Ovoot Tolgoi Mine in southern Mongolia to customers in China and has ongoing exploration and development programs at several other Mongolian and Indonesian coal prospects.
- Ivanhoe Mines' 83% stake in Ivanhoe Australia, which is exploring its Cloncurry Iron-Oxide-Copper-Gold (IOCG) Project in Queensland, Australia.
- Ivanhoe Mines' 49% interest in Altynalmas Gold which owns the Bakyrchik Gold Mine in Kazakhstan.

Ivanhoe Mines is primarily engaged in exploration activities, although a significant portion of its expenditures relate directly to development work at its Oyu Tolgoi Project. Exploration costs are charged to operations in the period incurred and often represent the bulk of Ivanhoe Mines' operating loss for that period. Ivanhoe Mines expects to commence capitalizing Oyu Tolgoi development costs once an Investment Agreement is finalized with the Government of Mongolia.

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Exploration expense of \$260.3 million in 2008 decreased \$43.7 million from \$304.0 million in 2007. The exploration expenses included \$207.3 million spent in Mongolia, primarily for Oyu Tolgoi and Ovoot Tolgoi (\$274.9 million in 2007), and \$46.5 million incurred by Ivanhoe Australia (\$22.1 million in 2007).

Ivanhoe Mines' cash position, on a consolidated basis at December 31, 2008, was approximately \$384.1 million.

Ivanhoe Mines, like other companies, is monitoring the developments in capital markets that have added new conditions and restraints on access to debt and equity financing. The Company is reviewing its 2009 capital investment program. Ivanhoe Mines is prepared to reconsider its projected pre-construction spending on the Oyu Tolgoi Project and if, necessary, act decisively to further curtail spending if sufficient progress is not made toward the timely conclusion of an Investment Agreement with the Mongolian Government.

Ivanhoe Mines remains focused on the completion of an Investment Agreement that is necessary to begin construction of the Oyu Tolgoi Project. Finalization of an Investment Agreement was delayed by a series of Mongolian political events during the past year, including a mid-year national general election. However, in February 2009, Ivanhoe Mines and its strategic partner, Rio Tinto, negotiated a draft Investment Agreement with a new Working Group appointed by the Mongolian Government. The draft Investment Agreement was approved in principle by the Cabinet and the National Security Council and has been introduced into the State Great Khural, Mongolia's national Parliament. Parliament's consideration of the draft agreement began in March 2009 during an extended special session. Following the expiration of the second session and requests by some Members of Parliament for additional clarification and review, the discussion was adjourned to the regular spring session of Parliament scheduled to begin in early April 2009.

A. EXPLORATION ACTIVITIES

In 2008, Ivanhoe Mines expensed \$260.3 million in exploration and development activities, compared to \$304.0 million in 2007. In 2008, Ivanhoe Mines' exploration activities were largely focused in Mongolia and Australia.

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(Stated in U.S. dollars except where noted)

Summary of exploration and development expenditures by location:

	Years Ended December 31,	
	2008	2007
	(\$000's of U.S. dollars)	
Mongolia		
Oyu Tolgoi	\$155,999	\$245,520
Coal Division	44,696	14,760
Other Mongolia Exploration	<u>6,560</u>	<u>14,595</u>
	207,255	274,875
Australia	46,457	22,096
Indonesia	4,547	3,669
Other	<u>2,022</u>	<u>3,384</u>
	<u>\$260,281</u>	<u>\$304,024</u>

MONGOLIA

OYU TOLGOI COPPER-GOLD PROJECT

The Oyu Tolgoi Project is approximately 550 kilometres south of Ulaanbaatar and 80 kilometres north of the Mongolia-China border. Mineralization on the property consists of copper, gold and molybdenum contained in a porphyry system that has been established to date along a structural corridor that extends over 20 kilometres. Mineral resources have been identified in a series of deposits along this corridor, including the Southern Oyu group of deposits, the Hugo Dummett Deposit and the Heruga Deposit. In March 2008, an updated Oyu Tolgoi Technical Report prepared by GRD Minproc Limited was released. This estimate can be found in the 2008 Annual Information Form on www.sedar.com.

In 2008, Ivanhoe Mines incurred exploration expenses of \$156.0 million at Oyu Tolgoi compared to the \$245.5 million incurred in 2007. The \$156.0 million included a significant portion of expenditures related directly to development work. It is expected that Ivanhoe Mines will commence capitalizing Oyu Tolgoi development costs once an Investment Agreement is finalized with the Government of Mongolia.

Oyu Tolgoi awaiting an approved Investment Agreement

For several years now, the completion of an acceptable Investment Agreement with the Government of Mongolia for the development of the Oyu Tolgoi Project has been a priority for Ivanhoe Mines.

Mongolia's Minerals Law provides for the completion of Investment Agreements to establish long-term stability of taxation and other fiscal policies and assurances regarding the operational environment necessary for new mine developments. Any eventual Investment Agreement will be reviewed and approved by the State Great Khural, which is Mongolia's national Parliament.

An initial draft Investment Agreement was negotiated by Ivanhoe Mines and its strategic partner, Rio Tinto, with the Government of Mongolia in 2007. While this draft agreement was reviewed by a Parliamentary standing committee in late 2007, it subsequently was withdrawn by Prime Minister S. Bayar in December 2007, ahead of the June 2008 general election, for review and evaluation by an independent international expert.

The governing Mongolian People's Revolutionary Party (MPRP) won a clear majority in the June 2008 election, gaining more than 60% of the 76 seats in Parliament. Following the election, the MPRP and opposition

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Democratic Party (DP) agreed to establish a coalition government. Under the terms of the coalition government, the MPRP holds 60% of the cabinet seats, with 40% allocated to DP members. An action plan adopted by the coalition government assigned a high priority to ensuring that large, strategic mineral deposits, including the Oyu Tolgoi Project, are put into economic production.

In January 2009, Ivanhoe Mines and Rio Tinto re-started negotiations with a newly formed Government Working Group for a competitive Investment Agreement that would recognize the realities of the current international investment environment and the economic benefits inherent in the development of the Oyu Tolgoi Project.

In late February 2009, the negotiators reached agreement on an acceptable draft Investment Agreement and a companion Shareholders' Agreement. The draft agreements were reviewed and approved in principle by the Cabinet and the National Security Council. Following the completion of negotiations, each page of the draft Investment Agreement was initialled by representatives of the Mongolian Cabinet and of Ivanhoe Mines Mongolia Inc. before the document was presented to Parliament as part of the final approval process.

In March, the draft agreement was introduced into Parliament, which was meeting in an extraordinary winter session to address budgetary measures related to the international financial crisis, and also the anticipated Oyu Tolgoi agreement.

On March 13, after an initial review of the Oyu Tolgoi Investment Agreement by the Parliament's Standing Committee on Economics, the Parliament announced that the extension of the winter session would adjourn and that further discussions regarding the agreements would resume during the regular spring session in early April. A news release issued by the Parliament's press office stated, in part, that resumption of the review of the Oyu Tolgoi Investment Agreement would be placed "at the top of the government's action agenda to help ensure that new investment is directed to Mongolia and new jobs are created for Mongolians to help our economy weather the present international financial crisis."

The release also stated: "The coalition government believes that the draft agreement represents a significant step forward in the development of Mongolia's mineral wealth to benefit present and future generations of Mongolians, and the nation."

The Parliament's press statement noted that the Standing Committee on Economics had made significant progress in reviewing the agreement and that Members of Parliament had requested that certain points be clarified. A Working Group formed to address the issues was directed to continue its review during the break between the parliamentary sessions.

Ivanhoe Mines and Rio Tinto are continuing their cooperation with the Working Group during the short parliamentary recess to prepare additional information to facilitate an early approval of the agreements by Parliament. Ivanhoe Mines and Rio Tinto remain prepared to complete an Investment Agreement with the Government that is equitable and fair for both sides.

The companies also are continuing to assess the implications for the Oyu Tolgoi Project and its development schedule as a result of the delays in approval that have been experienced in Mongolia, the sharp declines in certain commodity prices and continuing uncertainty in international financial markets.

Oyu Tolgoi Project Development

Underground development program advancing at high-grade Hugo Dummett North Deposit

Ivanhoe Mines completed the construction of its No. 1 Shaft at the Oyu Tolgoi Project to the full depth of 1,380 metres in February 2008 as planned. No. 1 Shaft has a diameter of 7.3 metres, is concrete-lined to a finished

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diameter of 6.7 metres, and includes a headframe, hoisting facilities, power station, air compressors and ventilation equipment. The design allows for future conversion to permit the shaft to be used as a permanent hoisting facility. Following completion of the shaft loadout facilities in March 2008, two lateral characterization tunnels were commenced at the proposed Lift 1 elevation of the Hugo North block-cave mine. The tunnels will enable further resource drilling, which will provide geotechnical information to support completion of the mine design and become part of the pre-production program for the development of the initial block cave.

A total of 594 metres was developed laterally at the 1,300-metre level by the underground mining contractor, utilizing Ivanhoe Mines' fleet of underground mining equipment. The development included the establishment of the "station" at the 1,300-metre level and incorporated a substation, a refuge chamber, a pump station and a heavy-equipment workshop. On August 16, 2008, a portion of an empty fuel tank being lowered down Shaft No. 1 broke loose from its hoisting harness at the 205-metre level and fell approximately 1,100 metres to the bottom of the shaft. Standard safety precautions routinely observed during such operations ensured that no employees were in direct danger from the falling equipment. The incident caused damage to the shaft infrastructure, including ventilation ducting and electrical cabling. Shaft repairs were completed in February 2009.

On March 12, 2009, Ivanhoe Mines Mongolia regretfully announced that an industrial accident in Shaft No. 1 at Oyu Tolgoi had resulted in fatal injuries to a 31-year-old employee of Redpath, a contracting company in charge of shaft and underground operations, and non-life-threatening injuries to two colleagues. The accident occurred when a length of electrical cable apparently separated from support brackets and fell onto a work platform. The Oyu Tolgoi project has a rigorous safety program, which extends to all contractors and site personnel. Ivanhoe Mines Mongolia and Redpath are participating in the accident investigation with Mongolian authorities.

Other work conducted during 2008 included the preparation of the pre-production development implementation plan. The draft plan, which was formulated during Q3'08, outlines the schedule and methodology, with the objective of maximizing the value from the No. 1 Shaft before the No. 2 Shaft is commissioned. In November 2008, underground operations were scaled back and the workforce was reduced by 50%. Work has continued with a day-shift only.

Construction of the No. 2 Shaft started in 2007 with the excavation of the shaft collar. By December 2007, concrete work had been completed to a point 13 metres below the surface. No. 2 Shaft will be a combined production/service shaft and is being designed to accommodate two 54-tonne-capacity skips and a cage with a payload capacity of 44 tonnes. The shaft will have a finished diameter of 10 metres and will be sunk to an initial depth of 1,466 metres. No work was undertaken on site for the No. 2 Shaft during 2008; however, detailed engineering progressed as planned.

Ivanhoe Mines received \$121.5 million from Rio Tinto from the sale of Oyu Tolgoi mining equipment

During 2008, Ivanhoe Mines received \$121.5 million from Rio Tinto from the sale of large equipment to be used in the construction of the Oyu Tolgoi copper and gold mining complex in Mongolia.

The \$121.5 million related to an equipment-sale agreement that was executed in August 2008 between Ivanhoe Mines and Rio Tinto. The agreement provided for Rio Tinto to purchase certain project equipment already purchased or ordered by Ivanhoe Mines while Ivanhoe Mines and Rio Tinto continue to engage the Government of Mongolia in discussions on an acceptable Investment Agreement. Ivanhoe Mines plans to use these funds for future development of Oyu Tolgoi. In addition, Rio Tinto can require Ivanhoe Mines to repurchase the equipment that has been sold to Rio Tinto — and any other equipment purchased by Rio Tinto as part of this agreement — if an acceptable Investment Agreement is reached with the Government of Mongolia. Ivanhoe Mines also has a right of first refusal to repurchase the equipment if Rio Tinto deems it appropriate to use the equipment elsewhere.

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Engineering and development advancing in readiness for mine construction

The principal aims of the engineering and development team for 2008 were to keep the project in a position to commence construction and development while maintaining a conservative cost profile. The completion of the No. 1 Shaft and transition to the operations team occurred in Q2'08. Capital project work concentrated on the progression of infrastructure and concentrator engineering, small-scale construction of some site infrastructure and planning for the start of full-scale construction. These strategies resulted in a decrease of the project workforce to approximately 600 people in the areas of engineering, construction and mining.

Ivanhoe Mines has continued to advance mine planning, engineering and pre-construction work, and will prepare an update to the Oyu Tolgoi Project's Integrated Development Plan once an acceptable Investment Agreement has been negotiated with the Government of Mongolia and approved by all parties — including the Board of Directors of Ivanhoe Mines.

Oyu Tolgoi Exploration

During 2008, Ivanhoe Mines completed approximately 36,092 metres of drilling on the Oyu Tolgoi project, with 19,224 metres on the Heruga Entrée Joint Venture area and 9,000 metres on the area between Heruga and Southwest Oyu. An additional 1,000 metres of drilling was completed on the area between Heruga and Southwest Oyu in early 2009.

Additional drilling increases size of Heruga Deposit

In March 2008, Ivanhoe Mines announced the first resource estimate for the Heruga Deposit. Since March 2008, 14 exploration holes have been drilled that have targeted the western, southwestern and northern ends of the Heruga Deposit. Drilling at the northern end of Heruga has significantly added to the size of the deposit. In particular, hole EJD0034, at the northeast corner of the drilled area, just south of the Entrée Gold-IMMI JV licence boundary, intersected approximately 200 metres of 1.8 g/t gold and 0.43% copper between 1,602 metres and 1,830 metres. This mineralization is open to the east. In the next section, 200 metres to the north across the JV boundary, OTD1490 intersected 224 metres of 0.65g/t gold and 0.43% copper from 1,540 metres, including 68 metres of 1.1g/t gold and 0.35% copper from 1,696 metres. The mineralization is open to the east and north. The additional drilling has not yet been included in a resource update.

Oyu Tolgoi exploration now concentrated on gold-rich copper discovery between Heruga and Southern Oyu Deposits

In December 2008, Ivanhoe Mines discovered a new zone of high-grade gold and copper mineralization, which has characteristics of the earlier high-grade discoveries at the Hugo Dummett and Southwest Oyu deposits. The latest discovery is highly significant because it indicates that there is a strong probability of an additional gold-rich copper deposit between the previously discovered Heruga Deposit and the Southwest Oyu Deposit. An objective of the ongoing drilling is to establish whether there is a continuous, high-grade mineralized connection between the major Oyu Tolgoi deposits to the north and the Heruga Deposit to the south.

The discovery, which is open to expansion in all directions, is within Ivanhoe Mines' 100%-owned Oyu Tolgoi Mining Licence. It is located in the three-kilometre gap between the Heruga Deposit, which was discovered on the joint Ivanhoe-Entrée licence area in 2007, and Ivanhoe Mines' 100%-owned Southern Oyu deposits that were delineated by Ivanhoe Mines' earlier exploration between 2001 and 2005.

Holes OTD1487 and OTD1484 drilled on a section 1.5 kilometres north of the Heruga Deposit and 1.5 kilometres south of the Southwest Oyu Deposit targeted a gradient-array Induced Polarization (IP) chargeability anomaly that extends from Heruga to Southwest Oyu. OTD1487A intersected zones of Southwest Oyu-style, high-

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grade copper and gold mineralization over a distance of 369.3 metres grading 0.83 g/t gold, 0.53% copper, and 64 ppm molybdenum (1.09% copper equivalent). This included an intersection of 78.3 metres grading 2.13 g/t gold, 0.82% copper and 126 ppm molybdenum (2.24% copper equivalent) between 2,258 and 2,336 metres downhole. In addition, this also included a sub-interval of 16.3 metres grading 4.70 g/t gold, 1.56% copper and 168 ppm molybdenum (4.64% copper equivalent). The hole ended at 2,336 metres in mineralization. Drilling is continuing on this section.

Geological mapping and ground magnetometer surveys locate southern extension of Heruga Deposit

During 2008, detailed ground magnetometer surveys were carried out over the Heruga Deposit and its extensions to the southwest and northeast. Detailed geological mapping is ongoing at Heruga over the same area as the ground magnetometer survey. In conjunction, these surveys have resulted in a far better understanding of the geology. The most important feature of note is a north-northeast-striking belt of andesitic dykes intruding a belt of Carboniferous Ignimbrites and volcanics that is the surface manifestation of the zone between the East and West Bor Tolgoi faults, where the Heruga Deposit is located some 1,000 metres below.

Broader reconnaissance geological mapping is also ongoing south of the Oyu Tolgoi licence. The highlight of this mapping is the discovery of a faulted extension to the surface geology that hosts the Heruga Deposit. The extension, on the Entrée Gold — Ivanhoe Mines joint-venture ground, is displaced two to three kilometres to the west of the southern end of Heruga and continues for another three kilometres before being cut off by younger granites. An IP anomaly is present where mineralization might be expected at depth below the Devonian cover rocks.

Entrée Gold Joint Venture is being formed

In June 2008, the \$35.0 million earn-in amount was reached on the Entrée Gold-Ivanhoe Mines joint-venture agreement areas, which include the Heruga Deposit and the Hugo North Extension areas. Ivanhoe Mines now has earned a participating interest of 80% in all minerals extracted below a sub-surface depth of 560 metres on the optioned property and a 70% participating interest in all minerals extracted from surface to a depth of 560 metres. An 80%-20% Ivanhoe Mines-Entrée Gold joint-venture is being formed. Ivanhoe Mines directly held approximately 14.6% of the issued and outstanding share capital of Entrée Gold at December 31, 2008.

MONGOLIA

COAL PROJECTS

SOUTHGOBI ENERGY RESOURCES (80% owned)

SouthGobi's Ovoot Tolgoi coal mine in production

SouthGobi began mining and stockpiling coal at its Ovoot Tolgoi Project in southern Mongolia's Gobi region in April 2008. The Ovoot Tolgoi mine is 45 kilometres north of Mongolia's border with China. The official start of mining culminated months of development and preparations, including the delivery of a fleet of surface-mining equipment valued at approximately \$16 million during Q1'08.

At the beginning of June 2008, the mine started operating on a full-time 24-hour basis. Regular manpower rotation at the site is in effect, with crew rotations every 14 days. At December 31, 2008, SouthGobi employed 222 employees in Mongolia, 10 of which are expatriates and 212 are Mongolian nationals. Of the 222 employees, 33 are in the Ulaanbaatar office, 185 are at the mine site and the remainder is at outlying, smaller offices close to the mine site.

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Coal sales at the mine gate were initiated in late September 2008. During 2008, SouthGobi mined 1.16 million tonnes of coal consisting of approximately 220,000 tonnes of oxidized steam coal and 940,000 tonnes of premium coal. Total waste mined in 2008 was 2.5 million Bank Cubic Meters (BCM), resulting in a strip ratio of approximately 2.19 BCM waste per tonne of saleable coal. SouthGobi recognized revenue of \$3.1 million in 2008, representing approximately 113,000 tonnes of coal sold at an average realized selling price at the mine gate of approximately \$29 per tonne. Operating expenses consisted of cost of product sold of \$0.9 million at an average cash cost of product sold of \$8.30 per tonne, mine administration costs of \$1.0 million and depreciation and depletion costs of \$0.3 million.

Work on the new shop complex, camp and airstrip surfacing at Ovoot Tolgoi continued throughout Q4'08. The airstrip surfacing project was completed at year end and certified in early 2009. The camp and shop building contractor worked throughout most of the winter months, which should permit completion of the camp and the shop facilities by mid-2009.

SouthGobi has experienced difficulty, from time to time, expediting the movement of its coal shipments through the Ceke border point on the Mongolia-China border due to unpredictable opening hours and sporadic closures. Prior to March 2009, the border crossing only operated five days a week, on dayshift, limiting the amount of coal SouthGobi was able to sell to customers in China. As a result, SouthGobi has temporarily curtailed production to decrease current mine stockpiles and preserve cash. On March 22, 2009, the border extended its operations to seven days a week / eight hours a day. The Mongolian Government and SouthGobi are coordinating efforts to open the border-crossing access 24 hours a day / seven days a week for SouthGobi's coal shipments.

In 2008, SouthGobi ordered a second fleet of coal mining equipment for the open-pit mine at a cost of approximately \$31 million, of which a \$16 million deposit has already been paid. The fleet is scheduled for delivery late in Q2'09 and is expected to expand annual production capacity for the Ovoot Tolgoi mine to approximately 2.9 million tonnes in 2009.

SouthGobi has reported a revision of the previous independent resource estimate for the West Field at its Ovoot Tolgoi coal mine in Mongolia

In July 2008, SouthGobi announced that its independent technical consultant, The Americas Group, Inc. (TAG) of Lakewood, Colorado had prepared a new resource estimate for the West Field portion of the Ovoot Tolgoi coal project in Mongolia. TAG subsequently advised SouthGobi, and SouthGobi announced in March 2009, that errors had been discovered in the resource estimate and that these errors resulted in an overstatement of the resources in the West Field reported by SouthGobi in July 2008, primarily in the indicated and inferred categories. However, the current resource estimates for the separate South-East Field and the Ovoot Tolgoi underground project are not affected by the errors. The current mining plan and operations at Ovoot Tolgoi, which are based on an earlier estimate of the West Field coal resources as of December 31, 2006, are also unaffected.

SouthGobi will appoint a major international engineering firm to complete a new technical report for the Ovoot Tolgoi project incorporating outstanding data obtained from drilling to the end of 2008, reflecting a redesign of the surface mine to a depth of 300 metres from the present 250 metres, updating the resource models and delineating reserves based on at least a pre-feasibility level of engineering. SouthGobi expects to receive this report later in 2009. SouthGobi management believes this new report will more fully demonstrate the potential of the Ovoot Tolgoi coal deposit.

SouthGobi made considerable progress in identifying additional resources at Ovoot Tolgoi in 2008, drilling over 23,200 metres down to a depth of 800 metres in the West Field. In addition, there are 3,800 metres of drill data from 2007 in the South-East Field that still require modelling. Interpretation of the 2008 drilling is still in progress however it suggests that coal potential is continuous along strike and at depth. SouthGobi management is very

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encouraged by the drill results and believes that the data obtained will provide a basis for establishing additional resources. Further exploration drilling is planned for the summer of 2009 aimed at expanding the Ovoot Tolgoi Resource base still further.

The incorrect West Field resource estimate prepared by TAG is shown in Table 1 below:

**Table 1: TAG Surface Coal Resources Summary for the West Field of the Ovoot
Tolgoi Project as of June 20, 2008
(incorrect — as originally reported in July 2008)**

<u>Resource Area</u>	<u>ASTM Coal Rank</u>	<u>Resources at Ovoot Tolgoi</u>		
		<u>Measured (Tonnes)</u>	<u>Indicated (Tonnes)</u>	<u>Inferred (Tonnes)</u>
West Field	hvB to hvA	79,567,545	113,623,016	138,821,278
Total		193,190,561		138,821,278

According to TAG, an arithmetical error in calculating the resources and an error in the resource model resulted in the resource estimate being overstated. TAG has since corrected the errors and re-calculated the resource estimate as shown in Table 2 below:

**Table 2: TAG Surface Coal Resources Summary for the West Field of the Ovoot
Tolgoi Project as of June 20, 2008
(corrected)**

<u>Resource Area</u>	<u>ASTM Coal Rank</u>	<u>Resources at Ovoot Tolgoi</u>		
		<u>Measured (Tonnes)</u>	<u>Indicated (Tonnes)</u>	<u>Inferred (Tonnes)</u>
West Field	hvB to hvA	74,973,000	27,687,000	18,761,000
Total		102,660,000		18,761,000

Including the restated West Field resource estimate, the estimated combined resources for the South-East Field and the West Field of the Ovoot Tolgoi Project are shown in Table 3 below. The restated West Field resource estimate is based on data to June 20, 2008. The resource estimate for the South-East Field is based on data to December 31, 2006.

**Table 3: Restated Ovoot Tolgoi West Field and South-East Field In-Place Surface
Coal Resources Summary**

<u>Resource Area</u>	<u>ASTM Coal Rank</u>	<u>Resources at Ovoot Tolgoi</u>		
		<u>Measured (Tonnes)</u>	<u>Indicated (Tonnes)</u>	<u>Inferred (Tonnes)</u>
South-East Field	hvB to hvA	49,752,000	15,987,000	6,502,000
West Field	hvB to hvA	74,973,000	27,687,000	18,761,000
Total		168,399,000		25,263,000

IVANHOE MINES LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

(Stated in U.S. dollars except where noted)

Ovoot Tolgoi Underground Project — thick seams of coking and semi-soft coals identified at depth provide potential for the development of an underground mining operation

In March 2008, a NI 43-101-compliant resource estimate was filed on the underground mining potential at Ovoot Tolgoi. The resource estimate is shown in Table 4.

Table 4: Underground Resources Summary for the West Field of the Ovoot Tolgoi Project

<u>Resource Area</u>	<u>ASTM Coal Rank</u>	<u>Underground Resources at Ovoot Tolgoi</u>		
		<u>Measured (Tonnes)</u>	<u>Indicated (Tonnes)</u>	<u>Inferred (Tonnes)</u>
West Field	mhB to hvA	3,867,000	12,590,000	36,735,000
Total		16,457,000		36,735,000

The 2008 exploration program concentrated on the underground West Field. This drilling was conducted to obtain additional information about the structure and quality of the deep underground coal mineralization. SouthGobi expects to carry out the same type of program in 2009 on the South-East Field at Ovoot Tolgoi. The drilling conducted in 2006 and 2007 has identified coking and semi-soft coal at depths of between 250 metres and 600 metres below surface, beneath the lower boundaries of the planned open pits at the South-East and West Fields. The 2008 program in the West Field has extended the depth of the potential mine to 700 metres. The No. 5 coal seam continues to be open to depth and along strike.

Sumber Project a new coal discovery near Ovoot Tolgoi

In June 2008, SouthGobi announced that it had intersected significant thicknesses in near-surface seams of high-quality coking and thermal coal at the new Sumber Coal Project, including one intercept of 51.5 metres. The Sumber Project is comprised of N, O and E Fields. Sumber starts 16 kilometres east of Ovoot Tolgoi and stretches to the east for approximately 18 kilometres.

The 2008 drilling program was completed in Q4'08 and the results are expected to provide the basis for a resource estimate in 2009. A geotechnical drilling program and water study are planned for 2009. Once completed, mine planning will be initiated and an application for a mining licence will be submitted for development of this project.

SouthGobi closed four equity financings in 2008

During 2008, SouthGobi completed four private-equity financings to raise a total of C\$142.9 million. The bulk of these financings were used to further develop Ovoot Tolgoi along with other development projects, exploration activities and for general corporate and administrative purposes.

SouthGobi names senior Asia mining investment banker Alexander Molyneux as President to lead the expansion of coal projects in Mongolia and Indonesia

In February 2009, SouthGobi announced the appointment of Alexander Molyneux as SouthGobi's new President, effective April 27, 2009. Mr. Molyneux will be responsible for business and corporate development initiatives. Mr. Molyneux most recently was Managing Director, Head of Metals & Mining Investment Banking, Asia Pacific, with Citigroup.

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INDONESIA

COAL PROJECTS

SOUTHGOBI ENERGY RESOURCES (80% owned)

SouthGobi increased its working interest in Mamahak Coal Project, Indonesia

In April 2008, SouthGobi signed a joint venture agreement to explore and develop the Mamahak Coal Project in East Kalimantan, Indonesia. Through its participation in the joint venture, SouthGobi commenced the development of a "greenfields" surface coal deposit in four concessions covering 22,976 hectares. SouthGobi had an initial 56% interest in Mamahak, with provisions to increase its working interest to 100%. In September 2008, SouthGobi announced that it had increased its working interest in the Mamahak Project from 56% to 85% for consideration of \$13.2 million, comprised of \$8.0 million in cash and 320,000 SouthGobi common shares. The Mamahak Project is ideally located to supply the Japanese, Korean, Indian and Chinese coastal markets.

In February 2009, SouthGobi announced that it received an initial independent NI 43-101-compliant resource estimate for the Mamahak coal project. The SW and E resource blocks on the Mamahak concession contain measured plus indicated coal resources of 12.2 million tonnes, with an additional inferred coal resource of 5.2 million tonnes. A recent bulk sample from the SW resource block within the Mamahak concession has confirmed that the resource contains high-volatile metallurgical coking coal amenable to surface mining.

The resource estimate is based on 220 drill holes completed between March 2008 and November 5, 2008. Further drilling and bulk sampling of "on-strike" extensions is continuing on both blocks.

The Mamahak Joint Venture is located in the Haloq coal-bearing formation. The coal found in this formation generally is of a quality rank ranging from sub-bituminous to bituminous with low moisture content and high fluidity values. The SW and E resource blocks cover approximately 638 hectares, approximately 3% of the total land area of the four concessions. Reconnaissance and initial field mapping has started over the larger project area. SouthGobi believes the area has the potential to host significant metallurgical coal resources.

On January 7, 2009, SouthGobi obtained a Location Permit from the local Government in East Kalimantan, allowing SouthGobi to commence surface coal mining at the SW deposit. SouthGobi is planning to initially develop the SW Block located within the Mamahak Project, which is the closest deposit to the Mahakam River. Mine development and infrastructure construction continued through March 2009.

AUSTRALIA

IVANHOE AUSTRALIA (83% owned)

A\$125 million IPO successfully completed; trading initiated on the Australian Stock Exchange

On August 5, 2008, Ivanhoe Mines announced the completion of subsidiary Ivanhoe Australia's initial public offering (IPO).

The IPO consisted of 62.5 million new shares at an offer price of A\$2.00 per share, raising gross proceeds of A\$125.0 million. Ivanhoe Australia, which commenced trading on the Australian Stock Exchange on August 6 under symbol IVA, is using a major portion of the IPO proceeds to finance ongoing exploration and development activities on its Cloncurry Project in northwestern Queensland. Also, A\$38.4 million of the IPO proceeds was used to partially repay a portion of the A\$91.0 million inter-company loan from Ivanhoe Mines. The remaining unsecured loan balance will mature in five years, with interest accruing after 18 months at the rate of BBR (Bank Bill Rate) plus 2.50% per annum.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Cloncurry IOCG Project reports ongoing discoveries

Ivanhoe Australia incurred exploration expenses of \$46.5 million on the Cloncurry Project in 2008, compared to \$22.1 million in 2007. The increase of \$24.4 million is largely due to increased exploration and also the inclusion in 2008 of \$8.6 million in non-cash stock compensation expense for qualifying rights issued to employees and directors of Ivanhoe Australia at the time of its IPO.

Ivanhoe Australia currently holds 15 exploration permits for minerals and 20 mining leases that total 1,679 square kilometres. Applications have been filed for six additional exploration permits covering 757 square kilometres.

Ivanhoe Australia's key projects, all situated on granted Mining Leases, are Mount Elliott, Mount Dore, Starra Line and the new Merlin molybdenum and rhenium project. Exploration and development work in 2008 focused on infill drilling at Mount Elliott and extensional drilling at Mount Dore.

With the significant fall in metal prices and the difficult economic climate, steps were taken to significantly reduce expenditures from the original IPO budget. This resulted in the reduction to four drill rigs and the retrenchment of 25 staff. The focus of activities will be on the key development properties and less emphasis on greenfields exploration. This strategy to conserve cash places Ivanhoe Australia in a strong financial position and Ivanhoe Australia expects to be fully funded for its exploration and development programs for more than two years.

Major New Discovery of Molybdenum and Rhenium — Merlin Project

During Q4'08, Ivanhoe Australia announced the discovery of a significant zone of high-grade molybdenum and rhenium mineralization, which was named the Merlin Project.

In exploration continuing into Q1'09, the Merlin discovery had been tested by approximately 90 drill holes and the assay results of 75 drill holes had been returned.

The Merlin mineralized zone is a clearly defined, high-grade body of molybdenum (Mo) and rhenium (Re) sulphide mineralization starting at a depth of about 100 metres and extending down-dip for over 400 metres, with an indicated strike length of up to 900 metres.

Two sub-zones now are recognised within the Merlin mineralization: a molybdenum and rhenium-rich footwall zone and a separate hangingwall zone rich in molybdenum, rhenium, copper and zinc.

The footwall zone, at or near the base of the shales above the silicified footwall siltstones, dips at 55 degrees to the east and consists of high-grade molybdenum and rhenium mineralization. The hangingwall sub-zone, along the sheared interface between the overlying phyllites and underlying black shales, dips at a shallower angle of between 30 and 45 degrees to the east, and also contains molybdenum and rhenium, but with higher copper and zinc. At depth, this hangingwall zone becomes more copper and zinc dominant and the molybdenum grades decrease.

Toward the surface, the footwall and the hangingwall zones merge into one thinner, 55-degree east-dipping zone. Discrete polymetallic sulphides overlie both the footwall and hangingwall molybdenum zones and continue down-dip to the east.

The current strike length of the zone, for which results are available, is over 500 metres; however, mineralization has been found over a strike length of 900 metres in step-out holes. Drilling is continuing to the north on 100-metre step-out traverses, while infill drilling is required to extend the footwall zone.

Given the high-grade nature of these results, preliminary independent checks have been completed to ensure a high level of quality assurance has been adhered to. This has caused delays for a number of the assay results.

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Preliminary project studies for evaluating the development options are progressing, with the mining, processing and marketing aspects advanced to a higher level of detail. Given the apparent high value of rhenium in the deposit, a critical area of metallurgical study is required to evaluate options for further processing of the molybdenum sulphide concentrate to allow high rhenium recovery.

Mount Elliott Project

The Mount Elliott project hosts three principal zones of copper-gold mineralization: Mount Elliott, Swan and Swell zones. Mineralization primarily is hosted in banded and brecciated calc-silicates and is associated with albite-pyroxene-magnetite-chalcopyrite-pyrite alteration.

Drilling in 2008 focused on vertical infill drilling of the Swan Zone and angle drilling of the Swell zone from the northeast under the Mount Elliott mine. The vertical drilling focused on the higher grade portion of the Swan Zone and was successful in showing that the high grade trend of mineralization runs due east-west and dips steeply north.

A total of 51,809 metres of infill drilling was completed during 2008, bringing the total Ivanhoe Australia drilling in Mount Elliott to 132,000 metres in 205 holes. Recent drilling has focussed on exploring for a link between the Mount Elliott, Swell and Swan zones at depth and to the north and on infill drilling prior to resource estimation as at December 31, 2008. The mineralization encountered thus far at Mount Elliott is open to the north, at depth and to the west.

Mount Dore Project

Metallurgical testwork on the project continues, with preliminary column heap-leach test results from the first columns showing up to 74% copper recovery after only 18 days of leaching from a near-surface sample. It is expected that the initial column leach tests will be completed soon, while results for the additional column leach tests to finish the test program will be completed during Q3'09.

Additional copper oxide and transitional sulphide mineralization previously outlined — and in some case mined — within the Ivanhoe Australia tenements will be evaluated as part of the Mount Dore study.

Starra Line Project

During 2008, the Starra Line mines were reassessed using a lower, more geologically-based cut-off and using holes drilled in early 2003 which had not been included in previous reports.

Exco Resources Shareholding and Joint Venture Agreement

Ivanhoe Australia has a 19.9% interest in Exco Resources and a joint-venture agreement on various Exco tenements. Exco is an Australian mineral exploration company listed on the Australian Stock Exchange. Exco holds extensive exploration tenements in the Cloncurry copper, uranium and gold region in northwest Queensland and the White Dam gold project in South Australia. Ivanhoe Australia's involvement with Exco significantly expands Ivanhoe Mines' exploration presence in the highly prospective Cloncurry region in the Mt. Isa District.

KAZAKHSTAN

Bakyrchik Gold Mine forms part of new gold company with Ivanhoe partners

On October 3, 2008, Ivanhoe Mines, which held a 70% interest in the Bakyrchik Gold Project in northeastern Kazakhstan, closed an agreement with several Kazakh strategic partners to consolidate 100% ownership of the project, and other gold-mining assets in Kazakhstan, in a new company: Altynalmas Gold. Altynalmas Gold

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initially will focus on the development of its highly prospective Kyzyl Shear assets. Ivanhoe Mines now owns 49% of Altynalmas Gold and commenced accounting for its investment using the equity method in Q4'08.

Pilot Roaster plant commissioned

Construction of a 100,000 tonnes per annum pilot roaster plant at the Bakrychik Gold Project was completed at the end of Q3'08 and commissioning began in Q4'08. Capital costs incurred on this project to December 31, 2008 were approximately \$32 million. Additional changes in the ore-preparation area are planned in Q2'09 to improve the process flow to ensure the plant achieves the designed production capacity.

CHINA

Gain of \$201.4 million from sale of Ivanhoe Mines' stake in Jinshan

In May 2008, Ivanhoe Mines sold to China National Gold Group Corporation of Beijing, and its financial partners, its entire holding of 67,520,060 common shares of Jinshan, at a price of C\$3.11 a share, and the Jinshan promissory note of C\$7.5 million. Proceeds received totalled \$216.7 million (C\$217.7 million). Ivanhoe Mines recorded a \$201.4 million gain on the sale of its interest in Jinshan in Q2'08.

Exploration continues in Northern China, focusing on high-quality projects for acquisition

Reconnaissance field exploration resumed in late March-early April 2008, focusing initially on central Inner Mongolia and then extended into Hebei and surrounding provinces. By the end of 2008, the program covered an area of 20,000 square kilometres of a 50,000-square-kilometre area that has been part of a major data re-evaluation and target generation program, involving detailed data reviews, field traverses and systematic rock-chip and channel sampling of all known occurrences and deposits of interest to Ivanhoe Mines. Numerous gold, gold-silver, base metal, copper and nickel-chromium-PGM targets were assessed.

Further reconnaissance exploration and completion of the work initiated in 2008 is a priority for the first and second quarters of 2009. This goal is to identify further high-quality, semi-advanced and grass-roots projects for acquisition through licence-bidding applications over unlicensed targets and joint-venture formation with, or direct purchase from, the existing licence holders.

OTHER

Ivanhoe Mines appoints Livia Mahler as an independent director

In March 2009, the Ivanhoe Mines board appointed Livia Mahler as a director. Ms Mahler is a venture capitalist and is widely recognized for her strategic insights into the Canadian venture industry. In 1996, Ms Mahler identified a critical lack of funding available to early, or seed stage technology companies in Canada. Ms Mahler championed the creation of three funds across Canada targeted specifically at early stages. As a founder and General Partner of the Vancouver based Western Technology Seed Investment Fund (WTSIF), she was instrumental in the initial funding of over 25 technology companies across BC, Alberta and Saskatchewan. In addition to her duties with WTSIF, Ms Mahler held investment responsibilities as Senior Investment Manager with the Business Development Bank of Canada's Venture Capital Group.

B. DISCONTINUED OPERATIONS

In February 2005, the Company sold its Savage River mining operations in Tasmania, Australia, for two initial cash payments totalling \$21.5 million, plus a series of five contingent, annual payments that commenced on March 31, 2006.

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Ivanhoe Mines received the first contingent annual payment of \$28.2 million in 2006. The second contingent annual payment of \$20.3 million was received in 2007.

During 2008, Ivanhoe Mines received an amount of \$29.2 million in relation to the third annual contingent payment.

To date, Ivanhoe Mines has received \$99.2 million in proceeds from the sale of Savage River.

At December 31, 2008, Ivanhoe Mines had accrued a \$28.0 million receivable in relation to the fourth contingent annual payment due on March 31, 2009. This amount is calculated based upon the actual tonnes of iron ore sold during the nine-month period that ended December 31, 2008, under the escalating price formula in the sales agreement.

C. ADMINISTRATIVE AND OTHER

General and administrative costs. Administrative costs in 2008 of \$27.5 million were consistent with 2007 (\$27.1 million).

Interest income. Interest income of \$13.2 million was consistent with 2007 (\$12.9 million).

Interest expense. The \$17.6 million in interest expense for 2008 consists mainly of \$17.1 million of accrued interest on the convertible credit facility with Rio Tinto. This amount increased from 2007 (\$2.5 million) mainly due to the loan being fully drawn down in 2008.

Foreign exchange loss. The \$62.9 million foreign exchange loss during 2008 was mainly attributable to the weakening of the Canadian and Australian dollars against the U.S. dollar during 2008. The majority of this foreign exchange loss (\$57.8 million) was unrealized at December 31, 2008.

Share of loss on significantly influenced investees. The \$10.1 million share of loss on significant influenced investees represents Ivanhoe Mines' share of Jinshan's, Exco's and Altynalmas' net loss.

Writedown of long-term investments. The \$7.1 million writedown of long-term investments relates to other-than-temporary impairment losses recorded on Ivanhoe Mines' investments in Redox Diamonds, Exco, Intec and Jinshan.

Writedown of other long-term investments. The \$18.0 million writedown of other long-term investments in 2008 represents the December 31, 2008 impairment of the Company's asset backed commercial paper (ABCP) holdings.

Gain on sale of long-term investment and note receivable. The \$201.4 million gain on sale of long-term investment and note receivable represents Ivanhoe Mines gain on the sale of its interest in Jinshan. Ivanhoe Mines sold its investment in Jinshan for \$216.7 million in Q2'08.

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SELECTED QUARTERLY DATA

	Quarter Ended				Year Ended
	Dec-31 2008	Sep-30 2008	Jun-30 2008	Mar-31 2008	Dec-31 2008
	(\$ in millions of U.S. dollars, except per share information)				
Revenue	\$ 3.1	\$ 0.0	\$ 0.0	\$ 0.0	\$ 3.1
Exploration expenses	(76.0)	(59.7)	(67.3)	(57.3)	(260.3)
General and administrative	(8.1)	(5.1)	(7.5)	(6.8)	(27.5)
Foreign exchange (losses) gains	(40.6)	(20.0)	(1.0)	(1.3)	(62.9)
Writedown of other long-term investments	(18.0)	—	—	—	(18.0)
Gain on sale of long-term investments	—	—	201.4	—	201.4
Net (loss) income from continuing operations	(168.1)	(98.7)	118.3	(69.6)	(218.1)
Income from discontinued operations	8.1	10.7	9.2	6.0	34.0
Net (loss) income	(160.0)	(88.0)	127.5	(63.6)	(184.1)
Net (loss) income per share — basic					
Continuing operations	\$ (0.45)	\$(0.26)	\$ 0.32	\$(0.19)	\$ (0.58)
Discontinued operations	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.09
Total	\$ (0.43)	\$(0.23)	\$ 0.34	\$(0.17)	\$ (0.49)
Net (loss) income per share — diluted					
Continuing operations	\$ (0.45)	\$(0.26)	\$ 0.29	\$(0.19)	\$ (0.58)
Discontinued operations	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.09
Total	\$ (0.43)	\$(0.23)	\$ 0.31	\$(0.17)	\$ (0.49)

	Quarter Ended				Year Ended
	Dec-31 2007	Sep-30 2007	Jun-30 2007	Mar-31 2007	Dec-31 2007
Revenue	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Exploration expenses	(96.6)	(74.8)	(79.1)	(53.5)	(304.0)
General and administrative	(9.0)	(7.0)	(5.9)	(5.2)	(27.1)
Foreign exchange gains (losses)	2.3	2.1	6.7	0.8	11.9
Writedown of other long-term investments	(24.5)	—	—	—	(24.5)
Gain on sale of long-term investments	—	—	—	1.0	1.0
Net (loss) income from continuing operations	(265.5)	(90.0)	(78.7)	(55.4)	(489.6)
Income from discontinued operations	11.9	6.8	4.6	8.6	31.9
Net (loss) income	(253.6)	(83.1)	(74.2)	(46.8)	(457.7)
Net (loss) income per share — basic					
Continuing operations	\$ (0.71)	\$(0.24)	\$(0.21)	\$(0.15)	\$ (1.31)
Discontinued operations	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.09
Total	\$ (0.67)	\$(0.22)	\$(0.20)	\$(0.13)	\$ (1.22)
Net (loss) income per share — diluted					
Continuing operations	\$ (0.71)	\$(0.24)	\$(0.21)	\$(0.15)	\$ (1.31)
Discontinued operations	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.09
Total	\$ (0.67)	\$(0.22)	\$(0.20)	\$(0.13)	\$ (1.22)

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FOURTH QUARTER

Revenue. In Q4'08, SouthGobi commenced selling coal from its Ovoot Tolgoi coal mine. SouthGobi shipped approximately 113,000 tonnes of coal at an average realized selling price of approximately \$29 per tonne.

Exploration. In Q4'08, Ivanhoe Mines expensed \$76.0 million in exploration and development activities, compared to \$96.6 million in Q4'07. The majority of the \$76.0 million was spent on the Mongolian properties (\$71.7 million in Q4'08, compared to \$85.7 million in Q4'07). Approximately \$50.8 million was spent on the Oyu Tolgoi Project and \$23.2 million was spent on SouthGobi's Mongolian coal projects.

Administrative costs. Administrative costs in Q4'08 were consistent with Q4'07.

Foreign exchange loss. The \$40.6 million foreign exchange loss during Q4'08 was attributable to the significant weakening of the Canadian and Australian dollar against the U.S. dollar. The majority of this foreign exchange loss (\$37.8 million) was unrealized at December 31, 2008.

Writedown of other long-term investments. The \$18.0 million write-down of other long-term investments in Q4'08 represents the additional impairment recorded on the Company's ABCP holdings.

Net income from discontinued operations. Income from the Savage River mine operations totalled \$8.1 million in Q4'08, compared to \$11.9 million in Q4'07. The decrease of \$3.8 million was due to 496,000 tonnes sold in Q4'08 versus 912,000 tonnes sold in Q4'07, slightly offset by an increase in the pellet premium being achieved in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Operating activities. The \$318.7 million of cash used in operating activities from continuing operations in 2008 primarily was the result of \$239.7 million in cash exploration expenditures and a \$53.9 million change in non-operating working capital.

Investing activities. The \$180.1 million of cash provided by investing activities in 2008 consisted of \$216.7 million received from the sale of the investment in Jinshan, \$121.5 million received from Rio Tinto for the sale of certain equipment and \$29.2 million from the discontinued operations. These receipts from investing activities were offset by \$143.9 million in property, plant and equipment purchases mainly relating to Oyu Tolgoi and Ovoot Tolgoi and \$39.5 million mainly incurred purchasing additional shares in Ivanhoe Australia, SouthGobi, Jinshan and Exco Resources.

Financing activities. Financing activities of \$444.4 million in 2008 mainly consisted of \$200.0 million received from additional draw downs on the Rio Tinto credit facility and \$246.3 million in proceeds raised by subsidiaries. Ivanhoe Australia raised \$105.8 million in August 2008 on its initial public offering on the ASX and SouthGobi raised \$140.5 million by private placements in early 2008.

Liquidity and Capital Resources

Recent developments in capital markets have restricted access to debt and equity financing for many companies. As a result, the Company is reviewing its 2009 capital spending requirements and will be adjusting those spending requirements in light of the Investment Agreement negotiations. The Company also is assessing its options for financing future capital expenditures in light of prevailing conditions in international credit markets.

At December 31, 2008, consolidated working capital was \$402.0 million, including cash and cash equivalents of \$384.1 million, compared with working capital of \$65.7 million and cash of \$145.7 million at December 31,

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2007. Included in the December 31, 2008, cash and cash equivalents balance of \$384.1 million was \$10.3 million of SouthGobi's cash and cash equivalents and \$40.5 million of Ivanhoe Australia's cash and cash equivalents, which were not available for Ivanhoe Mines' use. Based on Ivanhoe Mines' financial position at December 31, 2008, Ivanhoe Mines believes that its existing funds should be sufficient to fund its minimum obligations, including general corporate activities, for at least the next 12 months.

Should Ivanhoe Mines be unable to negotiate an Investment Agreement that is acceptable to Rio Tinto, with the result that Rio Tinto elects not to proceed with the second tranche private placement, Ivanhoe Mines may delay, postpone or curtail certain of its planned activities for 2009 and thereafter. Ivanhoe Mines will continue to assess the need for project financing relating to the development of power and other infrastructure-related activities in association with the Oyu Tolgoi Project. See "Outlook" for further details.

Asset-Backed Commercial Paper

At December 31, 2008, the Company held non-bank-sponsored ABCP issued by a number of trusts with an original value of \$60.2 million. This ABCP was rated by DBRS as R-1 (high) at the date of investment and met the criteria of the Company's investment policy. An R-1 (high) rating by DBRS is the highest rating for commercial paper. These investments matured during Q3'07 but, as a result of liquidity issues in the ABCP market, did not settle on maturity.

On August 16, 2007, it was announced that a group representing banks, asset providers and major investors had agreed to a standstill with regard to all non-bank sponsored ABCP (the Montreal Proposal). Under the proposal, the affected ABCP was to be converted into term floating-rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for investors to continue to roll their ABCP during the standstill period. The Company was not a signatory to this agreement.

On September 6, 2007, a pan-Canadian restructuring committee (the Committee) consisting of major investors was formed to propose a solution to the liquidity problem affecting the ABCP market. On March 17, 2008, the Committee filed an application in the Ontario Superior Court of Justice (the Court) under the Companies' Creditors Arrangement Act asking the Court to call a meeting of the ABCP noteholders. On March 20, 2008, the Committee made available additional documents outlining the details of the proposed restructuring plan. On April 25, 2008, the plan was approved by the noteholders and was sanctioned by the Court in June 5, 2008 (the Sanction Order). On June 25 and 26, 2008, the Court of Appeal for Ontario heard motions from a group of Montreal Proposal ABCP holders seeking leave to appeal, and an appeal of, the Sanction Order (the Appeal). The Appeal was heard and a denial decision was rendered on August 18, 2008. Some of these noteholders (including Ivanhoe Mines) sought leave to appeal that decision to the Supreme Court of Canada (the SCC). On September 19, 2008, the SCC announced that it would not grant leave to hear the appeal. On December 24, 2008, an agreement was reached with all key stakeholders to amend the terms of the Committee Restructuring Plan (the Amended Plan).

On January 12, 2009, the Court granted the Amended Plan Implementation Order. On January 21, 2009, the Amended Plan restructuring was completed. Upon closing of the Amended Plan, the Company received:

- \$22.7 million of MAV2 Class A-1 Notes;
- \$22.7 million of MAV2 Class A-2 Notes;
- \$4.1 million of MAV2 Class B Notes;
- \$1.5 million of MAV2 Class C Notes;
- \$1.3 million of MAV2 IA Class 1 Notes;
- \$1.0 million of MAV2 IA Class 2 Notes;

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- \$0.9 million of MAV2 IA Class 3 Notes;
- \$1.2 million of MAV2 IA Class 13 Notes;
- \$1.6 million of MAV3 TA Class 14 Notes; and
- \$3.2 million of MAV3 TA Class 25 Notes.

There is a significant amount of judgment required in estimating the amount and timing of cash flows associated with the new long-term notes. The Company has estimated the fair value of the notes considering information provided on the restructuring, the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

The Company has used a discounted cash flow approach to value the long-term notes incorporating the following assumptions:

Accrued Interest from August 2007:	\$2.7 million
Bankers Acceptance Rate:	1.5%
Discount Rates:	9% to 25%
Maturity Dates:	7.92 years
Expected Return of Principal:	
A-1 Notes	100%
A-2 Notes	100%
B Notes	10%
C Notes	0%
IA Notes	0%
TA Notes	100%

Based on the discounted cash flow model as at December 31, 2008, the fair value of the Company's long-term notes was estimated at \$22.3 million. As a result of this valuation, the Company recorded a write-down of \$18.0 million in Q4'08 in addition to the \$24.5 million recorded in 2007.

Continuing uncertainties regarding the value of the assets that underlie the notes, the amount and timing of cash flows and changes in general economic conditions could give rise to a further change in the fair value of the Company's investment in the notes, which would impact the Company's results from operations. A 1.0% increase, representing 100 basis points, in the discount rate will decrease the fair value of the long-term notes by approximately \$1.5 million.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other current assets, long-term investments, other long-term investments, note receivable from related party, accounts payable, amounts due under credit facilities, loans payable to related parties and its derivative contract.

The fair value of Ivanhoe Mines' long-term investments was determined by reference to published market quotations, which may not be reflective of future values.

The fair value of Ivanhoe Mines' other long-term investments, consisting of the ABCP, was determined by considering the best available data regarding market conditions for such investments, which may not be reflective of future values.

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The fair values of Ivanhoe Mines' remaining financial instruments were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity of these financial instruments.

Ivanhoe Mines is exposed to credit risk with respect to its accounts receivable. The significant concentrations of credit risk are situated in Mongolia and Australia. Ivanhoe Mines does not mitigate the balance of this risk in light of the credit worthiness of its major debtors.

Ivanhoe Mines is exposed to interest rate risk with respect to the variable rates of interest incurred on the convertible credit facility and amounts due under credit facilities. Interest rate risk is concentrated in Canada. Ivanhoe Mines does not mitigate the balance of this risk.

SHARE CAPITAL

At March 31, 2009, the Company had a total of:

- 378.1 million common shares outstanding.
- 14.0 million incentive stock options outstanding, with a weighted average exercise price of C\$7.88 per share. Each option is exercisable to purchase a common share of the Company at prices ranging from C\$2.82 to C\$16.79 per share.
- 92.1 million share purchase warrants outstanding granted to Rio Tinto, with exercise prices ranging between US\$8.38 and US\$9.02 per share (Series A and B warrants). These warrants are exercisable until two years after the earlier of completion of the Investment Agreement and October 27, 2009.
- 35.0 million Series C share purchase warrants outstanding granted to Rio Tinto as part of the \$350.0 million credit facility agreement, with an exercise price of US\$10.00 per share. These warrants are exercisable until October 24, 2012.
- 1.4 million share purchase warrants with an exercise price of C\$3.15 per share. These warrants were granted to Rio Tinto under certain anti-dilution provisions in the 2006 Private Placement Agreement (Anti-Dilution warrants). These warrants are divided into two series and have lives identical to the Series A warrants and B warrants.

OUTLOOK

The information below is in addition to the disclosure concerning specific operations included in the Review of Operations section of this MD&A.

General Economic Conditions

Current problems in credit markets and deteriorating global economic conditions have lead to a significant weakening of exchange traded commodity prices in recent months, including precious and base metal prices. Volatility in these markets has also been unusually high. It is difficult in these conditions to forecast metal prices and demand trends for products that we expect to produce from our operations. Credit market conditions have also increased the cost of obtaining capital and limited the availability of funds. Accordingly, management is reviewing the effects of the current conditions on our business.

Exchange rates

The Company holds a portion of its cash resources in currencies other than the US\$. The Company expects to incur future expenditures in currencies other than the US\$, most notably Canadian and Australian dollar expenditures. As a result, exchange gains and losses from holding Canadian and Australian dollars are primarily

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unrealized and are expected to continue to fluctuate significantly given the recent volatility in foreign exchange rates.

Capital Expenditures

We continue to review our capital spending in light of current market conditions and our expectation of achieving an acceptable Investment Agreement in 2009 for the Oyu Tolgoi Project. As a result of our review, the Company may curtail a portion of its capital and operating expenditures in 2009.

The Company continues to focus major efforts on finalizing an acceptable Investment Agreement with the Government of Mongolia. Ivanhoe Mines has continued to advance mine planning, engineering and reconstruction work and will prepare an update to the 2005 Integrated Development Plan (IDP05) once an acceptable Investment Agreement has been negotiated with the Government of Mongolia.

An agreement was executed with Rio Tinto in 2008 that provided for the purchase by Rio Tinto of certain project equipment already purchased by Ivanhoe Mines and the funding of future equipment purchases while Ivanhoe Mines and Rio Tinto continue to engage the Government of Mongolia in discussions toward an acceptable Investment Agreement. In aggregate, Ivanhoe Mines received in 2008 approximately \$121.5 million from the sale of the equipment to Rio Tinto. In addition, Rio Tinto can require Ivanhoe Mines to repurchase the equipment that has been sold to Rio Tinto — and any other equipment purchased by Rio Tinto as part of this agreement — once an acceptable Investment Agreement is reached with the Government of Mongolia. Ivanhoe Mines also has a right of first refusal to repurchase the equipment if Rio Tinto deems it appropriate to use the equipment elsewhere.

Should Ivanhoe Mines be unable to, or decide not to, reacquire long-lead-time equipment that has been purchased or committed to, the draft updated IDP will need to be modified to reflect the corresponding changes to the mine plan and the impact on the Oyu Tolgoi Project economics.

Other information

The Company is actively involved in advancing several other projects. These activities are expected to continue through 2009, with a focus on subsidiary SouthGobi and its mining of coal; subsidiary Ivanhoe Australia and its development activities on its Cloncurry tenements; and Altynalmas, which has completed construction of its pilot roaster plant. At the present time, SouthGobi (with the \$30.0 million credit facility from Ivanhoe Mines) and Ivanhoe Australia have sufficient funds to advance their operations and development plans for 2009. Altynalmas Gold is reviewing its operating plans to determine the amount of funding that it will require from its shareholders, of which Ivanhoe Mines owns 49%.

OFF-BALANCE-SHEET ARRANGEMENTS

During the year ended December 31, 2008, Ivanhoe Mines was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of the Company.

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CONTRACTUAL OBLIGATIONS

	Payments Due by Period				Total
	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	
	(\$000's of U.S. dollars)				
Operating leases(1)	\$ 2,488	\$ 3,811	\$3,010	\$ —	\$ 9,309
Purchase obligations(1)	37,550	—	—	—	37,550
Debt obligations(2)	15,963	374,165	—	—	390,128
Other long-term obligations(3)	<u>2,229</u>	<u>—</u>	<u>—</u>	<u>17,891</u>	<u>20,120</u>
Total	<u>\$58,230</u>	<u>\$377,976</u>	<u>\$3,010</u>	<u>\$17,891</u>	<u>\$457,107</u>

- (1) These amounts mainly represent various long-term contracts that include commitments for future operating payments under contracts for drilling, engineering, equipment purchases, rentals and other arrangements.
- (2) Debt obligations consist of amounts due under credit facilities and long-term convertible credit facility.
- (3) Other long-term obligations consist of asset retirement obligations.

The equipment-sale agreement entered into by Ivanhoe Mines and Rio Tinto in August 2008 provided for the purchase by Rio Tinto of \$121.5 million of certain project equipment already purchased by Ivanhoe Mines and the funding of future equipment purchases while Ivanhoe Mines and Rio Tinto continue to engage the Government of Mongolia in discussions toward an acceptable Investment Agreement. In addition, under this agreement Rio Tinto can require Ivanhoe Mines to repurchase the equipment that has been sold to Rio Tinto — and any other equipment purchased by Rio Tinto as part of this agreement — once an acceptable Investment Agreement is reached with the Government of Mongolia.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" (FAS 157). In February 2008, the FASB issued a staff position that delays the effective date of SFAS 157 for all non-financial assets and liabilities except for those recognized or disclosed at least annually. Therefore, the Company has adopted the provision of FAS 157 with respect to its financial assets and liabilities only. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined under FAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

In October 2008, the FASB staff issued FSP SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active" ("FSP FAS 157-3"), which clarifies the application of FAS 157 in an inactive market. The intent of this FSP is to provide guidance on how the fair value of a financial asset is to be determined when the market for that financial asset is inactive. FSP FAS 157-3 states that determining fair value in an inactive market depends on the facts and circumstances, requires the use of significant judgement and in some cases, observable inputs may require significant adjustment based on unobservable data. Regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make for non-performance and liquidity risks when determining the fair value of an asset in an inactive market. FSP FAS 157-3 was effective upon issuance. The Company has incorporated the principles of FSP FAS 157-3 in determining the fair value of financial assets when the market for those assets is not active.

Valuation techniques used to measure fair value under FAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair-value hierarchy based on three levels of

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inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The adoption of this statement did not have a material impact on the Company's consolidated financial condition or results of operations.

Effective January 1, 2008, the Company adopted FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not elect to apply the fair value option under this Statement to any instruments.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

A detailed summary of all of the Company's significant accounting policies and the estimates derived therefrom is included in Note 2 to the annual Consolidated Financial Statements for the year ended December 31, 2008. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies and the estimates derived therefrom have been identified as being critical:

- Carrying Values of Property, Plant and Equipment;
- Depletion and Depreciation of Property, Plant and Equipment;
- Asset Retirement Obligations; and
- Income Taxes.

Carrying values of Property, Plant and Equipment

Ivanhoe Mines reviews the carrying values of its property, plant and equipment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. An impairment is considered to exist if total estimated future cash flows, or probability-weighted cash flows on an undiscounted basis, are less than the carrying value of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows associated with values beyond proven and probable reserves and resources. In estimating future cash flows, assets are grouped at the lowest level for which there is identifiable future cash flows that are largely independent of cash flows from other asset groups. Generally, in estimating future cash flows, all assets are grouped at a particular mine for which there is identifiable cash flows.

The estimates used by management are subject to various risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected recoverability of the Company's investments in property, plant and equipment.

Depletion and Depreciation of Property, Plant and Equipment

Property, plant and equipment comprise one of the largest components of Ivanhoe Mines' assets and, as such, the amortization of these assets has a significant effect on the Company's financial statements.

On the commencement of commercial production, depletion of each mining property is provided on the unit-of-production basis using estimated proven and probable reserves as the depletion basis. The mining plant and

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equipment and other capital assets are depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method or the straight-line method.

Capital projects in progress are not depreciated until the capital asset has been put into operation.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimates of the reserves may change, based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depletion and depreciation of the related mining assets, or could result in impairment, resulting in a write-down of the assets.

Asset Retirement Obligations

The Company has obligations for site restoration and decommissioning related to its mining properties. The Company, using mine closure plans or other similar studies that outline the requirements planned to be carried out, estimates the future obligations for mine closure activities. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change — resulting from amendments in those laws and regulations relating to environmental protection and other legislation affecting resource companies.

Ivanhoe Mines recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of that asset and the cost is amortized as an expense over the economic life of the related asset. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability 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.

Because the estimate of obligations is based on future expectations in the determination of closure provisions, management makes a number of assumptions and judgments. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods in relation to the remediation of Company's existing assets could differ materially from the \$20.1 million undiscounted future value of Ivanhoe Mines' estimated asset retirement obligations at December 31, 2008.

Income Taxes

The Company must make significant estimates in respect of the provision for income taxes and the composition of its deferred income tax assets and deferred income tax liabilities. Ivanhoe Mines' operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of deferred income tax assets and deferred income tax liabilities, and those adjustments may be material to the Ivanhoe Mines' financial position and results of operations.

The Company computes the provision for deferred income taxes under the liability method. Deferred taxes arise from the recognition of the tax consequences of temporary differences by applying statutory tax rates applicable to future years to differences between the financial statement's carrying amounts and the tax bases of

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certain assets and liabilities. The Company records a valuation allowance against any portion of those deferred income tax assets that management believes will, more likely than not, fail to be realized.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred income taxes payable requires management to exercise judgment and make assumptions about the future performance of the Company. Management is required to assess whether the Company is "more likely than not" to be able to benefit from these tax losses. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

During 2008, the Company reviewed its Canadian operating and capital tax losses. These losses historically have not been recognized on the balance sheet as the Company has not expected to realize them in the near future. The sale of the Company's interest in Jinshan in Q2'08 will result in the Company utilizing some of these tax losses. The tax review confirmed that there are adequate tax losses to shelter the gain from the Jinshan sale.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently issued United States accounting pronouncements have been outlined below.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "*Business Combinations*" (SFAS 141(R)). SFAS 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact that SFAS 141(R) may have on its financial position, results of operations, and cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "*Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*" (SFAS 160). SFAS 160 establishes accounting and reporting standards pertaining to (i) the nature and classification of the noncontrolling interest in the Consolidated Statement of Financial Position, (ii) attributing net income and comprehensive income to the parent and the noncontrolling interest, (iii) changes in a parent's ownership interest in a subsidiary, and (iv) the deconsolidation of subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS 160 requires the classification of the noncontrolling interest as a separate component of stockholders' equity. The Company is currently assessing the impact that SFAS 160 may have on its financial position, results of operations, and cash flows.

In November 2008, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 08-6, "*Equity Method Investment Accounting Considerations*" (EITF 08-6), which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 provides guidance on a number of factors, including, determination of the initial carrying value of an equity method investment, performing an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment, accounting for an equity method investee's issuance of shares, and accounting for a change in an investment from the equity method to the cost method. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact EITF 08-6 may have on its financial position, results of operations and cash flows.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, "*Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement)*" (FSP APB 14-1). FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless embedded conversion option is required to be

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separately accounted for as a derivative under FAS 133. Convertible debt instruments within the scope of FSP APB 14-1 are not addressed by the existing APB 14-1. FSP APB 14-1 requires that the liability and equity components of convertible debt instruments within the scope of FSP APB 14-1 be separately accounting for in a manner that reflects the entity's nonconvertible borrowing rate. This requires an allocation of the convertible debt proceeds between the liability component and the embedded conversion option (i.e., the equity component). The difference between the principal amount of the debt and the amount of the proceeds allocated to the liability component will be reported as a debt discount and subsequently amortized to earnings over the instrument's expected life using the effective interest method. FSP APB 14-1 is effective for fiscal years beginning on or after December 15, 2008 and will be applied retrospectively to all periods presented. The Company is currently assessing the impact of FSP APB 14-1 may have on its financial position, result of operations and cash flows.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Ivanhoe Mines has been monitoring the deliberations and progress being made by accounting standard setting bodies and securities regulators both in Canada and the United States with respect to their plans regarding convergence to International Financial Reporting Standards (IFRS). Ivanhoe Mines is a 'domestic' issuer under Canadian securities law and a 'foreign private issuer' under US Securities and Exchange Commission (SEC) regulations. Ivanhoe Mines files its financial statements with both Canadian and US securities regulators in accordance with US GAAP, as permitted under current regulations. The Accounting Standards Board in Canada and the Canadian Securities Administrators (CSA) have recently confirmed that domestic issuers will be required to transition to IFRS for fiscal years beginning on or after January 1, 2011. The CSA Staff issued Staff Notice 52-321 "Early adoption of International Financial Reporting Standards, Use of US GAAP and References to IFRS-IASB" on June 27, 2008 which confirmed that domestic issuers that are also SEC registrants are able to continue to use US GAAP. Consequently, Ivanhoe Mines is not required to convert to IFRS effective January 1, 2011. On August 27, 2008, the SEC issued a proposal which would require SEC registrants to issue their financial statement under IFRS beginning in 2014, 2015 or 2016 depending on the size of the issuer. Ivanhoe Mines is currently assessing the costs/benefits of its two options being (1) a potential conversion consistent with other Canadian issuers; or (2) a potential conversion consistent with other SEC registrants.

RISKS AND UNCERTAINTIES

Material risks and uncertainties affecting Ivanhoe Mines, their potential impact, and the Company's principal risk management strategies, are as follows:

Ivanhoe Mines may be unsuccessful in completing an Investment Agreement with the Government of Mongolia.

Although there is no legal requirement that Ivanhoe Mines obtain an Investment Agreement from the Mongolian Government before commencing development and mining operations at the Oyu Tolgoi Project, Ivanhoe Mines believes that entering into a mutually satisfactory Investment Agreement with the Mongolian Government is of fundamental importance to the viability of the Oyu Tolgoi Project. An acceptable Investment Agreement is a prerequisite to Rio Tinto's obligations to make an additional equity investment in Ivanhoe Mines. Although Ivanhoe Mines and Rio Tinto recently completed a mutually acceptable draft Investment Agreement with a working group appointed by the Mongolian Government which was reviewed and approved in principle by the Cabinet and the National Security Council, the draft Investment Agreement remains subject to review and approval by the Mongolian Parliament before it can become effective. There is no assurance that any approval will be forthcoming in the short term or at all as political developments and unanticipated actions within Parliament may impact the scope and terms of the draft Investment Agreement. Moreover, some risk exists that additional changes to the Minerals Law may be considered necessary by Parliament before it returns to its review of the draft

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agreement. If the Government seeks to impose terms and conditions that would have a significantly adverse impact on the economic viability of the Oyu Tolgoi Project or if it fails to act upon approving the Investment Agreement in a timely manner, it could effectively prevent Ivanhoe Mines from successfully concluding an Investment Agreement that is necessary for development of the Oyu Tolgoi deposit. Failure to obtain an Investment Agreement on mutually acceptable terms approved by the Mongolian Parliament is likely to have a significant adverse effect on the development of the Oyu Tolgoi Project and Ivanhoe Mines itself.

Ivanhoe Mines' ability to carry on business in Mongolia is subject to political risk.

Ivanhoe Mines holds its interest in each of its Mongolian mineral exploration and development projects indirectly through mining licences and exploration licences that enable it to conduct operations or development and exploration activities. However, Ivanhoe Mines' ability to conduct exploration and development activities may be subject to changes in legislation or government regulations or changes in political attitudes within Mongolia.

Government policy may change to discourage foreign investment, mining projects may be nationalized or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that Ivanhoe Mines' assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body.

There is no assurance that provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances would be effective to restore the full value of Ivanhoe Mines' original investment or to compensate for the loss of the current value of the Mongolian projects. Similarly, Ivanhoe Mines' operations may be affected in varying degrees by, among other things, government regulations with respect to restrictions on production, price controls, export controls, income taxes, environmental legislation, mine safety and annual fees to maintain mineral licences in good standing. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

There can be no assurance that Ivanhoe Mines will be capable of raising the additional funding that it needs to carry out its development and exploration objectives.

Carrying out the development and exploration of the Oyu Tolgoi Project and the various other mineral properties in which Ivanhoe Mines holds interests depends upon Ivanhoe Mines' ability to obtain financing through capital markets, sales of non-core assets or other means. Ivanhoe Mines expects to be able to meet short-term cash requirements for development of the Oyu Tolgoi Project and Ivanhoe Mines' other projects from its existing financial resources, but these funds will not be sufficient to meet all anticipated development expenditure requirements. The equity investment entitlements and obligations of Rio Tinto pursuant to the Rio Tinto Transaction may, if consummated in their entirety, account for a significant portion of the development cost of the Oyu Tolgoi Project, but will be insufficient to fund the entire development cost and, in any case, there is no assurance that Ivanhoe Mines will meet the conditions necessary to trigger Rio Tinto's additional equity investment obligations or that Rio Tinto will fully exercise its share purchase warrants and other rights to subscribe for additional Common Shares. In particular, Rio Tinto's obligation to complete the second tranche private placement is subject to Ivanhoe Mines obtaining an Investment Agreement on terms acceptable to Rio Tinto. Until an Investment Agreement with the Government of Mongolia is actually finalized, approved and executed, it is not possible to predict if Ivanhoe Mines will be successful in negotiating and obtaining an Investment Agreement that is acceptable to Rio Tinto. Even if Rio Tinto completes its second tranche private placement under the Rio Tinto Transaction, it is permitted under the terms of the Rio Tinto Credit Agreement, to elect to apply the subscription proceeds from the second tranche private placement to the repayment of the principal and interest outstanding under the Rio Tinto Credit Agreement. Rio Tinto's share purchase warrants are exercisable at the discretion of Rio Tinto, and Ivanhoe Mines

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has no ability to compel the exercise of those warrants. If the second tranche private placement is not completed (or is completed, but the proceeds from it are applied to repay the amounts outstanding under the Rio Tinto Credit Agreement) and/or Rio Tinto's share purchase warrants are not exercised, Ivanhoe Mines may be unable to obtain financing from other sources necessary for development of the Oyu Tolgoi Project, on favourable terms or at all. Even if Rio Tinto completes the maximum equity investment contemplated by the Rio Tinto Transaction, Ivanhoe Mines will need to obtain additional sources of capital to complete the development of the Oyu Tolgoi Project and to advance the development of other mineral properties. Depressed markets for precious and base metals may make it difficult or impossible for Ivanhoe Mines to obtain debt financing or equity financing. Ivanhoe Mines operates in a region of the world that is prone to economic and political upheaval and instability, which may make it more difficult for Ivanhoe Mines to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause Ivanhoe Mines to postpone its development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

If Ivanhoe Mines is required to access credit markets to carry out its exploration and development objectives, the recent market events and conditions, including disruptions in the Canadian, United States and international credit markets and other financial systems and the deterioration of the Canadian, United States and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on Ivanhoe Mines' ability to fund its working capital and other capital requirements. In 2007 and into 2008, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, sub-prime and non-prime mortgages) and a decline in the credit quality of mortgage-backed securities. These conditions continued and worsened in 2008 and early 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks and other financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and other governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators, including employment levels, announced corporate earnings, economic growth and consumer confidence have deteriorated. These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly resource companies. These disruptions could, among other things, make it more difficult for Ivanhoe Mines to obtain, or increase its cost of obtaining, capital and financing for its operations. Ivanhoe Mines' access to additional capital may not be available on terms acceptable to Ivanhoe Mines or at all.

Lack of infrastructure in proximity to Ivanhoe Mines' material properties could adversely affect mining feasibility.

The Oyu Tolgoi Project is located in an extremely remote area in the South Gobi Region of Mongolia, which currently lacks basic infrastructure, including sources of electric power, water, housing, food and transport, necessary to develop and operate a major mining project. While Ivanhoe Mines has established the limited infrastructure necessary to conduct its current exploration and development activities, substantially greater sources of power, water, physical plant and transportation infrastructure in the area will need to be established before Ivanhoe Mines can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured. The Ovoot Tolgoi Project is similarly located in a remote area of southern Mongolia.

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The resource and reserve estimates for Ivanhoe Mines' projects disclosed in this MD&A are estimates only and are subject to change based on a variety of factors, some of which are beyond Ivanhoe Mines' control. Ivanhoe Mines' actual production, revenues and capital expenditures may differ materially from these estimates.

The estimates of reserves and resources disclosed in this MD&A, including the anticipated tonnages and grades that will be achieved or the indicated level of recovery that will be realized, are estimates and no assurances can be given as to their accuracy. Such estimates are, in large part, based on interpretations of geological data obtained from drill holes and other sampling techniques. Actual mineralization or formations may be different from those predicted. It may also take many years from the initial phase of drilling before production is possible, and during that time the economic feasibility of exploiting a deposit may change. Reserve and resource estimates are materially dependent on prevailing metal prices and the cost of recovering and processing minerals at the individual mine sites. Market fluctuations in the price of metals or increases in the costs to recover metals from Ivanhoe Mines' mining projects may render the mining of ore reserves uneconomical and materially adversely affect Ivanhoe Mines' operations. Moreover, various short-term operating factors may cause a mining operation to be unprofitable in any particular accounting period.

Prolonged declines in the market price of metals may render reserves containing relatively lower grades of mineralization uneconomic to exploit and could reduce materially Ivanhoe Mines' reserves and resources. Should such reductions occur, material write downs of Ivanhoe Mines' investment in mining properties or the discontinuation of development or production might be required, and there could be material delays in the development of new projects, increased net losses and reduced cash flow. The estimates of mineral reserves and resources attributable to a specific property are based on accepted engineering and evaluation principles. The estimated amount of contained metals in proven and probable mineral reserves does not necessarily represent an estimate of a fair market value of the evaluated properties.

There are numerous uncertainties inherent in estimating quantities of mineral reserves and resources. The estimates in this MD&A are based on various assumptions relating to commodity prices and exchange rates during the expected life of production, mineralization of the area to be mined, the projected cost of mining, and the results of additional planned development work. Actual future production rates and amounts, revenues, taxes, operating expenses, environmental and regulatory compliance expenditures, development expenditures, and recovery rates may vary substantially from those assumed in the estimates. Any significant change in these assumptions, including changes that result from variances between projected and actual results, could result in material downward revision to current estimates.

Mining projects are sensitive to the volatility of metal prices.

The long-term viability of the Oyu Tolgoi Project depends in large part on the world market prices of copper and gold. The market prices for these metals are volatile and are affected by numerous factors beyond Ivanhoe Mines' control. These factors include international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities, increased production due to improved mining and production methods and economic events, including the performance of Asia's economies.

The aggregate effect of these factors on metals prices is impossible to predict. Should prevailing metal prices remain depressed or below variable production costs of Ivanhoe Mines' current and planned mining operations for an extended period, losses may be sustained and, under certain circumstances, there may be a curtailment or suspension of some or all of Ivanhoe Mines' mining, development and exploration activities. Ivanhoe Mines would also have to assess the economic impact of any sustained lower metal prices on recoverability and, therefore, the

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cut-off grade and level of Ivanhoe Mines' reserves and resources. These factors could have an adverse impact on Ivanhoe Mines' future cash flows, earnings, results of operations, stated reserves and financial condition.

The following table sets forth for the periods indicated (1) the London Metals Exchange's high, low and average settlement prices for copper in U.S. dollars per pound and (2) the high, low and average London afternoon fixing prices for gold.

<u>Year</u>	<u>Copper</u>			<u>Gold</u>		
	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
2004.....	\$1.49	\$1.06	\$1.30	\$ 454	\$375	\$409
2005.....	\$2.11	\$1.39	\$1.67	\$ 536	\$411	\$444
2006.....	\$3.99	\$2.06	\$3.05	\$ 725	\$524	\$604
2007.....	\$3.77	\$2.37	\$3.23	\$ 841	\$604	\$695
2008.....	\$4.08	\$1.26	\$3.15	\$1,011	\$713	\$872

Ivanhoe Mines' business in Mongolia may be subject to legal risk.

The legal framework in Mongolia is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. As a result, there may be ambiguities, inconsistencies and anomalies in the agreements, licences and title documents upon which Ivanhoe Mines holds its interests in Mongolia, or the underlying legislation upon which those interests are based, which are atypical of more developed legal systems and which may affect the interpretation and enforcement of Ivanhoe Mines' rights and obligations. Local institutions and bureaucracies responsible for administering laws may lack a proper understanding of the laws or the experience necessary to apply them in a modern business context. Many laws have been enacted, but in many instances they are neither understood nor enforced and may be applied in an inconsistent, arbitrary and unfair manner, while legal remedies may be uncertain, delayed or unavailable. For decades Mongolians have looked to politicians and bureaucrats as the sources of the "law". This has changed in theory, but often not in practice. With respect to most day-to-day activities in Mongolia government civil servants interpret, and often effectively make, the law. This situation is gradually changing but at a relatively slow pace. Accordingly, while Ivanhoe Mines believes that it has taken the legal steps necessary to obtain and hold its property and other interests in Mongolia, there can be no guarantee that such steps will be sufficient to preserve those interests.

Recent and future amendments to Mongolian laws could adversely affect Ivanhoe Mines' mining rights in the Oyu Tolgoi Project or make it more difficult or expensive to develop the project and carry out mining.

In 2006, Mongolia implemented revisions to the Minerals Law. These revisions continue to preserve the substance of the original Minerals Law, which was drafted with the assistance of Western legal experts and was widely regarded as progressive, internally consistent and effective legislation, but the revisions have also increased the potential for political interference and weakened the rights of mineral holders in Mongolia. A number of the provisions will require further clarification from the Government about the manner in which the Government intends to interpret and apply the relevant law, which could have a significant effect on Ivanhoe Mines' Mongolian properties, including the Oyu Tolgoi Project in particular. In addition, members of Parliament in Mongolia have recently stated that they may consider additional amendments to the Minerals Law.

The Mongolian government has, in the past, expressed its strong desire to foster, and has to date protected the development of, an enabling environment for foreign investment. However, there are political constituencies within Mongolia that have espoused ideas that would not be regarded by the international mining industry as conducive to

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foreign investment if they were to become law or official government policy. At present, Ivanhoe Mines has no reason to believe that the government of Mongolia intends to sponsor or that Parliament intends to enact amendments to the Minerals Law or other legislation that would be materially adverse to the interests of international investors in Mongolia's mining sector, including those of Ivanhoe Mines. Nevertheless, the Oyu Tolgoi Project has a high profile among the citizens of Mongolia and, as a burgeoning democracy, Mongolia has recently demonstrated a degree of political volatility. Accordingly, until these issues are addressed and clarified, there can be no assurance that the present government or a future government will refrain from enacting legislation or adopting government policies that are adverse to Ivanhoe Mines' interests or that impair Ivanhoe Mines' ability to develop and operate the Oyu Tolgoi Project on the basis presently contemplated.

Ivanhoe Mines may experience difficulties with its joint venture partners.

A portion of the Oyu Tolgoi Project property is held by Entrée and subject to the Entrée Joint Venture. Ivanhoe Mines is subject to the risks normally associated with the conduct of joint ventures, which include disagreements as to how to develop, operate and finance a project and possible litigation between the participants regarding joint venture matters. If any such risks are realized, it may have an adverse effect on Ivanhoe Mines' ability to obtain the full economic benefit of its interest in the property that is the subject of the joint venture, which could affect its results of operations and financial condition.

Ivanhoe Mines may be unable to enforce its legal rights in certain circumstances.

In the event of a dispute arising at or in respect of, Ivanhoe Mines' foreign operations, including the Oyu Tolgoi Project, Ivanhoe Mines may be subject to the exclusive jurisdiction of local courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or other jurisdictions. Ivanhoe Mines may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Changes in, or more aggressive enforcement of, laws and regulations could adversely impact Ivanhoe Mines' business.

Mining operations and exploration activities are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labour standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response and other matters.

Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays and other effects associated with these laws and regulations may impact Ivanhoe Mines' decision as to whether to continue to operate in a particular jurisdiction or whether to proceed with exploration or development of properties. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, Ivanhoe Mines is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Furthermore, changes in governments, regulations and policies and practices could have an adverse impact on Ivanhoe Mines' future cash flows, earnings, results of operations and financial condition.

Ivanhoe Mines is subject to substantial environmental and other regulatory requirements and such regulations are becoming more stringent. Non-compliance with such regulations, either through current or future operations or a pre-existing condition could materially adversely affect Ivanhoe Mines.

All phases of Ivanhoe Mines' operations are subject to environmental regulations in the various jurisdictions in which it operates. For example, the Oyu Tolgoi Project is subject to a requirement to prepare an environmental

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impact assessment, as well as other environmental protection obligations. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Ivanhoe Mines' operations. Environmental hazards may exist on the properties in which the Ivanhoe Mines Group holds interests which are presently unknown to Ivanhoe Mines and which have been caused by previous or existing third party owners or operators of the properties.

Government approvals and permits are often required in connection with various aspects of Ivanhoe Mines' operations. To the extent such approvals are required and not obtained, Ivanhoe Mines may be delayed or prevented from proceeding with planned exploration or development of its mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Ivanhoe Mines and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Previous mining operations may have caused environmental damage at current and former Ivanhoe Mines mining projects, and if Ivanhoe Mines cannot prove that such damage was caused by such prior operators, its indemnities and exemptions from liability may not be effective.

Ivanhoe Mines has received exemptions from liability from relevant governmental authorities for environmental damage caused by previous mining operations at current and former mining projects, including at the Bakyrchik gold project in Kazakhstan and the Cloncurry Project in Australia. There is a risk, however, that, if an environmental accident occurred at those sites, it may be difficult or impossible to assess the extent to which environmental damage was caused by Ivanhoe Mines' activities or the activities of other operators. In that event, the liability exemptions could be ineffective and possibly worthless.

The actual cost of developing the Oyu Tolgoi Project may differ significantly from Ivanhoe Mines' estimates and involve unexpected problems or delays.

The estimates regarding the development and operation of the Oyu Tolgoi Project are based on the IDP05. This study establishes estimates of resources, construction and development costs, operating costs and projects economic returns. These estimates are based, in part, on assumptions about future metal prices and future cost inputs, and variances in these inputs, as well as other inputs that form the basis of IDP05, may result in operating costs, construction and development costs, production and economic returns that differ significantly from those anticipated by the IDP05 and future development reports. In the case of operating costs, IDP05 derives estimates of average cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of copper and gold from the ore;
- cash operating costs of comparable facilities and equipment; and
- anticipated climatic conditions.

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There are also a number of uncertainties inherent in the development and construction of any new mine, including the Oyu Tolgoi Project. These uncertainties include:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour, power, water and transportation;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to obtain necessary environmental and other government permits, and the timing of those permits; and
- the availability of funds to finance construction and development activities.

The cost, timing and complexities of mine construction and development are increased by the remote location of a property such as the Oyu Tolgoi Project. It is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there is no assurance that future development activities will result in profitable mining operations.

Ivanhoe Mines' valuation of its investment in the commercial paper it received as a result of the ABCP settlement may not reflect actual amounts recovered in the future

Ivanhoe Mines has valued its investment in the commercial paper resulting from the asset backed commercial paper settlement using information that is publicly available at this time. Continuing uncertainties regarding the value of the assets that underlie these investments and the amount and timing of cash flows could give rise to a further change in their fair value. There can be no assurance that Ivanhoe Mines' investment will be recoverable in whole, in part or at all.

Ivanhoe Mines' ability to obtain dividends or other distributions from its subsidiaries may be subject to restrictions imposed by law, foreign currency exchange regulations and financing arrangements.

Ivanhoe Mines conducts its operations through subsidiaries. Its ability to obtain dividends or other distributions from its subsidiaries may be subject to restrictions on dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which the subsidiaries operate. The subsidiaries' ability to pay dividends or make other distributions to Ivanhoe Mines is also subject to their having sufficient funds to do so. If the subsidiaries are unable to pay dividends or make other distributions, Ivanhoe Mines' growth may be inhibited unless it is able to obtain additional equity or debt financing on acceptable terms. In the event of a subsidiary's liquidation, Ivanhoe Mines may lose all or a portion of its investment in that subsidiary.

There can be no assurance that the interest held by Ivanhoe Mines in its exploration, development and mining properties is free from defects or that material contractual arrangements between Ivanhoe Mines and entities owned or controlled by foreign governments will not be unilaterally altered or revoked.

Ivanhoe Mines has investigated its rights to explore and exploit its various properties and, to the best of its knowledge, those rights are in good standing but no assurance can be given that such rights will not be revoked, or significantly altered, to the detriment of Ivanhoe Mines. There can also be no assurance that Ivanhoe Mines' rights will not be challenged or impugned by third parties. Ivanhoe Mines has also applied for rights to explore, develop and mine various properties, but there is no certainty that such rights, or any additional rights applied for, will be granted on terms satisfactory to Ivanhoe Mines or at all.

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The proceeds from the sale of the Savage River Project are dependent on iron ore prices and the remaining supply of ore at the Savage River Project.

The remaining portion of the proceeds payable to Ivanhoe Mines from the sale of the Savage River Project are deferred, and the amount of such payments are dependent on prevailing prices for iron ore (as represented by the Nibrasco/JSM pellet price) in the year that the compensation is paid and the total tonnage of iron ore pellets sold from the Savage River Project in that year. Such prices are very volatile and in the past prices have suffered significant declines. Lower prices mean lower corresponding payments to Ivanhoe Mines. In addition, while current reserve and resource estimates indicate that the mine will be capable of producing sufficient ore to meet the desired tonnes per year threshold for the term of deferred payments, there is no assurance that these estimates will actually bear themselves out. If insufficient ore is actually present to produce the desired threshold amount of ore, then the corresponding payments to Ivanhoe Mines will be lower.

Competition for new mining properties by larger, more established companies may prevent Ivanhoe Mines from acquiring interests in additional properties or mining operations.

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established mining companies with substantial capabilities and greater financial and technical resources, Ivanhoe Mines may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that Ivanhoe Mines will acquire any interest in additional operations that would yield reserves or result in commercial mining operations.

There is no assurance that Ivanhoe Mines will be capable of consistently producing positive cash flows.

Ivanhoe Mines has paid no dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. Ivanhoe Mines has not, to date, produced positive cash flows from operations, and there can be no assurance of its ability to operate its projects profitably. While Ivanhoe Mines may in the future generate additional working capital through the operation, development, sale or possible syndication of its properties, there is no assurance that Ivanhoe Mines will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.

A substantial portion of Ivanhoe Mines' operations involve exploration and development and there is no guarantee that any such activity will result in commercial production of mineral deposits.

Development of Ivanhoe Mines' mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. There is no assurance that additional commercial quantities of ore will be discovered on any of Ivanhoe Mines' exploration properties. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of Ivanhoe Mines.

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Ivanhoe Mines cannot insure against all of the risks associated with mining.

Exploration, development and production operations on mineral properties involve numerous risks and hazards, including:

- rock bursts, slides, fires, earthquakes or other adverse environmental occurrences;
- industrial accidents;
- labour disputes;
- political and social instability;
- technical difficulties due to unusual or unexpected geological formations;
- failures of pit walls; and
- flooding and periodic interruptions due to inclement or hazardous weather condition.

These risks can result in, among other things:

- damage to, and destruction of, mineral properties or production facilities;
- personal injury;
- environmental damage;
- delays in mining;
- monetary losses; and
- legal liability.

It is not always possible to obtain insurance against all such risks and Ivanhoe Mines may decide not to insure against certain risks as a result of high premiums or other reasons. The incurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on Ivanhoe Mines' financial conditions, results of operations and cash flows and could lead to a decline in the value of the securities of Ivanhoe Mines. Ivanhoe Mines does not maintain insurance against political or environmental risks.

As a result of the rights to acquire Common Shares and other rights granted to Rio Tinto pursuant to the Rio Tinto Transaction and the Rio Tinto Credit Agreement, Rio Tinto has the ability to significantly influence the business and affairs of Ivanhoe Mines.

Rio Tinto's original subscription for Common Shares pursuant to the Rio Tinto Transaction and the various rights granted to Rio Tinto to acquire additional Common Shares through the second tranche private placement, the exercise of share purchase warrants and the right to convert the indebtedness outstanding under the Rio Tinto Credit Agreement will give Rio Tinto the voting power to significantly influence the policies, business and affairs of Ivanhoe Mines and the outcome of any significant corporate transaction or other matter, including a merger, business combination or a sale of all, or substantially all, of Ivanhoe Mines' assets. Subject to certain limited exceptions, Rio Tinto also has a right of first refusal with respect to any proposed disposition by Ivanhoe Mines of an interest in the Oyu Tolgoi Project. Rio Tinto's share position in Ivanhoe Mines and its right of first refusal with respect to the Oyu Tolgoi Project may have the effect of delaying, deterring or preventing a transaction involving a change of control of Ivanhoe Mines in favour of a third party that otherwise could result in a premium in the market price of the Common Shares in the future.

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Rio Tinto will also be able to significantly influence the management, development and operation of the Oyu Tolgoi Project through its representatives on the Oyu Tolgoi Technical Committee, established to manage the Oyu Tolgoi Project. Provided Rio Tinto maintains a minimum level of shareholding in Ivanhoe Mines, Rio Tinto's appointees to the Oyu Tolgoi Technical Committee will have a veto over certain specified material decisions until October 2009 and, thereafter, Rio Tinto appointees will represent a majority of the members of the Oyu Tolgoi Technical Committee and will thereby be entitled to control the ongoing decisions made by the Technical Committee.

Ivanhoe Mines is exposed to risks of changing political stability and government regulation in the countries in which it operates.

Ivanhoe Mines holds mineral interests in countries, which may be affected in varying degrees by political stability, government regulations relating to the mining industry and foreign investment therein, and the policies of other nations in respect of these countries. Any changes in regulations or shifts in political conditions are beyond the control of Ivanhoe Mines and may adversely affect its business. Ivanhoe Mines' operations may be affected in varying degrees by government regulations, including those with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. Ivanhoe Mines' operations may also be affected in varying degrees by political and economic instability, economic or other sanctions imposed by other nations, terrorism, military repression, crime, extreme fluctuations in currency exchange rates and high inflation.

In certain areas where Ivanhoe Mines is active, the regulatory environment is in a state of continuing change, and new laws, regulations and requirements may be retroactive in their effect and implementation. The laws of many of the countries in which Ivanhoe Mines operates also contain inconsistencies and contradictions. Many of them are structured to bestow on government bureaucrats substantial administrative discretion in their application and enforcement with the result that the laws are subject to changing and different interpretations. As such, even Ivanhoe Mines' best efforts to comply with the laws may not result in effective compliance in the determination of government bureaucrats.

Ivanhoe Mines' prospects depend on its ability to attract and retain key personnel.

Recruiting and retaining qualified personnel is critical to Ivanhoe Mines' success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. Ivanhoe Mines believes that it has been successful in recruiting excellent personnel to meet its corporate objectives but, as Ivanhoe Mines' business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although Ivanhoe Mines believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Certain directors of Ivanhoe Mines are directors or officers of, or have significant shareholdings, in other mineral resource companies and there is the potential that such directors will encounter conflicts of interest with Ivanhoe Mines.

Certain of the directors of Ivanhoe Mines are directors or officers of, or have significant shareholdings in, other mineral resource companies and, to the extent that such other companies may participate in ventures in which Ivanhoe Mines may participate, the directors of Ivanhoe Mines may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. This includes the nominees of Rio Tinto, which is entitled to nominate directors to the board of directors of Ivanhoe Mines in proportion to its holdings of Ivanhoe Mines' issued and outstanding common shares from time to time. Certain of these nominees are or may be directors

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or officers of, or have significant shareholdings in, Rio Tinto companies or other mineral resource companies and, to the extent that such companies may engage in business relationships with Ivanhoe Mines, the directors of Ivanhoe Mines appointed by Rio Tinto may have conflicts of interest in negotiating and concluding terms of such relationships. In all cases where directors and officers have an interest in another resource company, such other companies may also compete with Ivanhoe Mines for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of Ivanhoe Mines and will abstain from voting for or against the approval of such participation or such terms. In appropriate cases, Ivanhoe Mines will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of the Yukon *Business Corporations Act*, the directors of Ivanhoe Mines are required to act honestly, in good faith and in the best interests of Ivanhoe Mines. In determining whether or not Ivanhoe Mines will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to Ivanhoe Mines, the degree of risk to which Ivanhoe Mines may be exposed and its financial position at that time.

Capital markets are experiencing increased volatility.

In recent years and especially over the course of the last year, securities markets throughout the world have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those in the resource sector, has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. If these increased levels of volatility and market turmoil continue, our operations could be adversely impacted and there can be no assurance that such fluctuations will not continue to affect the price of Ivanhoe Mines' securities.

RELATED-PARTY TRANSACTIONS

The following tables summarize related party expenses incurred by Ivanhoe Mines, primarily on a cost recovery basis, with an officer of a subsidiary of Ivanhoe Mines, a company affiliated with Ivanhoe Mines, or with companies related by way of directors or shareholders in common. The tables below summarize the transactions with related parties and the types of expenditures incurred with related parties:

	Years Ended December 31,	
	2008	2007
	(\$000's of U.S. dollars)	
Global Mining Management Corporation(a)	\$ 8,147	\$ 8,577
Ivanhoe Capital Aviation LLC(b).	3,840	3,840
Fognani & Faught, PLLC(c)	621	1,583
Rio Tinto plc(d)	4,783	1,330
Ivanhoe Capital Pte. Ltd.(e).	—	10
Ivanhoe Capital Services Ltd.(f)	601	958
	\$17,992	\$16,298

IVANHOE MINES LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

(Stated in U.S. dollars except where noted)

	Years Ended December 31,	
	2008	2007
Exploration	\$ 4,783	\$ 1,330
Legal	621	1,583
Office and administrative	2,451	2,756
Salaries and benefits	6,297	6,789
Travel (including aircraft rental)	3,840	3,840
	\$17,992	\$16,298

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.

Accounts receivable and accounts payable at December 31, 2008, included \$0.1 million and \$3.2 million, respectively (December 31, 2007 — \$0.2 million and \$4.0 million, respectively), which were due from/to a company under common control, a company affiliated with Ivanhoe Mines, or companies related by way of directors in common.

(a) Global Mining Management Corporation (Global) is a private company based in Vancouver owned equally by seven companies, one of which is Ivanhoe Mines. Global has a director in common with the Company. Global provides administration, accounting, and other office services to the Company on a cost-recovery basis.

(b) Ivanhoe Capital Aviation LLC (Aviation) is a private company 100% owned by the Company's Chairman. Aviation operates an aircraft which is rented by the Company on a cost-recovery basis.

(c) An officer of a subsidiary of Ivanhoe Mines is a partner with Fognani & Faught, PLLC, a legal firm which provides legal services to Ivanhoe Mines.

(d) Rio Tinto owns 9.9% of Ivanhoe Mines. Rio Tinto provides engineering related services for the Oyu Tolgoi Project on a cost-recovery basis.

(e) Ivanhoe Capital Pte. Ltd. (ICPL) is a private company 100% owned by the Company's Chairman. ICPL provides administration, accounting, and other office services in Singapore and London on a cost-recovery basis.

(f) Ivanhoe Capital Services Ltd. (ICS) is a private company 100% owned by the Company's Chairman. ICS provides management services out of Singapore on a cost-recovery basis.

At the end of December 31, 2007, Ivanhoe Mines' discontinued Savage River operations owed approximately \$5.1 million to the Company's Chairman. This debt originated as a result of the December 2000 acquisition, by Ivanhoe Mines, of the Savage River operation. Following the sale of the Savage River operations in February 2005, repayment of this balance was contingent upon Ivanhoe Mines receiving proceeds in excess of approximately \$111.1 million from the sale of the Savage River operations. In October 2008, Ivanhoe Mines discharged the obligation for \$4.3 million.

During October 2008, Ivanhoe Mines purchased 1.0 million common shares and 3.4 million special warrants of Ivanhoe Nickel & Platinum Ltd (Ivanplats) from two asset management firms for consideration of 2.2 million common shares of Ivanhoe Mines. The transaction closed October 24, 2008. Ivanplats is a private company and is related to Ivanhoe Mines by certain directors in common.

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars except where noted)

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's principal executive officer and principal financial officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the Company's fiscal year ended December 31, 2008, an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) was carried out by the Company's management with the participation of the principal executive officer and principal financial officer. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that as of the end of that fiscal year, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's principal executive officer and principal financial officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with United States generally accepted accounting principles and the requirements of the Securities and Exchange Commission in the United States, as applicable. The Company's principal executive officer and principal financial officer have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 in accordance with Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's principal executive officer and principal financial officer have determined that the Company's internal control over financial reporting was effective as of December 31, 2008 and have certified Ivanhoe Mines' annual filings with the U.S. Securities and Exchange Commission on Form 40-F as required by the United States Sarbanes-Oxley Act and with Canadian securities regulatory authorities.

Management reviewed the results of management's assessment with the Audit Committee of the Company's Board of Directors. Deloitte & Touche LLP, independent registered chartered accountants, was engaged, as approved by a vote of the Company's shareholders, to audit and provide independent opinions on the Company's consolidated financial statements and the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. Deloitte & Touche LLP has provided such opinions.

Changes in internal control over financial reporting

During the year ended December 31, 2008 there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

IVANHOE MINES LTD.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars except where noted)

QUALIFIED PERSONS

Disclosures of a scientific or technical nature in this MD&A in respect of each of Ivanhoe Mines’ material mineral resource properties were prepared by, or under the supervision of, the “qualified persons” (as that term is defined in NI 43-101) listed below:

<u>Project</u>	<u>Qualified Person</u>	<u>Relationship to Ivanhoe Mines</u>
Oyu Tolgoi Project	Stephen Torr, P.Geo, Ivanhoe Mines	Employee of the Company
Ovoot Tolgoi Project	Stephen Torr, P.Geo, Ivanhoe Mines	Employee of the Company

OVERSIGHT ROLE OF THE AUDIT COMMITTEE

The Audit Committee reviews, with management and the external auditors, the Company’s MD&A and related consolidated financial statements and approves the release of such information to shareholders. For each audit or quarterly review, the external auditors prepare a report for members of the Audit Committee summarizing key areas, significant issues and material internal control weaknesses encountered, if any.

CAUTIONARY STATEMENTS

LANGUAGE REGARDING RESERVES AND RESOURCES

Readers are advised that National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101) of the Canadian Securities Administrators requires that each category of mineral reserves and mineral resources be reported separately. For detailed information related to Company resources and reserves, readers should refer to the Annual Information Form of the Company for the year ended December 31, 2008, and other continuous disclosure documents filed by the Company since January 1, 2009, at www.sedar.com.

NOTE TO UNITED STATES INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES

This document, including the documents incorporated by reference herein, has been prepared in accordance with the requirements of securities laws in effect in Canada, which differ from the requirements of United States securities laws. Without limiting the foregoing, this document, including the documents incorporated by reference herein, uses the terms “measured”, “indicated” and “inferred” resources. United States investors are advised that, while such terms are recognized and required by Canadian securities laws, the SEC does not recognize them. Under United States standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves. Further, “inferred resources” have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the “inferred resources” will ever be upgraded to a higher category. Therefore, United States investors are also cautioned not to assume that all or any part of the inferred resources exist, or that they can be mined legally or economically. Disclosure of “contained ounces” is a permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report “resources” as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization and resources contained in this document, or in the documents incorporated by reference, may not be comparable to information made public by United States companies subject to the reporting and disclosure requirements of the SEC. National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101) is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars except where noted)

mineral projects. Unless otherwise indicated, all reserve and resource estimates contained in or incorporated by reference in this document have been prepared in accordance with NI 43-101. These standards differ significantly from the requirements of the SEC, and reserve and resource information contained herein and incorporated by reference herein may not be comparable to similar information disclosed by U.S. companies. NI 43-101 permits a historical estimate made prior to the adoption of NI 43-101 that does not comply with NI 43-101 to be disclosed using the historical terminology if the disclosure: (a) identifies the source and date of the historical estimate; (b) comments on the relevance and reliability of the historical estimate; (c) states whether the historical estimate uses categories other than those prescribed by NI 43-101; and (d) includes any more recent estimates or data available.

FORWARD-LOOKING STATEMENTS

Certain statements made herein, including statements relating to matters that are not historical facts and statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as "anticipate," "could," "should," "expect," "seek," "may," "intend," "likely," "plan," "estimate," "will", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting anticipated business activities; planned expenditures; corporate strategies; proposed acquisitions and dispositions of assets; discussions with third parties respecting material agreements; the expected timing and outcome of Ivanhoe Mines' discussions with representatives of the Government of Mongolia for an Investment Agreement in respect of the Oyu Tolgoi Project; the timing of commencement of full construction of the Oyu Tolgoi Project; the estimated timing and cost of bringing the Oyu Tolgoi Project into commercial production; anticipated future production and cash flows; target milling rates; the impact of amendments to the laws of Mongolia and other countries in which Ivanhoe Mines carries on business; the anticipated future production for the Ovoot Tolgoi Coal Mine; the potential improvement of the export conditions at the Ceke border between Mongolia and China and the completion of a feasibility study on the Ovoot Tolgoi Coal Mine; the potential of plans to make non-core projects self-funding, and other statements that are not historical facts.

All such forward-looking information and statements are based on certain assumptions and analyses made by Ivanhoe Mines' management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Important factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risks and Uncertainties" elsewhere in this MD&A. The reader is cautioned not to place undue reliance on forward-looking information or statements.

This MD&A also contains references to estimates of mineral reserves and mineral resources. The estimation of reserves and resources is inherently uncertain and involves subjective judgments about many relevant factors. 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, which may prove to be unreliable. There can be no assurance that these estimates will be accurate or that such mineral reserves and mineral resources can be mined or processed profitably. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Except as required by law, the Company does not assume the obligation to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

IVANHOE MINES LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

(Stated in U.S. dollars except where noted)

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements and the management's discussion and analysis of financial condition and results of operations (MD&A) are the responsibility of the management of Ivanhoe Mines Ltd. These financial statements and the MD&A have been prepared by management in accordance with accounting principles generally accepted in the United States and regulatory requirements, respectively, using management's best estimates and judgment of all information available up to March 31, 2009.

The Board of Directors has approved the information contained in the consolidated financial statements and the MD&A. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities to the Directors who approve the consolidated financial statements.

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 2 to the Consolidated Financial Statements.

The consolidated financial statements have been audited by Deloitte & Touche LLP, independent registered chartered accountants, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). They have full and unrestricted access to the Audit Committee.

/s/ "John Macken"

John Macken
President and CEO

/s/ "Tony Giardini"

Tony Giardini
Chief Financial Officer

March 31, 2009
Vancouver, BC, Canada

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference of our reports dated March 30, 2009 relating to (1) the consolidated financial statements of Ivanhoe Mines Ltd. (which report expresses an unqualified opinion and includes a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference relating to changes in accounting principles) and (2) the effectiveness of Ivanhoe Mines Ltd.'s internal control over financial reporting appearing in this Annual Report on Form 40-F of Ivanhoe Mines Ltd. for the year ended December 31, 2008.

We also consent to the incorporation by reference of the above mentioned reports in Registration Statement No. 333-143550 on Form S-8.

(Signed) Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada

March 31, 2009

EXHIBIT 23.2

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

We hereby consent to the use of and reference to our name and the Oyu Tolgoi Technical Report dated March 2008 (the “Technical Report”) and the inclusion of information derived from the Technical Report under the heading “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” and the use of and reference to our name in “Interest of Experts” in the Company’s Annual Information Form for the year ended December 31, 2008 dated March 31, 2009 and in the 40-F.

Sincerely,

GRD Minproc Limited

/s/ Tom Revy

Name: Tom Revy

Title: Director

Date: March 31, 2009

EXHIBIT 23.3

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name as a Qualified Person for the Oyu Tolgoi Technical Report dated March 2008, under the heading “Qualified Persons” and “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” in the Company’s Annual Information Form for the year ended December 31, 2008, dated March 31, 2009, and in the 40-F.

Sincerely,

/s/ Bernard Peters

Title: Principal Mining Consultant

Company: GRD Minproc Limited

Date: March 31, 2009

EXHIBIT 23.4

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name (i) as a Qualified Person for the Oyu Tolgoi Technical Report dated March 2008, under the heading “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” and as a Qualified Person for the Ovoot Tolgoi Technical Report dated March 29, 2009 under the heading “Description of the Business — Ovoot Tolgoi Project”, each as set forth in the Company’s Annual Information Form for the year ended December 31, 2008, dated March 31, 2009; (ii) as the Qualified person for the Oyu Tolgoi Project in the Company’s Managements’ Discussion and Analysis of Financial Condition and Results of Operation for the years ended December 31, 2008, dated March 31, 2009, and (iii) in the 40-F.

Sincerely,

/s/ Stephen Torr

Title: Resource Manager
Company: Ivanhoe Mines Ltd.

Date: March 31, 2009

EXHIBIT 23.5

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name as a Qualified Person for the Oyu Tolgoi Technical Report dated March 2008, under the heading “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” in the Company’s Annual Information Form for the year ended December 31, 2008, dated March 31, 2009, and in the 40-F.

Sincerely,

/s/ John Vann

Title: Principal Consultant

Company: Quantitative Geoscience Pty. Ltd.

Date: March 31, 2009

EXHIBIT 23.6

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name as a Qualified Person for the Oyu Tolgoi Technical Report dated March 2008, under the heading “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” in the Company’s Annual Information Form for the year ended December 31, 2008, dated March 31, 2009, and in the 40-F.

Sincerely,

/s/ Dean David

Title: Process Consultant

Company: GRD Minproc Limited

Date: March 31, 2009

EXHIBIT 23.7

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name as a Qualified Person for the Oyu Tolgoi Technical Report dated March 2008, under the heading “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” in the Company’s Annual Information Form for the year ended December 31, 2008, dated March 31, 2009, and in the 40-F.

Sincerely,

/s/ Scott Jackson

Title: Principal Consultant

Company: Quantitative Geoscience Pty. Ltd.

Date: March 31, 2009

EXHIBIT 23.8

CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the “40-F”) of Ivanhoe Mines Ltd. (the “Company”) to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name as a Qualified Person for the Oyu Tolgoi Technical Report dated March 2008, under the heading “Description of the Business — Oyu Tolgoi Copper and Gold Project, Mongolia” in the Company’s Annual Information Form for the year ended December 31, 2008, dated March 31, 2009, and in the 40-F.

Sincerely,

/s/ Jeffrey Price

Title: Principal Geotechnical Consultant
Company: SRK Consulting (Australasia)

Date: March 31, 2009

EXHIBIT 23.9
CONSENT OF EXPERT

Reference is made to the Annual Report on Form 40-F (the "40-F") of Ivanhoe Mines Ltd. (the "Company") to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

I hereby consent to the use of and reference to my name as a Qualified Person for the Ovoot Tolgoi Technical Report dated March 29, 2009, under the heading "Description of the Business — Ovoot Tolgoi Project" in the Company's Annual Information Form for the year ended December 31, 2008, dated March 31, 2009 and as the Qualified Person for Ovoot Tolgoi Project in the Company's Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2008, dated March 31, 2009, and in the 40-F.

Sincerely,

/s/ Gene Wusaty

Name: Gene Wusaty
Title: Chief Operating Officer, Coal Division
Company: SouthGobi Energy Resources Ltd.

Date: March 31, 2009

EXHIBIT 31.1
CERTIFICATIONS PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, John Macken, certify that:

1. I have reviewed this annual report on Form 40-F of Ivanhoe Mines Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2009

By: /s/ "John Macken"
John Macken
Chief Executive Officer

EXHIBIT 31.2
CERTIFICATIONS PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Tony Giardini, certify that:

1. I have reviewed this annual report on Form 40-F of Ivanhoe Mines Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 31, 2009

By: /s/ "Tony Giardini"
Tony Giardini
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATIONS PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this annual report of Ivanhoe Mines Ltd. (the "Company") on Form 40-F for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Macken, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2009

By: /s/ "John Macken"
John Macken
Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATIONS PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this annual report of Ivanhoe Mines Ltd. (the "Company") on Form 40-F for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tony Giardini, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2009

By: /s/ "Tony Giardini"
Tony Giardini
Chief Financial Officer