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IVANHOE MINES' DIRECTORS REGISTER COMPANY'S CONCERN ABOUT SURPRISE MONGOLIAN GOVERNMENT TAX MEASURE

MONGOLIA'S PRESIDENT REITERATES SUPPORT FOR A STABILITY AGREEMENT WITH IVANHOE

Statement issued today by John Macken, President of Ivanhoe Mines Ltd.

NEW YORK — The Ivanhoe Mines Board of Directors has officially registered its concern with the Government of Mongolia about a new windfall-profits tax on minerals that reportedly was approved by the national parliament in a surprise action on Friday evening.

The new tax measure was introduced with little advance notice, and debated and approved in inexplicable haste. Mongolia's mining and related business industries did not have sufficient opportunity to review, comment, or make constructive submissions to all the members of the parliament before the law was enacted. It is understood that the Cabinet of the Government of National Unity, formed following a series of political alliances in January this year, recently had rejected the windfall-profits tax bill — which nonetheless was approved by 35 of the 45 parliamentarians who voted, representing less than half of the 76 elected members of parliament.

Reports indicate that the parliamentary vote means that the government would impose a tax beginning at 68% when copper prices reach \$2,600 a tonne (\$1.18 per pound), and when gold reaches \$500 an ounce. No formal text of the new law has yet been received.

A letter just written by the Ivanhoe Board of Directors, directed to the government through the Mongolian Ambassador in Canada, said, in part:

“First, we are surprised and disappointed that legislation might be passed without consultation with the industry, and that a lack of openness and transparency seems to have marked the process. Second, although we have not yet been fully advised of the details of the measure, we are worried that it could, unintentionally, have a negative impact on companies operating in the mining sector and a negative impact on Mongolia's hard-won reputation as a country open to productive foreign investment.

“The Board of Ivanhoe Mines fully understands the interest the Government and Parliament of Mongolia have in ensuring that the people of Mongolia benefit from high commodity prices, and we fully share that objective. We believe that there are ways of structuring fiscal and royalty measures that can meet that objective without

in any way damaging the attractiveness to global investors of supporting the development of Mongolia's natural resource sector.”

Mongolia mining laws have attracted major international investments

Ivanhoe will seek to clarify the status of the new windfall-profits law within the context of other changes currently proposed to Mongolia's tax and minerals laws, such as a potential reduction in the corporate tax rate.

Mongolia's existing laws have successfully attracted several hundreds of millions of dollars in exploration and mine development spending and created thousands of jobs for Mongolians in recent years. Much of the country's present investment-based economic growth, since the beginning of its 15-year-old democracy, is directly attributable to foreign direct investment attracted to the country only after the parliament voted in 2001 to rescind a three-year-old 10% value-added tax on gold production. That tax had stalled significant expansion of the country's mineral sector. Virtually all of the \$370 million already invested by Ivanhoe on the discovery and development of the Oyu Tolgoi copper and gold project in Mongolia was committed only after the removal of the gold tax.

The sudden passage of the windfall-profits law illustrates to the Mongolian people why mining companies, banks and financial institutions require stability agreements worldwide prior to committing significant investment capital in developing countries. Without a justifiable period of assured stability, most responsible companies would not take the risk of funding exploration and the development of new mines anywhere in the world. While a windfall-profits tax conceivably might be defensible in certain circumstances in the oil and gas industry, Ivanhoe Mines is unaware of any country imposing a windfall-profits tax on the highly cyclical mining industry. This new law is particularly surprising in light of the Mongolian government's pledge late last year to support the Extractive Industries Transparency Initiative sponsored by the World Bank.

Ivanhoe believes that there is universal support in the international mining industry for the view that no measure, with such potentially severe negative implications for the future of all foreign investment in the development of Mongolia's economy, should be signed into law without thorough review and due consultation with affected companies, multi-lateral financial aid agencies and governments representing the interests of the international mining community.

Domestic and foreign mining companies active in Mongolia will be discussing their opposition to this tax. Ivanhoe understands that some of the major international mining companies presently active in Mongolia held meetings with some legislators prior to the passage of the bill, cautioning that investments would be severely curtailed if the parliament approved an ill-conceived windfall-profits tax. The companies now may invite the President of Mongolia, who already has criticized what he considers to be failings of the tax measure, to exercise his constitutional authority to veto the legislation and prevent the implementation of the new tax measure. This would permit the development

of a more appropriate, substitute tax measure through a transparent and fair process that will preserve the benefits of foreign investment in Mongolia, with its associated widespread job creation and revenues that can be used to reduce poverty.

Statements by Mongolia's President on new tax and stability agreement

Speaking on television on Friday night, after the vote in parliament, President N. Enkhbayar said that a downside of the new tax measure is that it is “designed only for when the copper and gold prices always remain high.”

Mongolia, he said, also should be thinking of a policy that will provide protection “when the times are bad,” as has been experienced in the past during periods of very low market prices, when copper mining in Mongolia did not contribute any money to the national budget. Mongolia should study and learn from successful policies that have been adopted by other countries, he said. Measures such as a windfall-profits tax “only assume the good times. They have the bad times left out. Let’s find a solution where Mongolia wins both during the bad times and the good times.”

President Enkhbayar also again expressed his view that it was necessary for the government to conclude a stability agreement with Ivanhoe for the Oyu Tolgoi project.

Such an agreement, he said, also should anticipate good and bad times.

The President suggested that a flexible mechanism could be incorporated into the stability agreement that would provide for a windfall-profits tax to take effect at times of high metal prices. “Today, we might say that we will furnish favourable conditions for investment under these unprofitable conditions. But, if there is a sudden profit, the conditions will not stay the same. As such, we could make an agreement with flexibilities incorporated.”

Following meetings in March this year, the Government of Mongolia accepted Ivanhoe's commitments to a series of investment-related initiatives that would deliver significant benefits to Mongolians. Ivanhoe proposed agreements that will:

1. Ensure the employment and skills training of, and provide acceptable minimum wages for, Mongolians working on the Oyu Tolgoi project. The project is expected to directly create 10,000 person years of employment during construction of the open-pit and underground mines and an additional 38,000 person years of employment during the first 35 years of mining at Oyu Tolgoi.
2. Provide for the production of long-term electrical power generation in the South Gobi region.

3. Ensure that Ivanhoe will work with the Mongolian government to secure the construction in Mongolia of downstream smelting capacity to add more jobs and value addition to copper production.
4. Facilitate the listing of Ivanhoe's shares on the Mongolian Stock Exchange, making it possible for Mongolians to own stock in the company.

In recent months, President Enkhbayar, Prime Minister M. Enkhbold and a number of cabinet ministers have reaffirmed their views that Mongolia must maintain and protect a favourable legal and fiscal framework for attracting ongoing foreign direct investment. The international financial markets and Ivanhoe's thousands of shareholders will watch upcoming developments in Mongolia with keen interest and an expectation that the Government of Mongolia and the President of Mongolia will modify or reject this legislation.

Conference call contemplated

Ivanhoe Mines, like the rest of the mining industry in Mongolia, was surprised by the parliament's abrupt approval of the windfall-profits tax measure. Senior management of Ivanhoe Mines will be gathering first-hand assessments of the situation in Mongolia and speaking with other mining companies, and expects to be in a position to conduct a conference call for its investors in the near future.

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