

IVANHOE MINES LTD.
Incorporated in Yukon Territory, Canada
ARBN : 075 217 097

FINAL REPORT
Year ended December 31, 2003

APPENDIX SUMMARY

- Management Discussion and Analysis of financial condition and results of operations
- Auditors's Report
- Consolidated Financial Statements for year ended December 31, 2003 and 2002.

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars)

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INTRODUCTION

This management's discussion and analysis ("MD&A") provides a detailed analysis of the financial condition and results of operations of Ivanhoe Mines Ltd. and compares its 2003 financial results with those of the previous year. The MD&A should be read in conjunction with the Company's annual Consolidated Financial Statements and related notes for the year ended December 31, 2003, which have been prepared in accordance with generally accepted accounting principles in Canada. The effective date of this MD&A is March 29, 2004.

Additional information about the Company, including its Annual Information Form, is available at www.sedar.com.

FORWARD LOOKING STATEMENTS

Except for statements of historical fact relating to Ivanhoe Mines, certain information contained herein constitutes forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Forward-looking statements include, but are not limited to, statements concerning estimates of expected capital expenditures, statements relating to expected future production and cash flows, statements relating to the continued advancement of Ivanhoe Mines' exploration, development and production projects, and other statements which are not historical facts. When used in this document, the words such as "could," "plan," "estimate," "expect," "intend," "may," "potential," "should," and similar expressions are forward-looking statements. Although Ivanhoe Mines believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements include the potential that the Ivanhoe Mines' projects will experience technological and mechanical problems, geological conditions in the deposits may not result in commercial levels of mineral production, changes in product prices, changes in political conditions, changes in the availability to obtain project financing and other risks. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and 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 statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should

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change. The reader is cautioned not to place undue reliance on forward-looking statements.

This MD&A contains references to estimates of 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 of reserves and mineral resources will be accurate, and that reserves and mineral resources could be mined or processed profitably.

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SELECTED FINANCIAL INFORMATION

Years ended December 31,

*(All amounts in millions of U.S. dollars,
except per share information)*

	2003	2002	2001
Revenue			
Copper	22.9	20.2	19.6
Iron	66.8	66.9	55.8
Total Revenue	89.7	87.1	75.4
Operating profit (loss)			
Copper	5.0	4.7	6.3
Iron	(2.0)	5.9	3.7
Total operating profit	3.0	10.6	10.0
Exploration expenses	68.0	34.0	7.2
Write-down of assets	1.2	19.9	59.2
Gain on settlement of debt	-	32.5	-
Net loss	73.0	31.0	85.0
Net loss per share	\$0.30	\$0.16	\$0.66
Total assets	455.7	276.0	247.8
Total long-term financial liabilities	31.4	24.2	53.2

Units sold - tonnes			
Copper cathode - 50% share	13,808	13,875	12,933
Iron ore pellets	2,180,000	2,269,773	1,820,699
Units produced - tonnes			
Copper cathode - 50% share	13,935	13,771	13,013
Iron ore pellets	2,255,938	2,139,186	2,024,285

Sale price			
Copper cathode - US\$/pound	\$0.79	\$0.70	\$0.73
Iron ore pellets - US\$/tonne	\$31	\$29	\$31

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SELECTED QUARTERLY DATA

(\$ in millions except per share information)

	QUARTER ENDED				Year Ended Dec.31
	Mar-31	Jun-30	Sep-30	Dec-31	
2003					
Revenue					
Copper	4.6	5.5	6.1	6.7	22.9
Iron	16.0	17.5	14.5	18.8	66.8
	20.6	23.0	20.6	25.5	89.7
Operating profit (loss)					
Copper	1.2	(2.7)	2.0	4.5	5.0
Iron	(0.7)	(2.6)	0.8	0.5	(2.0)
	0.5	(5.3)	2.8	5.0	3.0
Exploration expenses	(10.8)	(15.2)	(20.8)	(21.2)	(68.0)
Write-down of assets	-	-	-	(1.2)	(1.2)
Net income (loss)	(9.0)	(19.7)	(27.0)	(17.3)	(73.0)
Net loss per share	\$0.04	\$0.08	\$0.11	\$0.07	\$0.30
2002					
Revenue					
Copper	4.7	5.4	5.1	5.0	20.2
Iron	17.1	19.4	14.1	16.3	66.9
	21.8	24.8	19.2	21.3	87.1
Operating profit (loss)					
Copper	1.2	1.7	1.4	0.4	4.7
Iron	3.3	3.8	0.9	(2.1)	5.9
	4.5	5.5	2.3	(1.7)	10.6
Exploration expenses	(2.9)	(5.4)	(10.0)	(15.7)	(34.0)
Gain on settlement of debt	-	-	32.5	-	32.5
Write-down of assets	-	-	(18.0)	(1.9)	(19.9)
Net income (loss)	0.2	(2.9)	0.4	(28.7)	(31.0)
Net loss per share	-	\$0.01	-	\$0.15	\$0.16

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OVERVIEW & CORPORATE STRATEGY

Ivanhoe Mines Ltd. (the "Company") is an international mining company whose principal current activity is exploring a major discovery of copper and gold at the Oyu Tolgoi (Turquoise Hill) project in southern Mongolia. It also has regional exploration programs targeting gold and copper, principally in Mongolia and China. The Company, together with its subsidiaries and joint venture (collectively referred to as "Ivanhoe Mines") also produces copper, gold and iron ore products from various mines in the Asia Pacific region.

The Company's current priority is to focus the majority of its financial resources on continuing the exploration and development of the Oyu Tolgoi project. In 2003, the Company began to explore opportunities to rationalize assets, including the possibility of spinning off assets through partial sales or joint ventures. During the first quarter of 2004, as part of its plans to finance the development of the Oyu Tolgoi project, the Company indicated its intention to consider selling existing non-core assets. The Company also indicated that it also may in the future, extend a minority participation in the Oyu Tolgoi project to one or more strategic partners. No assurances can be given that any agreement can or will be reached in connection with any such transaction or transactions.

Since its inception, the Company has relied on capital markets (and in particular, equity markets) to fund its exploration activities and expects, in 2004 and thereafter, to continue to rely on these markets in order to continue funding the development of the Oyu Tolgoi project. The Company does not expect to receive any cash distributions in 2004 from its two producing mines, as any available surplus cash generated by each mine will be used to either repay third-party loans or commitments or to expand existing operating mine capacity. Capital markets are subject to significant volatilities and uncertainties. There can be no assurance that Ivanhoe Mines' undeveloped or partially developed projects can be fully developed in whole or in part, since factors beyond Ivanhoe Mines' control may adversely affect its access to funding or its ability to recruit third-party participants.

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EXECUTIVE SUMMARY – 2003 YEAR

The Company recorded a net loss of US\$73 million (or \$0.30 per share) in 2003, compared to a net loss of US\$31 million (or \$0.16 per share) in 2002. Major factors in the 2003 results included an operating profit from mining operations totalling US\$3.0 million and exploration expenses of US\$68 million. Exploration expenditures were primarily incurred on the Oyu Tolgoi (Turquoise Hill) Project and other projects in Mongolia. The increase in exploration expenses is attributed to Ivanhoe's accelerated drilling activities on the Oyu Tolgoi project, especially on the Hugo Dummett deposit, and additional engineering costs in the second half of 2003 related to the Preliminary Assessment of Oyu Tolgoi.

- In January, 2004, John Macken was appointed President of Ivanhoe, with the primary task of overseeing the construction of a mine at Oyu Tolgoi. Mr. Macken, 52, joined Ivanhoe after a 19-year career with mining giant Freeport McMoran Copper and Gold, most recently as Freeport's Senior Vice-President of Strategic Planning and Development, based in New Orleans. He spent a total of 13 years with Freeport's operating unit, P.T. Freeport Indonesia (PTFI), culminating in the position of Executive Vice-President and General Manager at Freeport's Grasberg mining complex in Papua, the world's largest single copper and gold mine. Between 1996 and 1998, Mr. Macken headed an expansion valued at almost \$1 billion at the Grasberg open pit and underground mining complex in a joint venture between Freeport and Rio Tinto, of London. The expansion was completed ahead of schedule and under budget.
- During 2003, Ivanhoe spent a total of US\$59.5 million on exploration and development of its Mongolian copper and gold projects, most of which was invested in the Oyu Tolgoi discovery. To date, Ivanhoe has expensed all exploration, development and engineering costs related to its Mongolian projects.
- In February, 2004, Ivanhoe released an independently prepared Preliminary Assessment of the Oyu Tolgoi Project that confirmed its potential to become a new, long-life copper and gold producer that could rank among the largest in the world. Ivanhoe intends to complete a final feasibility study on the first stage of a two-stage development scenario. The Preliminary Assessment estimated that a capital investment of US\$529 million would be required to build the first stage. If construction is initiated in early 2005 as currently anticipated, the first copper-concentrate shipments would be expected in late 2006 or early 2007. Electronic copies of the Preliminary Assessment Report are available at www.sedar.com.

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- In November, 2003, Ivanhoe acquired from BHP Minerals International Exploration Inc. the 2% net smelter return royalty interest on the Oyu Tolgoi project for US\$37 million. The acquisition was a strategic move to consolidate Ivanhoe's control over all aspects of the project.
- In December, 2003, Ivanhoe purchased a US\$50 million of one-year treasury bills issued by the Government of Mongolia as part of the government's effort to retire its Soviet-era debt to the Russian Federation.
- In March, 2004, the discovery of the Hugo Dummett Deposit at Oyu Tolgoi was recognized as the most significant, recent mineral discovery in the world during the annual conference of the Prospectors and Developers Association of Canada (PDAC) in Toronto. The PDAC's inaugural Thayer Lindsley International Discovery Award was presented to Ivanhoe's Douglas Kirwin, Executive VP, Exploration, Charles Forster, Senior VP, Oyu Tolgoi Project, and Garamjav Dondog, Senior Geologist.
- The joint-venture Monywa Copper Project in Myanmar produced 27,870 tonnes of copper cathode (13,935 tonnes net to Ivanhoe), approximately the same amount as 2002. The average copper price received in 2003 was 79 cents (US) a pound, compared to 70 cents (US) a pound in 2002. Minegate cash costs in 2003 were approximately 39 cents (US) a pound. Copper production for 2004 is estimated at 32,000 tonnes at minegate cash costs of approximately 38 cents (US) a pound. The current copper price is approximately US\$1.35 a pound, an increase of 71% compared to the average price received in 2003. The project receives a premium of approximately US\$38 tonne of copper (1.7 cents (US) a pound) for its LME Grade A quality.
- The company raised approximately US\$215 million in 2003. The majority of the proceeds will be used to finance Mongolian exploration and development activities. Cash at December 31, 2003, was US\$108 million.
- In November, 2003, the common shares of the company began trading in the US on the NASDAQ National Market System, trading under the symbol HUGO.

The financial results include:

- The joint-venture Monywa Copper Project in Myanmar reported a net profit of US\$2.1 million, compared to a net profit of US\$2.6 million in 2002. The project produced 27,870 tonnes of copper cathode (13,935 tonnes net to Ivanhoe) in 2003, approximately the same amount as 2002. The average copper price received in 2003 was 79 cents (US) a pound, compared to 70 cents (US) a pound in 2002. Minegate cash costs in 2003 were approximately 39 cents (US) a pound. Increased sales revenue in 2003 was offset by the increase in the cost of operations, primarily related to increased activities on mining, crushing and

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agglomeration, and the provision for income taxes required in 2003 due to the end of the project's tax holiday. Following the debt obligation payment at the end of February, 2004, the balance on the original US\$90 million project debt was reduced to US\$22.5 million. Projected copper production for 2004 is estimated at 32,000 tonnes at minegate cash costs of approximately 38 cents (US) a pound. The current copper price is approximately US\$1.35 a pound, an increase of 71% compared to the average price received in 2003. The project receives a premium of approximately US\$38 tonne of copper (1.7 cents (US) a pound) for its LME Grade A quality.

- ABM Mining's Savage River Mine in Australia reported a net loss of US\$4.7 million in 2003, due mainly to the negative impact on operating costs of the rise in the Australian dollar vis-à-vis the US dollar. The exchange rate for the Australian dollar against the US dollar at the end of 2003 was 74.9 cents (US), up 33% from rate of 56.1 cents (US) at the beginning of 2003. The mine produced approximately 2.3 million tonnes of iron ore pellets during 2003, a 5% increase over 2002 production. Pellet prices received by Savage River in 2003 were approximately US\$31 a tonne, compared to approximately US\$29 tonne in 2002. Pellet prices at Savage River are negotiated once a year and are priced in US dollars. Most of Savage River's annual pellet price adjustments become effective in the second half of the year. Planned pellet production for 2004 is estimated at 2.3 million tonnes at an estimated price of approximately US\$34.30 a tonne, based on a negotiated pellet price increase that is 19.5% higher than 2003 prices.
- Exploration expenses for all projects in 2003 totalled US\$68.0 million, compared to US\$33.9 million in 2002. The US\$34.1 million increase in costs was mainly due to the cost of engineering evaluation studies initiated in 2003 on the Oyu Tolgoi project and increased drilling and exploration activities at Oyu Tolgoi and other Mongolian properties.
- Foreign exchange gains of US\$10.5 million. The foreign exchange gain during the quarter was mainly attributed to the strengthening of the Canadian dollar against the US dollar.
- General and administrative expenses of US\$17.5 million. These expenditures include stock-based compensation, legal, audit and regulatory fees related to the listing of the company's shares on NASDAQ, expenses related to site inspections, additional office charges in Asia and travel related to financing activities.
- Care-and-maintenance costs at the Bakyrchik Gold Mine in Kazakhstan of US\$3.4 million. Ivanhoe is discussing strategic alternatives for the Bakyrchik Mine with advisors.

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QUARTERLY ANALYSIS Q4'03 vs. Q4'02

- *Revenue* – The Savage River Mine and the S&K Mine both experienced increases in revenue in Q4'03 over Q4'02. The increase in iron ore pellet sales from the Savage River Mine in Q4'03 is due to a 6% increase in tonnage sold and a 9% increase in pellet prices. The increase in total cathode copper sales from the S&K Mine in Q4'03 is due to a 1% increase in tonnage sold and a 33% increase in copper prices.
- *Operating profit* – In Q4'03, the S&K Mine experienced a reduction in operating costs. The cost reduction was a result of a decrease in process costs attributed to lower chemical charges and an increase in the estimated ore on leach pads. The increase in ore on leach pads in Q4'03 is a result of a 61% increase in copper grade mined during the quarter and an upward adjustment to the total ore on leach pads estimated at the end of September 2003. These higher copper grade levels currently are not expected to extend beyond the end of the first quarter of 2004.

The Savage River Mine's operating costs are largely denominated in Australian dollars. In Q4'03, when valued in U.S. currency, the mine's operating costs increased by 6% over the same period in 2002. The majority of the increase in operating costs during the quarter is the net result of the strengthening of the Australian dollar, offset by a decrease in Australian dollar denominated costs. The decrease in Australian denominated costs is mainly the result of an increase in the grade of ore mined during the quarter and the resulting 13% increase in pellet tonnage production.

- *Exploration* – Total exploration expenses in Q4'03 were consistent with total exploration costs incurred in Q3'03. Exploration expenditures were primarily incurred on the Oyu Tolgoi project and other projects in Mongolia. The increase in exploration expenses over the last two years is attributed to Ivanhoe Mines' accelerated drilling activities on the Oyu Tolgoi project, especially on the Hugo Dummett deposit, and additional engineering costs in the second half of 2003 related to the scoping study.
- *Administrative costs* – The increase in administrative costs in Q4'03 is primarily attributed to the expensing of stock-based compensation for new stock options granted during the quarter.
- *Foreign exchange gain* – In Q4'03, the Company maintained most of its cash resources in Canadian dollars ("Cdn\$"). The foreign exchange gain during the quarter is mainly attributed to the strengthening of the Canadian dollar against the U.S. dollar.

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REVIEW OF OPERATIONS

A) EXPLORATION

Exploration expenses in 2003 totalled \$68.0 million, compared to \$33.9 million in 2002. The \$34.1 million increase in costs is mainly due to the cost of engineering evaluation studies initiated in 2003 on the Oyu Tolgoi project and increased drilling and exploration activities on the Oyu Tolgoi project and other Mongolian properties.

a) Mongolia – At the end of 2003, Ivanhoe Mines held direct and indirect interests in 129 exploration licences covering approximately 11.2 million hectares. In 2003, Ivanhoe Mines spent \$59.5 million on its Mongolian properties. The main focus of exploration activities was the Oyu Tolgoi project (\$48.1 million), the Kharmagtai and Ovoot Hyar projects (\$3.8 million), the Oyut Ulaan project (\$0.7 million), the Saran Uul project (\$0.8 million) and general reconnaissance projects (\$6.1 million).

i) Oyu Tolgoi Exploration - In November, 2003, AMEC E&C Services Limited (“AMEC”) released a new estimate of the Oyu Tolgoi project’s mineral resources. Using an equivalent cut-off grade of 0.60% copper, AMEC increased the Hugo Dummett deposit's inferred resource category to 962 million tonnes grading 1.30% copper and 0.18 g/t gold.

In its November estimate, AMEC increased the Hugo Dummett deposit’s high-grade core of inferred resources greater than 2% copper equivalent to 149.4 million tonnes grading 2.88% copper and 0.53 g/t.

The Hugo Dummett deposit is the largest of the four copper and gold deposits outlined to date at Ivanhoe Mines’ Oyu Tolgoi project.

AMEC, using a 0.30% copper equivalent cut-off, reported that the Oyu Tolgoi project contains estimated inferred resources totalling 2.6 billion tonnes grading 0.73% copper and 0.17 g/t gold. This represented an increase of 27% in the amount of copper and gold previously reported by AMEC in its mineral resource report issued in July, 2003.

In addition, using the same 0.30% copper equivalent cut-off grade, AMEC estimated that the Southwest Zone contained 509 million tonnes of indicated resources grading 0.40% copper and 0.59 g/t gold.

The AMEC estimate was prepared in accordance with Canadian regulatory requirements set out in National Instrument (“NI”) 43-101, under the direction of Stephen Juras, P. Geo., and Dr. Harry Parker, Ch.P. Geol., independent qualified persons as defined by NI 43-101.

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ii) Oyu Tolgoi Studies—In early February, 2004, an independent preliminary assessment report, or scoping study, was released. The scoping study was commissioned to assess the development alternatives open to Ivanhoe Mines and to chart an implementation path for the Oyu Tolgoi mining complex.

Conclusions from the study support the economic viability of both conventional open-pit and underground mining operations. The Base Case from the Scoping Study proposes a two-stage development approach.

- The first stage would consist of the construction of a process plant capable of handling 20 million tonnes of ore per year fed by open pits on the Southwest Oyu, Central Oyu and Hugo South deposits. Estimated capital costs for the first stage are \$529 million.
- The second stage would involve an expansion of the concentrator in years three and four, increasing the milling capacity to 40 million tonnes of ore per year, with the increased capacity expected in year five. Using estimates of copper and gold prices at \$1.00 per pound and \$400 per ounce respectively, most of the capital expenditures in the second stage are expected to be funded from operating cash flows.

iii) Asia Gold - In July 2003 Ivanhoe Mines transferred to Asia Gold Corp. (“Asia Gold”) a series of early-stage Mongolian exploration licences covering approximately 3.1 million hectares (31,000 square kilometres) in the South Gobi region of Mongolia, located approximately 150 kilometres west of the Oyu Tolgoi project. In addition, Ivanhoe Mines transferred to Asia Gold its South Korean gold and silver projects, including the Eunsan gold and silver mine, located in Chollanam-Do Province. In consideration for these assets, Asia Gold issued approximately 6.1 million common shares to the Company. Prior to July 2003, Asia Gold was a small, private Canadian company, unrelated to the Company, with various mineral exploration interests in Mongolia. Asia Gold, now a Canadian publicly-listed company, is currently 51% owned by the Company.

b) Myanmar – In 2003, Ivanhoe Mines spent a total of \$2.4 million on the Modi Taung property, the exploration activities mainly consisting of underground exploration on various gold veins. A scoping study for development of the Modi Taung veins was updated during 2003, with a target milling rate of 75 tonnes per day and the mining of ore material averaging 25 to 30 g/t gold.

c) Other –

i) China: Jinshan Gold Mines Inc - Ivanhoe Mines is exploring for gold, copper and platinum-group metals (PGMs) in Inner Mongolia and Yunnan through a series of joint ventures with Jinshan Gold Mines Inc. (“JIN”),

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(formerly Pacific Minerals Inc.). At the end of October, 2003, JIN and the Company reached an agreement in principle to restructure their existing participation arrangements in respect of these projects. The new agreement will reduce Ivanhoe Mines' maximum earn-in from 80% to 50% on existing projects in China. Ivanhoe Mines retains the right to earn up to 80% of the available interest in any new projects acquired by JIN in China (excluding those in Anhui and Liaoning provinces). The new agreement also contains a mutual non-compete clause, whereby JIN agrees not to compete for any new mineral properties in Inner Mongolia and Ivanhoe Mines agrees not to compete for any new mineral properties in Liaoning Province. Ivanhoe Mines also agreed to transfer to JIN 50% of its interest in the Shuteen exploration licence in southern Mongolia.

ii) Inner Mongolia: Ivanhoe Mines – Throughout 2003, Ivanhoe Mines continued its extensive reconnaissance programs to identify high-priority targets based upon geologic models developed at Oyu Tolgoi and other epithermal-style deposits. In August, 2003, Ivanhoe Mines announced that it had entered into an agreement to form joint ventures with a Chinese government entity to explore for and develop gold, copper, silver, molybdenum and other minerals on three advanced projects in Inner Mongolia.

In addition to the three projects, Ivanhoe Mines also holds an interest in the Oblaga gold-copper-molybdenum project, in Inner Mongolia. Inner Mongolia exploration expenditures in 2003 totalled approximately \$2.3 million.

iii) Vietnam: Olympus Pacific Minerals - The Company holds a minority interest in a gold exploration joint venture in Vietnam with Olympus Pacific Minerals, a public Canadian mineral exploration company. The joint venture's principal project is the Phuoc Son gold project, in northwestern Quang Nam Province, Central Vietnam. In March, 2004, the and Olympus Pacific Minerals reached an agreement for the Company to convert its remaining interest in the Phuoc Son gold project into shares of Olympus Pacific Minerals.

iv) Australia: Cloncurry – In September, 2003, Ivanhoe Mines announced the \$6.2 million acquisition of the Cloncurry project's copper-gold mining and exploration leases in Australia. The Cloncurry leases cover an area of more than 1,450 square kilometres, approximately 160 kilometres southeast of Mount Isa in north-western Queensland. Ivanhoe Mines continues to assess its future plans for the Cloncurry property.

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Summary of exploration expenditures by project:

	Years ended December 31,		
	2003	2002	2001
Total exploration expenditures-US\$(000)	67,989	33,934	7,192
Percentage allocation			
Mongolia	87%	81%	53%
China	5%	1%	0%
Myanmar	4%	7%	16%
Korea	3%	8%	24%
Other	1%	3%	7%
	100%	100%	100%

B) MINING OPERATIONS

Copper operation

MONYWA COPPER PROJECT ("S&K MINE"), MYANMAR

	Total Operation				Company's 50% net share		
		Years ended		% Increase (decrease)	Years ended		% Increase (decrease)
		2003	2002		2003	2002	
Total tonnes moved	Tonnes (000's)	18,527	16,500	12%			
Tonnes of ore to heap	Tonnes (000's)	8,767	7,294	20%			
Ore grade	CuCN %	0.60%	0.53%	13%			
Strip ratio	Waste/Ore	0.92	0.73	26%			
Cathode production	Tonnes	27,870	27,542	1%	13,935	13,771	1%
Tonnage sold	Tonnes	27,615	27,749	(0%)	13,808	13,875	(0%)
Average sale price received	US\$/pound				\$0.79	\$0.70	13%
Sales	US\$(000)				22,866	20,227	13%
Cost of operations	US\$(000)				12,428	10,539	18%
Operating profit	US\$(000)				4,954	4,712	5%

Current plans for the Monywa Copper Project, a joint-venture operating company, is to develop the Letpadaung deposit and incrementally expand the current copper cathode capacity over the next six years to a total of 129,000 tonnes of copper per year. The increase in production capacity over the next six years has been designed so that all capital expenditures will be financed from the mine's internally generated cash flows.

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The management of the Monywa Copper Project intends to increase, by the end of March, 2005, the mine's annual copper production capacity to 39,000 tonnes. Total copper cathode production for 2004 is currently projected at 32,000 tonnes.

Copper prices have been increasing steadily since November, 2001, when they reached a low of approximately \$0.60 per pound. Copper prices averaged \$0.81 per pound in 2003, including \$0.93 per pound in the fourth quarter of 2003 and \$1.18 per pound in the first two months of 2004.

The increase in cost of operations in 2003 is primarily related to the impact of increased activities on mining, crushing and agglomeration costs, and a downward adjustment to estimated metal inventory contained on the heaps offset by decreases in process costs due to lower chemical usages in the copper extraction process.

Following a payment at the end of February, 2004, the original S&K Mine's \$90 million project debt balance was reduced to \$22.5 million. The S&K Mine remains in technical default of certain covenants under the loan agreement. However, based on the S&K Mine's discussions with the project lenders, the Company does not expect the lenders to act upon the default. However, no assurances can be given in this regard (see "Risks and Uncertainties – Breach of loan covenant").

The Company believes the S&K Mine has the ability to generate sufficient cash from operations, in the short and long term, to repay its obligations and maintain planned production.

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(Stated in U.S. dollars)

Iron operation

SAVAGE RIVER MINE, TASMANIA

		Year ended December 31,		Percent
		2003	2002	Increase (decrease)
Total volumes moved	BCM (000's)	10,007	9,749	3%
Tonnes milled	(000's)	5,308	5,002	6%
Strip ratio	BCM waste/BCM ore	6.8	8.4	(19%)
Concentrate production	(000's)	2,286	2,210	3%
Iron ore content	Fe%	32.6%	33.5%	(3%)
Pellet production	Tonnes	2,255,938	2,139,186	5%
Pellet sales	Tonnes	2,180,000	2,269,773	(4%)
Sales	US\$/tonne	\$31	\$29	4%
	US\$(000)	66,833	66,894	(0%)
Cost of operations	US\$(000)	63,480	52,753	20%
Operating profit (loss)	US\$(000)	(1,952)	5,852	(133%)
Average foreign exchange rate	US\$/AUD\$	0.6529	0.5440	20%

Pellet prices at Savage River are negotiated once a year and are priced in U.S. dollars. Most of Savage River's annual pellet price adjustments become effective in the second half of each calendar year. The increase in pellet prices for the 2003 year was about 9% and the increase in pellet prices for 2004 is 19.5%. The iron-ore market and the demand for iron-ore pellets is very strong in 2004 to date, with much of the demand coming from China. The tight ore supply has prompted steel mills to secure long-term iron-ore pellet contracts. Although the pellet price is negotiated every year, most of the planned production for the Savage River Mine over the next three to four years now has been taken up in supply contracts.

Unfortunately, the financial gains resulting from the 2003 increase in pellet prices and the expected increase in 2004 have been totally eroded by the strengthening of the Australian dollar ("AUD\$") throughout 2003 and in early 2004 (see "Risks and Uncertainties - Currency risks"). To offset the negative impact of a strong Australian dollar, the management of the Savage River Mine will have to improve the economic viability of the mine by continuing efforts to lower costs and successfully negotiate financial assistance from third parties.

In 2003, the Company provided loans totalling \$7.5 million to the Savage River Mine to fund operating cash-flow shortfalls that included \$9.1 million in deferred stripping costs and \$3.6 million in capital assets expenditures. In 2004, the management of the Savage River Mine is forecasting a cash shortfall, the magnitude of which is directly related to the strength of the Australian dollar. Using an

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average exchange rate of U.S.\$0.75/AUD\$, the cash shortfall is estimated at \$2.3 million. The Company has funded this \$2.3 million cash shortfall in the first quarter of 2004 but has not committed nor made any decision to commit additional funds to finance any future cash shortfall at the Savage River Mine. If the management of the Savage River Mine is unable to obtain the necessary funding, including third party financial assistance when needed, the mine may not be able to continue as a going concern and, accordingly, adjustments may be required to the carrying value of the Company's investment in the Savage River Mine. All debt obligations of the Savage River Mine to third parties are non-recourse to the Company.

The majority of the 20% increase in operating costs in 2003 is attributable to the strengthening of the Australian currency during the year.

Total pellet production for 2004 is estimated at approximately 2.3 million tonnes.

C) ADMINISTRATIVE AND OTHER

General and administrative – The 2003 increase in General and Administrative expenditures was primarily due to increased stock-based compensation, increased expenses related to site inspections, additional administrative expenses in Asia and travel related to financing activities.

Foreign exchange gains – In 2003, the Company maintained most of its cash resources in Canadian dollars. The majority of the foreign exchange gains in 2003 is attributed to the strengthening of the Canadian dollar against the U.S. dollar.

Gain on sale of an investment – The \$4.6 million gain on sale of an investment in 2003 resulted from the sale of the Company's shares of Emperor Mines Limited.

Share of loss on significantly influenced investees – At December 31, 2003, the Company held 35.5% of JIN's common shares, (see "Review of Operations – Exploration, Other-China: Jinshan Gold Mines Inc.") and consequently \$2.3 million of the \$2.4 million, represents the expensing by the Company of its share of JIN's net loss for 2003.

Dilution gain on investment in subsidiary – Starting in Q3'03, following the acquisition by the Company of more than 50% of the outstanding common shares of Asia Gold, the financial results of Asia Gold are consolidated in the Company's financial results. A \$4.2 million dilution gain was recognized by the Company following Asia Gold's initial public offering in Q4'03.

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Share Capital - At March 26, 2004, the Company had a total of 271.4 million common shares and purchase warrants outstanding as shown in the following table :

Share purchase warrants outstanding	Maturity date	Strike price
7.150 million ⁽¹⁾	December 19, 2004	Cdn\$12.00 per share
	December 19, 2005	Cdn\$12.50 per share
5.76 million ⁽²⁾⁽³⁾	February 15, 2005	\$8.68 per share

⁽¹⁾ Each warrant entitles the holder to acquire one common share.

⁽²⁾ Each 10 warrants entitle the holder to acquire one common share.

⁽³⁾ In 2004, the expiry date was extended from February, 2004 to February, 2005.

At March 26, 2004, the Company had a total of approximately 9.2 million incentive stock options outstanding with a weighted average exercise price per share of Cdn\$3.60. Each option is exercisable to purchase a common share of the Company at prices ranging from Cdn\$1.08 to Cdn\$12.70 per share.

CASH RESOURCES AND LIQUIDITY

At December 31, 2003, consolidated working capital was \$126.9 million, including cash of \$108.2 million, compared with working capital of \$10.8 million and cash of \$35.4 million at December 31, 2002.

Operating activities - The \$79.1 million in cash used in operating activities in 2003 was primarily attributed to \$68.0 million in exploration activities and \$9.6 million in deferred stripping costs.

Investing activities - In 2003, a total of \$81.5 million in cash was used in investing activities. The main cash expenditures included \$50.0 million for the acquisition of a Mongolian Treasury Bill, \$5.5 million in sustaining capital expenditures on mining property, plant and equipment; \$6.0 million in non-producing mining plant and equipment on exploration projects primarily located in Mongolia, Australia and South Korea and \$26.1 million in the acquisition of various mineral interests. The \$26.1 million in acquisition payments consisted of the first \$17.0 million installment of the \$37.0 million purchase price for the BHP royalty interest acquisition, the remaining \$4.0 million of the \$5.0 million Oyu Tolgoi property

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acquisition obligation to BHP and a \$4.7 million payment obligation related to the Cloncurry mineral property rights acquisition.

Financing activities - Financing activities in 2003 included \$9.4 million in loan repayments principally consisting of \$15.0 million in debt repayments for the S&K Mine (\$7.5 million net to Ivanhoe Mines) and approximately \$1.4 million in equipment loan repayments for the Savage River Mine.

In October, 2003, the Company raised \$50.0 million (Cdn\$66.0 million) through the issue of 5.76 million Special Warrants at a price of \$8.68 (Cdn\$11.45) per Special Warrant. Each Special Warrant entitled the holder to acquire one common share and one common-share purchase warrant of the Company. In January, 2004, the Special Warrants were converted into 5.76 million common shares of the Company and 5.76 million share-purchase warrants. Each 10 share-purchase warrants are exercisable to purchase one common share of the Company at \$8.68 per share until February, 2005.

Through a series of equity financings during 2003, the Company also raised a total of \$191.3 million (Cdn\$261.8 million) by issuing 55.6 million common shares of the Company at prices ranging from Cdn\$3.00 to Cdn\$11.45 per share. In December, 2003, as part of one such financing, the Company also issued 7.15 million share-purchase warrants expiring in December, 2005. Each warrant entitles the holder to purchase one common share of the Company at Cdn\$12.00 per share until December 2004 and at Cdn\$12.50 per share during December 2005.

The \$241.2 million in proceeds raised from the Company's various 2003 financings have been, or are intended, to fund the following activities: the \$37.0 million acquisition of the BHP royalty, the purchase of the Mongolian \$50.0 million Treasury Bill, working capital, and the Company's exploration and engineering activities on its Mongolian properties during 2003 and through part of 2004. The following is a summary of sources and uses of proceeds:

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\$ Million

Source of proceeds

Sale of Common Shares	191.2
Sale of Special Warrants	50.0
	241.2

Use of proceeds

Mongolian Treasury Bill	50.0
BHP property payment	4.0
BHP royalty payment	17.0
Mongolia exploration -2003	59.5
Other activities ⁽¹⁾	28.3
Remaining proceeds at December 31, 2003	82.4
	241.2

⁽¹⁾ Principal expenditures in this category include \$8.6 million for the Clocurry mineral interests, capital assets, and related environmental bond acquisition, \$7.5 million in working capital advances to the Savage River Mine, \$8.5 million in exploration expenditures outside Mongolia, \$3.4 million in mining property shut-down costs, \$3.9 million purchase of long-term investments, less \$6.7 million proceeds from the sale the Company's investment in shares of Emperor Mines Limited.

The Company's existing cash resources are sufficient to meet all of its planned capital expenditures for the first six months of 2004. The Company expects to fund planned expenditures for the second half of 2004 from external sources, which may include debt or equity financing, proceeds from the sale of existing non-core assets, a third party participation in one of more of the Company's projects or a combination thereof. Failure to generate sufficient funding from one or more of these sources may require Ivanhoe Mines to delay, postpone or curtail certain of its planned activities for the second half of 2004 and thereafter. Over the long term, the Company still needs to obtain additional funding for, or third party participation in, its undeveloped or partially developed projects (including the Oyu Tolgoi project, the Company other Mongolian properties, and the Bakyrchik Gold Mine) to bring them into full production (see "Risks and Uncertainties - Additional Funding Requirements").

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CONTRACTUAL OBLIGATIONS

US\$(000)

	Payments due in years ending December 31,						Total
	2004	2005	2006	2007	2008	2009+	
Long term debt ⁽¹⁾	8,075	11,867	127	4,898	604	487	26,060
Operating leases ⁽²⁾	13,043	11,338	6,808	1,140	-	-	32,329
Purchase obligations ⁽³⁾	26,340	8,941	5,784	5,633	-	-	46,698
Other long-term obligations ⁽⁴⁾	928	1,405	1,651	7,550	540	23,991	36,065
	48,386	33,551	14,370	19,222	1,144	24,478	141,152
ALLOCATION							
Savage River Mine	31,749	25,198	13,526	11,865	604	17,493 ⁽⁵⁾	100,436
S&K Mine	8,435	8,295	540	5,274	540	-	23,084
Mongolia	7,814	58	304	9	-	-	8,185
Bakyrchik	-	-	-	-	-	6,985	6,985
Cloncurry	-	-	-	2,074	-	-	2,074
Other	388	-	-	-	-	-	388
	48,386	33,551	14,370	19,222	1,144	24,478	141,152

- (1) These amounts are included in the Company's Consolidated Balance Sheets for the year ended December 31, 2003.
- (2) Consists of equipment leases for various mining equipment operating at the Savage River Mine.
- (3) The majority of these amounts consist of Savage River Mine's commitments for long-term supply of electricity and gas and minimum drilling commitments in Mongolia.
- (4) Other long-term obligations consist of deferred royalty payments, provision for the Savage River Mine's employee entitlements at mine closure and undiscounted asset retirement obligations.
- (5) This amount represents Savage River Mine's obligations at mine closure, principally consisting of asset retirement obligations, employee entitlements and the estimated balance of loans payable to third parties.

In 1997, the S&K Mine entered into an agreement for the sale of a guaranteed quantity of Grade A Product (as defined in the agreement) from the Monywa Copper Mine Project to Marubeni Corporation, which is affiliated with one of the lenders of the project financing. This agreement is expected to expire by the end of 2006.

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The Savage River Mine has entered into contracts with two of its major customers for the sale of a guaranteed quantity of iron ore. The sales price of iron ore specified in these agreements is renegotiated annually.

Ivanhoe Mines has, in the normal course of its business, entered into various long-term contracts that include commitments for future operating payments under contracts for power, port operations, equipment rentals and other arrangements. Substantially all of the Savage River Mine's obligations relate to commitments for natural gas, power and a mining contract. Currently, the mining operations at the Savage River Mine are scheduled to terminate at the end of 2007 and the pellet producing operations are scheduled to terminate in 2009.

Pursuant to a deferred purchase obligation, the management of the Savage River Mine and the Tasmanian Government are committed to co-manage the remediation of environmental exposures created by prior operations on the Savage River site. The remediation work may be carried out by the mine in conjunction with normal mining operations. This deferred obligation, which amounted to A\$14.5 million at December 31, 2003, is secured in part by a bank letter of credit for A\$2.8 million and is repayable by December 24, 2014.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires companies 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, 2003. 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 Mining Property, Plant and Equipment and Other Mineral Property Interests;
- Depletion and Depreciation of Property, Plant and Equipment;
- Heap Inventory Valuation;
- Reclamation and Remediation Obligations;

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➤ Income Taxes.

Carrying values of Mining Property, Plant and Equipment and Other Mineral Property Interests.

The Company undertakes a review every year to evaluate the carrying values of operating mines and other mineral property interests. A life-of-mine's cash flow for each remaining year is prepared based on management's estimates of remaining mine reserves and grade, future production and sale volumes, unit sales prices, future operating and capital costs and reclamation costs to the end of mine life. For each mining project, the carrying value is compared to the estimated future discounted cash flows and any excess is written down against operations.

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 mining projects and other mineral property interests.

Depletion and Depreciation of Property, Plant and Equipment

Mining property, plant and equipment comprise the largest component 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 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 (over two to 15 years), as appropriate.

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

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depreciation of the related mining assets or could result in impairment resulting in a write-down of the assets.

The effect of a change in the estimate of reserves would have a relatively greater effect on the amortization of mining assets of the Savage River Mine because of the few remaining years left in the life of the mine.

Following the start of commercial production, some mining companies' accounting policies is to expense all costs of removing waste material. Many mining companies, including Ivanhoe Mines, have adopted a different accounting policy whereby, for the entire mine life, the costs of removing waste rock at open-pit mines, commonly referred to as "stripping costs", are deferred. Mining costs associated with waste-rock removal are deferred or accrued, as appropriate, and charged to operations on the basis of the average stripping ratio for each mine area. The average stripping ratio is calculated as the ratio of the tonnes of waste material estimated to be mined to the estimated recoverable tonnes of metals from that mine area. The policy of deferring stripping costs results in the smoothing of costs of removing waste material over the life of the mine rather than expensing those actual costs in the period incurred.

The following is a summary of strip ratios for each operating mine:

S&K Mine ⁽¹⁾		Strip ratio		Savage River Mine ⁽²⁾		Strip ratio	
		Actual	2002			Actual	2002
			0.73				8.40
			0.92				6.83
	Forecast		0.15		Forecast		4.89
			0.26				5.83
			0.20				4.01
	Life of mine average		0.21		Life of mine average		3.45

⁽¹⁾ The strip ratio is calculated using tonnes of waste mined over tonnes of ore mined.

⁽²⁾ The strip ratio is calculated using volumes of waste mined over volumes of ore mined.

Heap inventory valuation

Ivanhoe Mines' copper operations involve the process of stacking ore in heaps and extracting a copper-bearing solution from the heaps using a continuous leaching process. The inventory categorized as "broken ore on leach pads" represents the inventory cost of estimated recoverable copper quantities contained in the heaps. It is not practical in a normal mine operation to obtain direct measurements of these quantities of recoverable copper. Instead, remaining metal inventory quantities are

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estimated indirectly by subtracting total copper production from the cumulative estimate of recoverable copper stacked on the heaps.

A decrease in the estimated copper quantities recoverable from the heaps would directly increase the cost of copper production and decrease the value of broken ore on leach pads.

Each month, the broken ore on leach pads is valued at the lower of the weighted average cost of production and net realizable value. The monthly cost of production includes all costs related to mining for the month, including allocated depreciation and depletion charges. All of this ore has been classified as a current asset since, based on historical leaching data, the copper is expected to be recovered within the next 12 months. The estimated units of copper on the leach pads are based on the amount of ore placed on the pads, the expected recovery rates and actual production.

Copper recovery rates are dependent on whether the ore is processed before it is staked on the heaps. Copper recoveries from crushed and agglomerated ore material is approximately 80% and the leach cycle takes almost a year to complete. The leaching cycle for run-of-mine material --unprocessed material deposited directly on the heaps -- is much shorter, (approximately 160 days), but the copper percentage recovery rate is normally lower and is approximately 75 %.

At December 31, 2003, the total amount of recoverable metal contained in the heaps was estimated at approximately 24,000 tonnes of copper (net 12,000 tonnes to Ivanhoe Mines), at a cost of approximately \$520 per tonne, or \$0.24 per pound of copper.

Ivanhoe Mines reviews the estimated units of copper on the heap-leach pads on a regular basis and, where appropriate, revises its estimates of those quantities to recognize changes in the expected recovery rates based on actual recoveries.

Reclamation and Remediation 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 from 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 mining property, plant and equipment, when those

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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 the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the 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 related to the disruption to date could differ materially from the \$22.8 million undiscounted future value estimated by Ivanhoe Mines at December 31, 2003.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income tax 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" 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.

Recent Accounting Pronouncements

In November, 2001, the Canadian Accounting Standards Board issued Accounting Guideline No.13, "Hedging Relationships"(AcG-13"), which established the conditions for applying hedge accounting; although it does not specify how hedge accounting is applied. AcG-13 is effective for fiscal years commencing on or after

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July 1, 2003. The adoption of AcG-13 is not expected to have a material impact on Ivanhoe Mines' financial position and results of operations.

In June, 2003, the CICA issued Accounting Guideline No. 15, Consolidation of Variable Interest Entities ("AcG-15"). AcG-15 requires the primary beneficiary of a variable interest entity to consolidate the variable interest entity. AcG-15 is effective for interim and annual reporting periods beginning on or after November 1, 2004. Ivanhoe Mines is currently evaluating the impact of AcG-15.

As part of its agenda, the Emerging Issues Task Force of the U.S. Financial Accounting Standards Board is currently reviewing several accounting policies related to the mining industry. Should this result in changes to U.S. Generally Accepted Accounting Principles ("GAAP"), Canadian GAAP may also be changed in an effort to harmonize with U.S. GAAP.

RISKS AND UNCERTAINTIES

Material risks and uncertainties affecting Ivanhoe Mines, their potential impact, and the Company's principal risk management strategies, are as follows.

- *Additional Funding Requirements* - The further development and exploration of the various mineral properties in which it holds interests depends upon Ivanhoe Mines' ability to obtain financing through joint ventures, debt financing, equity financing or other means. Ivanhoe Mines must arrange significant project financing for development of the Oyu Tolgoi Project. There can be no assurance that Ivanhoe Mines will be successful in obtaining any required financing as and when needed. Depressed markets for precious and base metals may make it difficult or impossible for Ivanhoe Mines to obtain debt financing or equity financing on favorable terms, or at all. Ivanhoe Mines operates in a region of the world that is prone to economic and political upheaval and certain mineral properties held by Ivanhoe Mines are located in politically and economically unstable countries, 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.
- *Risks pertaining to Mongolia* - Mongolia is, and for the foreseeable future is expected to remain, the country in which Ivanhoe Mines concentrates most of its business activities and financial resources. Since 1990, Mongolia has been in transition from state socialism and a planned economy to a

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political democracy and a free market economy. Much progress has been made in this transition but much progress remains to be made, particularly with respect to the rule of law. Many laws have been enacted, but in many instances they are neither understood nor enforced. 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. Laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable.

Ivanhoe Mines' current focus is the Turquoise Hill project. Ivanhoe Mines is engaged in discussions with a working group of Mongolian government representatives aimed at reaching a long-term stability agreement establishing the critical terms and conditions that will apply to the Turquoise Hill project during its operational phase. Management believes that such an agreement (or lack thereof) will have a material impact on Ivanhoe Mines' ability to obtain the financing necessary to develop the project. The stability agreement that Ivanhoe Mines is seeking from the Mongolian government is expected to address tax and fiscal issues, as well as other matters including cross-border and import/export issues and confirmation of appropriate mining, land and water licence tenures and infrastructure necessary to carry out all exploration, mining, milling, processing and related activities over the life of the project. No assurances can be given as to when, or if, Ivanhoe Mines' discussions with the Mongolian government working group will culminate in a stability agreement or that any such stability agreement will contain terms and conditions that are, in all material respects, favourable to Ivanhoe Mines.

In December 2003, the Company purchased \$50 million of treasury bills issued by the Mongolian government. The treasury bills, which are denominated in U.S. dollars, bear interest at 3% per year and mature on December 31 2004, were issued as part of the government's initiative to retire, at a substantial discount, its Soviet-era foreign debt to the Russian Federation. Based on written assurances furnished by the government, the Company understands that Mongolia has never defaulted on its obligations in respect of any of its previously issued treasury bills and that the final settlement of its convertible rouble sovereign debt to the Russian Federation on favourable terms will contribute enormously to the economic and social development of Mongolia. However, Mongolia continues to maintain a relatively high level of debt and, as such, its debt securities carry a higher

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level of risk than similar securities issued by countries with lower debt and more developed economies.

- *Uncertainties related to mineral resource estimates* – There is a degree of uncertainty attributable to the calculation of resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary, depending on metals prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of Ivanhoe Mines' properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.
- *Metal price volatility* – Copper and iron-ore pellet prices are subject to volatile price changes from a variety of factors, including 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 and increased production due to improved mining and production methods. The supply of, and demand for, Ivanhoe Mines' principal products -- iron ore and copper -- is affected by various factors, including political events, economic conditions and production costs.

Unlike most metals, iron ores are not fungible commodities, as each is somewhat different in composition and usage characteristics. The iron-ore market behaves like a product, rather than a commodity, market, with zones of competition and zones of exclusion. The market is one of direct customer to producer relationships, without middlemen, warehousing or buffer stocks, speculators or futures market. The market is imperfect and oligopolistic. Prices are not set by the market clearance principle, but to optimize returns to producers within the constraint of the total market size.

In the second half of 2003, copper prices benefited from speculative buying activity from hedge funds in anticipation of a global economic turnaround which has yet to fully materialize. China's ever-expanding need to import various metals to feed its buoyant economy also contributed to the sharp increase in prices in 2003 and 2004 for copper and iron ore.

Prior to 2003, many metal prices, when adjusted for inflation, were in a downward trend. Although many analysts now forecast that metal prices are expected to increase in the near future, there is no assurance that the 2003 increase in metal prices represents a turning point or a confirmation of a reversal of that previously established downward trend in metal prices.

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars)

Ivanhoe Mines did not hedge any metal sales or production in 2003 and currently has no plans to do so in 2004.

- *Operating risks* – Ivanhoe Mines faces a number of potential risks with respect to the proposed expansion of the S&K Mine, which includes the development of the nearby Letpadaung deposit (“Monywa Copper Complex”). Myanmar’s current power-generating ability is limited and there can be no assurance that improvements to Myanmar’s national power system, sufficient to furnish the additional required power for the planned expansion of the S&K Mine operations, will be made on a timely basis, or at all. If not, it may be necessary to construct a local source of power, which may not be feasible or which may render the project uneconomic.

The high-lift leach piles planned for the S&K Mine and the Letpadaung deposit carry technical risks. These risks include geotechnical failure, chemical degradation of the heap material, compaction and loss of permeability, lack of oxygen, excessive iron build-up and excessive acid generation. Manifestation of these risks could adversely affect the level of copper recoveries and increase operating costs.

Although Ivanhoe Mines believes that the material extracted from the Letpadaung deposit will exhibit the same heap-leaching characteristics as the ore currently being mined at the S&K mine, this assumption cannot be confirmed prior to mining. Different metallurgical characteristics in the Letpadaung deposit, if and to the extent they might exist, could adversely affect the technical feasibility and economics of the S&K Mine’s Letpadaung development plans.

The Savage River Mine’s operations are heavily dependent upon the successful operation of the concentrator and pipeline apparatus. All the process facilities and the pipeline have been in operation for over 30 years and are subject to potentially higher rates of failure than a new plant. Despite a comprehensive maintenance program, there can be no assurance that the operating availabilities required to achieve planned product output can be sustained.

The mining operations at the Savage River Mine often need to extract, from various parts of the mine, different types of ore material to provide the concentrator with the desired ore-feed quality. As operations at the Savage River Mine get closer to the end of mine life, the ability of the mine’s management to achieve a consistent blend of ore to the concentrator is reduced. There can be no assurance that deterioration in the quality of ore material fed to the concentrator will not affect the pellet grade or pellet quality, which may affect marketability.

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars)

Historically, the stability of the Savage River Mine's open-pit walls has been problematic and in 2002 the mine experienced a slope failure at Extension 2 of the North Pit, which temporarily halted operations on the North Pit. Although Ivanhoe Mines has retained expert advice in this area, is pro-actively managing the pit-wall stability and has taken additional corrective measures since the 2002 slope failure, there can be no assurance that a failure, large enough to cause an extended interruption in production, will not occur during the life of the project.

- *Currency risks* - Fluctuations in currency-exchange rates may adversely affect the financial position and results of operations of the Savage River Mine. The mine receives United States dollars from the bulk of its sales of iron-ore products, but pays most of its operating costs in Australian dollars. The recent strengthening of the Australian dollar against the United States dollar has negatively impacted the cash flow from the Savage River Mine. Further deterioration in the United States dollar against the Australian dollar will have a negative effect on the financial viability of the Savage River Mine.
- *Economic Sanctions* - In May, 1997, the United States government imposed economic sanctions on Myanmar, banning new investments in Myanmar by any United States investor. In August, 1997, the Canadian government imposed selective economic sanctions on Myanmar, directed against imports and exports between Canada and Myanmar. These sanctions were based on the United States and Canadian governments' belief that the current government of Myanmar has repressed opposition to the government. While the sanctions in their current form do not affect the Company's investments in Myanmar, there can be no assurances that the sanctions will not be broadened or that other countries will not adopt sanctions in the future. The existence of United States sanctions may restrict the ability of United States companies to participate in the Monywa Copper Project. It is not possible to assess whether additional legislation will be enacted by the United States, Canada or elsewhere or, if enacted, will ultimately affect the Company or investment in the Company.
- *Limited production history* - The Company has paid no dividends on its common shares since incorporation and does not anticipate doing so in the foreseeable future. To date, the Company has not received any cash flow generated by the S&K Mine. Also at least for the 2004 year, the Savage River Mine and all other exploration and development projects of Ivanhoe Mines will need funding from the Company. Ivanhoe Mines has a limited operating history and there can be no assurance of its ability to operate its projects profitably. While Ivanhoe Mines may in the future generate

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars)

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.

- *Uninsurable risks or self-insured risks* –Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. Ivanhoe Mines does not maintain insurance against political or environmental risks. Also, because of the recent major increases in insurance premiums and the inability to obtain full coverage, both the S&K Mine and the Savage River Mine are self-insuring on a portion of their mine assets.
- *Extent of liability for previous environmental damage* - Ivanhoe Mines has received exemptions from liability from relevant governmental authorities for environmental damage caused by previous mining operations at the Savage River Mine, the S&K Mine and the Bakyrchik Project. 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 previous operators. In that event, the indemnities could be ineffective and possibly worthless.
- *Breach of loan covenant* – Since August, 2002, the S&K Mine has not been in technical compliance with certain covenants in its credit agreement, including a requirement to maintain a minimum amount of working capital and a requirement to retain a specified minimum amount of cash on deposit in a debt-service reserve account. The lenders have not, to date, notified the S&K Mine that it is in default of these covenants and, although management does not believe that the lenders will do so in the foreseeable future, the lenders may, at any time while the S&K Mine remains non-compliant, formally notify the S&K Mine that it is in default. If, in that event, the S&K Mine failed to cure the default in a timely manner, the lenders would be entitled to pursue their remedies against the S&K Mine, which could include

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars)

foreclosing on the S&K Mine's interest in the Monywa Copper Project. The S&K Mine's obligations to the lenders are non-recourse to the Company.

- *Limited customer base* - The Savage River Mine has only a small number of customers and the pricing of its iron-ore products is subject to annual negotiations. Demand for the Savage River Mine's iron-ore products can fluctuate based on market conditions in the international steel industry. The loss by the Savage River Mine of a key customer or a material decrease in sales to a key customer could have an adverse impact on short- to medium-term cash flow and adversely affect the mine's economic viability.

All of the Ivanhoe Mines' production from the S&K Mine is sold to a single Japanese buyer. If, for any reason, the S&K Mine was unable to sell all of its production to its existing buyer, economic sanctions against trade with Myanmar may significantly reduce the number of potential alternative buyers.

RELATED-PARTY TRANSACTIONS

The Company is also a party to cost-sharing agreements with other companies in which Robert M. Friedland, its Chairman and Chief Executive Officer, has a material, direct or indirect beneficial interest. Through these agreements, Ivanhoe Mines shares office space, furnishings, equipment and communications facilities in Vancouver, Singapore, Beijing and London, and an aircraft on a cost-recovery basis. Ivanhoe Mines also shares the costs of employing administrative and non-executive management personnel in these offices.

Companies in which the Company is a party to the cost-sharing agreement and Mr. Friedland's ownership interest in each of them, are as follows:

Company Name	R.M. Friedland's Ownership Interest
Ivanhoe Energy Inc.	32.17%
Ivanhoe Capital Corporation	100.00%
Ivanhoe Nickel & Platinum Ltd.	54.58%

The Company's related party transactions also include transactions with Asia Gold Corp., (a 51%-owned subsidiary) and exploration expenditures incurred as part of

IVANHOE MINES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in U.S. dollars)

several joint-venture agreements with Jinshan Gold Mines Inc.(a 35.5%-owned, publicly listed company).

The shared and other expenditures for the last two years were as follows:

	US\$(000)	
	Years ended December 31,	
	<u>2003</u>	<u>2002</u>
Consulting	\$ -	\$ 75
Exploration	1,768	261
Management fees	223	294
Office and administrative	1,834	1,234
Salaries and benefits	1,372	1,095
Travel (including aircraft rental)	2,636	2,184
	\$ 7,833	\$ 5,143

Accounts receivable and accounts payable of the Company at December 31, 2003, included \$347,000 and \$777,000, respectively, (December 31, 2002 - \$107,000 and \$2,003,000, respectively) which were due from/to a company under common control or companies related by way of directors in common.

Independent Auditors' Report and Consolidated Financial Statements of

IVANHOE MINES LTD.

December 31, 2003 and 2002

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**Deloitte
& Touche**

Independent Auditors' Report

To the Board of Directors of
Ivanhoe Mines Ltd.

We have audited the consolidated balance sheets of Ivanhoe Mines Ltd. as at December 31, 2003 and 2002 and the consolidated statements of operations, shareholders' equity and cash flows for each of 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. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations, changes in its shareholders' equity and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 29, 2004

Comments by Independent Auditors on Canada - United States of America Reporting Differences

In the United States of America, reporting standards for auditors 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 3 to the consolidated financial statements. Our report to the Board of Directors dated March 29, 2004 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.

In the United States of America, reporting standards for auditors also require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events such as those described in Note 4 to the consolidated financial statements. Our report to the Board of Directors dated March 29, 2004 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditor's report when these are adequately disclosed in the financial statements.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, Canada
March 29, 2004

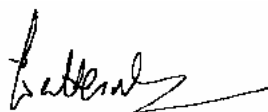
**Deloitte
Touche
Tohmatsu**

IVANHOE MINES LTD.
Consolidated Balance Sheets
(Stated in thousands of U.S. dollars)

	December 31,	
	2003	2002
ASSETS		
CURRENT		
Cash (Note 6)	\$ 108,177	\$ 35,445
Investments (Note 7)	50,000	-
Accounts receivable (Note 8)	6,790	3,425
Broken ore on leach pads	6,181	6,424
Inventories (Note 9)	21,289	16,511
Prepaid expenses	3,406	1,971
	195,843	63,776
LONG-TERM INVESTMENTS (Note 10)	14,716	15,537
MINING PROPERTY, PLANT AND EQUIPMENT (Note 11)	154,922	160,226
OTHER MINERAL PROPERTY INTERESTS (Note 12)	49,796	6,833
OTHER CAPITAL ASSETS (Note 13)	7,990	3,481
FUTURE INCOME TAXES (Note 17)	1,781	1,041
OTHER ASSETS (Note 14)	30,674	25,172
	\$ 455,722	\$ 276,066
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 12 (a))	\$ 53,272	\$ 29,174
Current portion of asset retirement obligations (Note 18 (b))	388	-
Current portion of long-term debt (Note 16)	15,301	23,766
	68,961	52,940
LOANS PAYABLE TO RELATED PARTIES (Note 15)	5,088	5,088
LONG-TERM DEBT (Note 16)	6,878	5,534
FUTURE INCOME TAXES (Note 17)	14,309	12,642
OTHER LIABILITIES (Note 18)	19,423	13,596
NON-CONTROLLING INTEREST (Note 19)	5,816	-
	120,475	89,800
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 20)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
265,440,052 (2002 - 205,163,382) common shares	719,289	522,199
SPECIAL WARRANTS (Note 28(a))	49,975	26,516
ADDITIONAL PAID-IN CAPITAL	404	1,508
CONTRIBUTED SURPLUS	6,044	3,520
DEFICIT	(440,465)	(367,477)
	335,247	186,266
	\$ 455,722	\$ 276,066

COMMITMENTS (Note 25)

APPROVED BY THE BOARD:



J. Weatherall, Director



K. Thygesen, Director

IVANHOE MINES LTD.
Consolidated Statements of Operations
(Stated in thousands of U.S. dollars, except per share amounts)

	Years ended December 31,	
	2003	2002
		(Note 3 (a))
REVENUE	\$ 89,699	\$ 87,121
COST OF OPERATIONS	(75,908)	(63,292)
WRITE-DOWN OF INVENTORIES	-	(1,049)
DEPRECIATION AND DEPLETION	(10,789)	(12,216)
OPERATING PROFIT	3,002	10,564
EXPENSES		
General and administrative	(17,496)	(12,424)
Interest on long-term debt	(2,435)	(4,516)
Exploration	(67,989)	(33,934)
Depreciation	(1,501)	(860)
LOSS BEFORE THE FOLLOWING	(86,419)	(41,170)
OTHER INCOME (EXPENSES)		
Interest income	1,824	1,101
Foreign exchange gains	10,469	1,958
Mining property shut-down costs (Note 11)	(3,356)	(2,995)
Share of loss of significantly influenced investees (Note 10)	(2,423)	(847)
Gain on sale of long-term investments	4,625	508
Gain on settlement of debt (Note 16(d))	-	32,466
Write-down of carrying values of other assets (Note 21)	(1,213)	(19,890)
Dilution gain on investment in subsidiary	4,210	-
Dilution loss on long-term investment in significantly influenced investee	(237)	-
Other	993	2,133
	14,892	14,434
LOSS BEFORE INCOME AND CAPITAL TAXES AND NON-CONTROLLING INTEREST	(71,527)	(26,736)
Provision for income and capital taxes (Note 17)	(2,007)	(4,259)
LOSS BEFORE NON-CONTROLLING INTEREST	(73,534)	(30,995)
Non-controlling interest	546	-
NET LOSS	\$ (72,988)	\$ (30,995)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.30)	\$ (0.16)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000's)	243,814	194,551

IVANHOE MINES LTD.

Consolidated Statements of Shareholders' Equity

(Stated in thousands of U.S. dollars)

	Share Capital		Special Warrants	Additional Paid-In Capital	Contributed Surplus	Deficit (Note 3 (a))	Total
	Number of Shares	Amount					
Balances, December 31, 2001	171,158,484	\$ 460,389	\$ -	\$ 1,697	\$ -	\$ (331,915)	\$ 130,171
Effect of accounting change (Note 3 (a) and (b))	-	-	-	-	2,603	(4,567)	(1,964)
Shares issued for:							
Private placements	29,385,164	53,811	-	-	-	-	53,811
Exercise of stock options	1,906,775	2,491	-	(189)	(698)	-	1,604
Share purchase plan	50,321	91	-	-	-	-	91
Acquisition of long-term investments (Note 10)							
Pacific Minerals Inc.	2,374,960	4,818	-	-	-	-	4,818
Intec Ltd.	287,678	599	-	-	-	-	599
Special Warrants issued	-	-	26,516	-	-	-	26,516
Stock compensation charged to operations	-	-	-	-	1,615	-	1,615
Net loss	-	-	-	-	-	(30,995)	(30,995)
Balances, December 31, 2002	205,163,382	522,199	26,516	1,508	3,520	(367,477)	186,266
Special Warrants issued			109,234	-	-	-	109,234
Shares issued for:							
Private placements	14,300,000	105,475	-	-	-	-	105,475
Exercise of special warrants	41,296,080	85,775	(85,775)	-	-	-	-
Exercise of stock options	4,407,815	5,158	-	(1,104)	(1,156)	-	2,898
Share purchase plan	49,745	113	-	-	-	-	113
Bonus shares	125,000	263	-	-	-	-	263
Consulting fees	98,030	306	-	-	-	-	306
Stock compensation charged to operations	-	-	-	-	3,680	-	3,680
Net loss	-	-	-	-	-	(72,988)	(72,988)
Balances, December 31, 2003	265,440,052	\$ 719,289	\$ 49,975	\$ 404	\$ 6,044	\$ (440,465)	\$ 335,247

IVANHOE MINES LTD.
Consolidated Statements of Cash Flows
(Stated in thousands of U.S. dollars)

	Years ended December 31,	
	2003	2002 (Note 3 (a))
OPERATING ACTIVITIES		
Net loss	\$ (72,988)	\$ (30,995)
Items not involving use of cash		
Depreciation and depletion	12,290	13,076
Non-cash stock based compensation	3,680	1,615
Non-cash interest expense	967	682
Write-down of inventories	-	1,049
Unrealized foreign exchange (gains) losses	(10,748)	(8,584)
Expenditures on deferred stripping costs	(9,596)	(13,192)
Amortization of deferred stripping costs	785	690
Share of loss of significantly influenced investees	2,423	847
Gain on settlement of debt	-	(32,466)
Write-down of carrying values of other assets	1,213	19,890
Dilution gain on investment in subsidiary	(4,210)	-
Dilution loss on long-term investment in significantly influenced investee	237	-
Gain on sale of long-term investments	(4,625)	(508)
Provision for income taxes	667	
Future income taxes	927	3,951
Non-controlling interest	(546)	-
Non-cash recovery of bad debt	-	(1,248)
Increase in non-current portion of royalty payable	461	418
Provision for employee entitlements	1,398	959
Net change in non-cash operating working capital items (Note 23 (a))	(1,459)	6,671
	(79,124)	(37,145)
INVESTING ACTIVITIES		
Purchase of investments	(50,000)	-
Purchase of long-term investments	(3,923)	(6,288)
Proceeds from sale of long-term investments	6,709	10
Restricted cash	6,064	(4,617)
Expenditures on mining property, plant and equipment	(5,485)	(6,844)
Expenditures on other mineral property interests	(26,067)	(1,142)
Expenditures on other capital assets	(6,034)	(3,557)
Expenditures on other assets	(2,757)	(62)
	(81,493)	(22,500)
FINANCING ACTIVITIES		
Issue of share capital and special warrants	218,026	82,022
Non-controlling interests' investment in subsidiary	10,572	-
Proceeds from long-term debt	-	10,306
Repayment of long-term debt	(9,353)	(16,900)
	219,245	75,428
EFFECT OF EXCHANGE RATE CHANGES ON CASH	14,104	707
NET CASH INFLOW	72,732	16,490
CASH, BEGINNING OF YEAR	35,445	18,955
CASH, END OF YEAR	\$ 108,177	\$ 35,445
CASH IS COMPRISED OF:		
Cash on hand and demand deposits	\$ 33,634	\$ 11,870
Short-term money market instruments	74,543	23,575
	\$ 108,177	\$ 35,445

SUPPLEMENTARY INFORMATION (Note 23 (b) and (c))

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

1. NATURE OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). In the case of the Company, Canadian GAAP differs in certain respects from accounting principles generally accepted in the United States (“U.S. GAAP”) as explained in Note 27. 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 of its subsidiaries. The principal subsidiaries of the Company are ABM Mining Limited (Yukon, Canada), Ivanhoe Mines Mongolia Inc. (B.V.I.), Ivanhoe Myanmar Holdings Limited (Myanmar), Asia Gold Corp. (B.C., Canada) (51% owned) and their respective subsidiaries, and Bakyrchik Mining Venture (Kazakhstan) (70% owned). ABM Mining Limited and its subsidiaries are individually and collectively referred to in these financial statements as “ABM”.

Ivanhoe Mines’ investment in Myanmar Ivanhoe Copper Company Limited (“JVCo”) (Myanmar) (50% owned), which is subject to joint control, is consolidated on a proportionate basis whereby the Company includes in these consolidated financial statements its proportionate share of the assets, liabilities, revenues and expenses of JVCo.

All intercompany transactions and balances have been eliminated, where appropriate.

(b) Accounting estimates

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, amongst other things, the recoverability of accounts receivable, future income tax assets and investments, the quantities of copper on leach pads and in circuit, the proven and probable ore reserves, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of metals inventories, the expected economic lives of and the estimated future operating results and net cash flows from mining property, plant and equipment, and the anticipated costs of asset retirement obligations including the reclamation of mine sites.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currencies

The Company considers 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 foreign 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 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.

(d) Cash

Cash includes short-term money market instruments with terms to maturity, at the date of acquisition, not exceeding ninety days.

(e) Investments

Investments are recorded at the lower of cost and market value.

(f) Broken ore on leach pads

The broken ore on leach pads comprises copper in process on heap leach pads that is valued at the lower of the weighted average cost of production and net realizable value. All of this ore has been classified as a current asset since, based on historical leaching data, the copper is expected to be recovered within the next twelve months. The estimated units of copper on the leach pads are based on the amount of ore placed on the pads, the expected recovery rates and actual production.

Ivanhoe Mines reviews the estimated units of copper on the heap leach pads on a regular basis and, where appropriate, revises its estimates of those quantities to recognize changes in the expected recovery rates based on actual recoveries.

(g) Inventories

Metals inventories are valued at the lower of the weighted average cost of production and net realizable value.

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

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Long-term investments

Long-term investments in companies 20% to 50% owned and/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 their 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 remaining long-term investments are accounted for using the cost method, whereby income is included in operations when received or receivable.

Provisions for impairment of long-term investments are made, where necessary, to recognize other than temporary declines in value.

(i) Mining property, plant and equipment and other capital assets

Mining property, plant and equipment and other capital assets 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. The mining plant and 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 (over two to fifteen years), as appropriate.

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

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

IVANHOE MINES LTD.
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Other mineral property interests

All direct costs related to the acquisition of other mineral property interests are capitalized by property. 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.

Ivanhoe Mines reviews the carrying values of its other mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

Certain of Ivanhoe Mines' exploration activities are conducted jointly with others. These consolidated financial statements reflect only Ivanhoe Mines' interests in such activities.

(k) Stripping costs

Mining costs associated with waste rock removal are deferred or accrued, as appropriate, and charged to operations on the basis of the average stripping ratio for each mine area. The average stripping ratio is calculated as the ratio of the tonnes of waste material estimated to be mined to the estimated recoverable tonnes of metals from that mine area.

(l) Asset retirement obligations

Ivanhoe Mines recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of mining 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 the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the 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.

Environmental obligations for the mining activities of ABM at Savage River have been specifically addressed in the Goldamere Act passed by the Tasmanian Parliament. Under this Act, the Tasmanian Government covenants to indemnify Ivanhoe Mines from any environmental claims arising out of operations of the Savage River Project prior to acquisition by ABM.

IVANHOE MINES LTD.
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

Revenue from the sale of metals is recognized, net of related royalties and sales commissions, when: (i) persuasive evidence of an arrangement exists; (ii) the risks and rewards of ownership pass to the purchaser including delivery of the product; (iii) the selling price is fixed or determinable, and (iv) collectibility is reasonably assured. Settlement adjustments, if any, are reflected in revenue when the amounts are known.

(n) Stock-based compensation

The Company has an Employees' and Directors' Equity Incentive Plan which is disclosed in Note 20. The Company accounts for its grants under that Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. In situations where Ivanhoe Mines grants stock options in connection with a business acquisition, the fair value of the options at the date of grant is included in the cost of the acquisition, with an offsetting credit to additional paid-in capital. If and when the stock options are ultimately exercised, the applicable amounts of additional paid-in capital and contributed surplus are transferred to share capital.

(o) Commodity and foreign exchange contracts

Ivanhoe Mines uses, from time to time, forward sales and option contracts to effectively provide a minimum sales price for a portion of metals inventories and future production. Gains or losses on these contracts are recognized in revenues when the related product is sold.

Ivanhoe Mines also uses, from time to time, forward currency contracts that are not designated as a hedge. Unrealized gains and losses on these contracts are included in operations.

(p) Income taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

IVANHOE MINES LTD.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) *Loss per share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares and Special Warrants outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the “treasury stock method” is used for the assumed proceeds upon the exercise of outstanding stock options and share purchase warrants that are used to purchase common shares at the average market price during the year.

(r) *Comparative figures*

Certain of the comparative figures have been reclassified to conform with the presentation as at and for the year ended December 31, 2003. In particular, restricted cash, previously included in cash, and deferred stripping costs, previously included in mining property, plant and equipment, are now classified as part of other assets (Note 14). In addition, the broken ore on leach pads, previously included in inventories, is now disclosed separately in current assets.

3. ACCOUNTING CHANGES

- (a) In 2003, the Company adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants (the “CICA”) with respect to asset retirement obligations, as described in Note 2(l). In prior years, future mine reclamation costs were accrued and charged to operations over the estimated life of each mine. This change has been applied on a retroactive basis. The effect of this change was to increase, as at December 31, 2002, the carrying values of mining property, plant and equipment by \$4,426,000, other mineral property interests by \$85,000 and other liabilities by \$7,239,000, to increase the deficit by \$2,728,000, and to increase the net loss for the years ended December 31, 2003 and 2002 by \$1,806,000 (\$0.01 per share) and by \$763,000 (\$0.00 per share), respectively.
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IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

3. ACCOUNTING CHANGES (Continued)

- (b) In 2002, the Company adopted the new accounting recommendations of the CICA with respect to stock-based compensation and other stock-based payments. These recommendations established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. In 2001 and prior years, no stock-based compensation expense was recognized when share options were granted to employees and directors. The Company has adopted the fair value based method of accounting for stock-based compensation, as described in Note 2 (n). This change has been applied retroactively; however, financial statement amounts for 2001 and prior years were not restated. The effect of this change was to increase the deficit as at January 1, 2002 by \$2,603,000 and to increase the net loss for the year ended December 31, 2002 by \$1,615,000 (\$0.01 per share).

4. INVESTMENT IN ABM

During 2003, ABM advised Ivanhoe Mines that ABM would require additional capital in order to supplement its anticipated cash flow from project operations to cover budgeted operating costs. The funding shortfall was accentuated by the rapid appreciation of the Australian dollar (A\$) against the U.S. dollar and included deferred stripping costs and capital expenditures of \$9.1 million and \$3.6 million, respectively (Note 24). During the year, Ivanhoe Mines made a \$7.5 million working capital credit facility available to enable ABM to meet any such shortfalls. At December 31, 2003, the working capital credit facility was fully drawn down. In March 2004, Ivanhoe Mines advanced a further \$2.2 million under a new working capital facility, which is also fully drawn down.

In 2004, ABM will likely need to supplement its anticipated cash flow from the Savage River operations with additional capital from external sources in order to cover expected operating costs. The extent of the funding shortfall will largely depend upon fluctuations in foreign currency exchange rates, iron ore prices and ABM's ability to retain its existing customers. ABM management has advised Ivanhoe Mines that it plans to continue exploring suitable alternatives for obtaining any future credit facilities it requires from external sources, but that there is no assurance that it will be successful in doing so. However, a failure to do so may have an adverse effect on ABM's ability to continue as a going concern.

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4. INVESTMENT IN ABM (Continued)

The following is a summary of the carrying values of the Savage River operation's assets and liabilities which are included in these financial statements:

ASSETS	December 31,	
	2003	2002
Current		
Cash	\$ 4,480	\$ 5,979
Accounts receivable	2,350	1,778
Inventories	18,718	14,562
Prepaid expenses	876	556
	26,424	22,875
Mining property, plant and equipment (Note 11)	25,734	27,481
Other assets (deferred stripping costs)	19,026	10,701
	71,184	\$ 61,057
LIABILITIES		
Current		
Accounts payable and accrued liabilities	14,334	\$ 10,545
Current portion of long-term debt	301	1,266
	14,635	11,811
Loans payable to related parties (non-recourse to the Company)	5,088	5,088
Long-term debt (non-recourse to the Company)	6,878	5,534
Future income taxes	1,217	978
Other liabilities	9,235	6,080
	37,053	29,491
Investment in ABM eliminated on consolidation	\$ 34,131	\$ 31,566

ABM management, in the fourth quarter of 2003, tested for impairment of ABM's mining property, plant and equipment and deferred stripping costs included in other assets. This test, which was based on estimated future cash flows over the expected remaining mine life of 5 years, indicates that the carrying value of those assets as at December 31, 2003 will be recoverable.

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5. JOINT VENTURE

Ivanhoe Mines has a 50% interest in JVCo, a joint venture formed to develop open-pit copper mining operations at Monywa in the Union of Myanmar. JVCo has a term, with respect to each deposit, of twenty years from the date of commercial production, which is renewable in certain circumstances for an additional five years.

JVCo completed construction of a mining complex in 1998 to develop the Sabetaung and Kyisintaung (“S&K”) deposits within the Monywa Copper Project. Commercial production from these deposits commenced during the first quarter of 1999.

These consolidated financial statements include Ivanhoe Mines’ proportionate share of JVCo’s assets, liabilities, revenues, expenses, net income and cash flows as follows:

	December 31,	
	<u>2003</u>	<u>2002</u>
Current assets	\$ 11,608	\$ 12,902
Capital assets	127,349	132,744
Other assets	3,914	3,202
Current liabilities	(20,120)	(27,309)
Other liabilities	(16,756)	(17,453)
Retained earnings	(13,522)	(11,413)
Investment in JVCo eliminated on consolidation	\$ 92,473	\$ 92,673

	Years ended December 31,	
	<u>2003</u>	<u>2002</u>
Revenues	\$ 22,865	\$ 20,227
Expenses	(20,756)	(17,589)
Net income	\$ 2,109	\$ 2,638
Cash flows		
From operating activities	\$ 6,881	\$ 7,388
For investing activities	(1,777)	(3,410)
For financing activities	(7,500)	(7,500)
	\$ (2,396)	\$ (3,522)

Ivanhoe Mines investment in JVCo includes costs incurred with respect to JVCo’s Monywa Copper Project in Myanmar in excess of its equity contribution of \$28,001,000 to JVCo. These costs have been allocated to capital assets.

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

6. CASH

Cash at December 31, 2003 and 2002 included Ivanhoe Mines' share of JVCo's cash balances of approximately \$1,478,000 and \$3,874,000, respectively, which were not available for Ivanhoe Mines' general corporate purposes.

7. INVESTMENTS

In December 2003, Ivanhoe Mines purchased a \$50.0 million one-year treasury bill from the Government of Mongolia. This bill, which is denominated in U.S. dollars, bears interest at 3% per annum and matures on December 31, 2004.

8. ACCOUNTS RECEIVABLE

	December 31,	
	<u>2003</u>	<u>2002</u>
Trade	\$ 2,286	\$ 2,091
Refundable taxes	2,836	267
Accrued interest	56	142
Other	1,612	925
	<u>\$ 6,790</u>	<u>\$ 3,425</u>

9. INVENTORIES

	December 31,	
	<u>2003</u>	<u>2002</u>
Metals		
Finished goods	\$ 8,804	\$ 6,370
Work in progress	3,561	3,226
Mine stores, supplies and other	8,924	6,915
	<u>\$ 21,289</u>	<u>\$ 16,511</u>

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10. LONG-TERM INVESTMENTS

	December 31, 2003			December 31, 2002		
	Equity Interest	Carrying Value	Quoted Market Value	Equity Interest	Carrying Value	Quoted Market Value
Investment in companies subject to significant influence:						
Pacific Minerals Inc. ("Pacific") (a)	35.5%	\$ 9,027	\$ 39,712	38.2%	\$ 8,270	\$ 13,943
Intec Ltd. ("Intec") (b)	23.2%	1,787	4,479	19.9%	1,384	1,384
Portfolio investments:						
Emperor Mines Limited ("Emperor") (c)	- %	-	-	13.7%	2,084	6,568
Olympus Pacific Minerals Inc. ("Olympus") (Note 28 (b))	10.8%	2,587	3,342	17.6%	2,587	2,813
Resource Investment Trust ("RIT") (Note 28 (c))	6.2%	1,212	2,237	6.2%	1,212	1,212
Other	-	103	-	-	-	N/a
		\$ 14,716	\$ 49,770		\$ 15,537	\$ 25,920

- (a) This investment was initially acquired during 2002 for cash of \$4,299,000 and 2,374,960 shares of the Company with a fair value of \$4,818,000. The cost of the Company's investment in Pacific exceeded its share of the underlying book value of Pacific's net assets at September 30, 2002, the deemed date of acquisition for accounting purposes, by approximately \$6,989,000. This excess is attributable to mineral properties and will be amortized, on a unit-of-production basis, against the Company's share of Pacific's post acquisition net income or losses in accordance with the accounting policy described in Note 2 (i).

In December 2003, the Company acquired 2.5 million units of Pacific at a price of Canadian ("Cdn") \$1.75 per unit, for a cost of Cdn\$4.4 million (\$3.3 million). Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable for one common share at a price of Cdn\$2.20 per share for two years from the closing date. During 2003, Ivanhoe recorded a \$2,333,000 (2002 - \$847,000) equity loss on this investment. At March 26, 2004, the quoted market value of the Company's investment was \$25,801,000.

- (b) This investment was initially acquired during 2002 for cash of \$1,989,000 and 287,678 shares of the Company with a fair value of \$599,000. The equity market conditions for Intec deteriorated during the second half of 2002 with the result that the quoted market value of Ivanhoe Mines' investment in Intec decreased significantly below its carrying value. Accordingly, the Company made an impairment provision of \$1,204,000 against this investment.

In September 2003, the Company acquired 25,141,586 shares of Intec for cash of \$493,000. This acquisition increased the Company's holding in Intec from 19.9% to 23.2%. Accordingly, the Company commenced equity accounting for its investment in Intec in October 2003. During 2003, Ivanhoe recorded a \$90,000 equity loss on this investment. At March 26, 2004, the quoted market value of the Company's investment was \$4,650,000.

IVANHOE MINES LTD.

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10. LONG-TERM INVESTMENTS (Continued)

- (c) In January 2003, the Company sold its entire investment in Emperor for \$6,709,000. This transaction resulted in a pre-tax gain of \$4,625,000.

11. MINING PROPERTY, PLANT AND EQUIPMENT

	December 31,			
	2003		2002	
	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value	Net Book Value
Mining properties, including development and preproduction costs	\$ 139,412	\$ (37,122)	\$ 102,290	\$ 102,859
Mine buildings	18,499	(11,313)	7,186	7,842
Plant and equipment	134,792	(89,346)	45,446	49,525
	<u>\$ 292,703</u>	<u>\$ (137,781)</u>	<u>\$ 154,922</u>	<u>\$ 160,226</u>

Capital projects in progress amounted to \$633,000 at December 31, 2003 and \$1,490,000 at December 31, 2002.

In 2002, Ivanhoe Mines revised its mine plan at the Savage River Project and completed an updated review of the carrying values of the Project's mining property, plant and equipment, with the result that an impairment provision of \$18,000,000 was made in the third quarter of 2002.

The Company continues to review the carrying value of these assets on a regular basis for indications of further impairment (Note 4). The economics of the Savage River Mine Project are particularly sensitive to changes in selling prices, operating costs and foreign currency exchange rate fluctuations. As a consequence, any adverse changes in those selling prices, operating costs and/or exchange rates would result in further impairment provisions and those provisions may be material.

Ivanhoe Mines placed the Bakyrchik Mining Venture on a care and maintenance basis in prior years. This project, which had an original cost, including asset retirement obligations, of \$92,369,000 as at December 31, 2003 and 2002, is carried at a nominal value.

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12. OTHER MINERAL PROPERTY INTERESTS

	December 31,	
	<u>2003</u>	<u>2002</u>
Mongolia:		
Oyu Tolgoi (a)	\$ 42,997	\$ 5,967
Other (b)	159	-
Australia (c)	6,210	-
Inner Mongolia (d)	255	-
South Korea (e)	175	866
	<u>\$ 49,796</u>	<u>\$ 6,833</u>

The foregoing table reflects the application of Ivanhoe Mines' accounting policy discussed in Note 2 (j).

- (a) Mongolia - Ivanhoe Mines has a 100% interest in the Turquoise Hill (Oyu Tolgoi) copper/gold project in Mongolia.

In November 2003, Ivanhoe Mines entered into an agreement with BHP Minerals International Exploration Inc. ("BHP") to purchase for \$37 million BHP's 2% net smelter return royalty interest in the Turquoise Hill project. Ivanhoe Mines paid BHP \$17 million in November 2003 and the remaining \$20 million instalment was paid in February 2004. At December 31, 2003, the final \$20 million instalment was included in accounts payable and accrued liabilities.

In December 2003, Ivanhoe Mines converted its 4 exploration licences on the Turquoise Hill project into 60 year mining licences, which are renewable for an additional 40 years.

- (b) Ivanhoe Mines has also acquired interests in additional mineral exploration licenses in the same geological province as the Turquoise Hill project and elsewhere in Mongolia. Mineral exploration licenses are valid for a period of three years and, through renewals, can be extended to a maximum of seven years. These rights are maintained in good standing through the payment of an annual license fee.
- (c) Australia – In 2003, Ivanhoe Mines purchased certain copper-gold mining and exploration leases in Queensland, Australia.
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12. OTHER MINERAL PROPERTY INTERESTS (Continued)

- (d) Inner Mongolia- Ivanhoe Mines has entered into an agreement with a Chinese government agency which contemplates the negotiation of definitive joint venture agreements whereby Ivanhoe Mines would conduct exploration activities in order to earn an 80% interest in certain properties.

In 2003, Ivanhoe Mines entered into an agreement, subject to due diligence, Chinese government approvals and certain other conditions, to purchase a small-scale mining property located in Inner Mongolia for an acquisition cost of approximately Cdn\$1,800,000.

Also in 2003, Ivanhoe Mines entered into a joint venture agreement which provides that Ivanhoe Mines can earn an 80% interest in a joint venture by contributing \$2.8 million over a three-year period, with a minimum contribution of \$250,000. The agreement is subject to Chinese government approval. The joint venture has also agreed, subject to due diligence, Chinese government approvals and certain other conditions, to purchase the leasehold rights to a small scale mine and related assets at an acquisition cost of approximately Cdn\$2,300,000.

- (e) South Korea – Ivanhoe Mines has a 90% interest in an exploration project in the Chollanamdo Province of South Korea. Ivanhoe Mines is required to fund all of the exploration costs and land rents, both of which are reimbursable to Ivanhoe Mines from the revenues from the project. Ivanhoe Mines has also acquired the mining rights to certain other mining prospects.

In view of the unsuccessful exploration results in 2003 and the anticipated limited project life in 2004, Ivanhoe Mines' reviewed the carrying values of the mineral property interests and related other capital assets with the result that an impairment provision aggregating \$1,213,000 was made in the fourth quarter of 2003.

13. OTHER CAPITAL ASSETS

	December 31,			
	2003			2002
	Cost	Accumulated Depreciation, Including Write-downs	Net Book Value	Net Book Value
Non-producing mining plant and equipment	\$ 8,665	\$ (1,905)	\$ 6,760	\$ 2,727
Furniture and fixtures	1,798	(568)	1,230	754
	\$ 10,463	\$ (2,473)	\$ 7,990	\$ 3,481

The non-producing mining plant and equipment are primarily for other mineral property interest projects in Mongolia, Australia, South Korea (Note 12 (e)), Myanmar and Inner Mongolia.

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14. OTHER ASSETS

	December 31,	
	<u>2003</u>	<u>2002</u>
Restricted cash	\$ 5,403	\$ 11,467
Due from JVCo	1,532	1,482
Environmental bond	2,704	-
Deferred stripping costs	21,035	12,223
	<u>\$ 30,674</u>	<u>\$ 25,172</u>

The restricted cash has been lodged as support for outstanding letters of credit discussed in Notes 16(b) and 25(a).

The amount due from the joint venture is unsecured with no fixed terms of repayment and bears interest at LIBOR plus 2%. Ivanhoe Mines charged interest of \$50,000 in 2003 and \$60,000 in 2002, which is included in the balance receivable.

15. LOANS PAYABLE TO RELATED PARTIES

	December 31,	
	<u>2003</u>	<u>2002</u>
Loans payable to the chairman of the Company or a company controlled by him, with interest at Bank of Montreal U.S. prime rate plus 2.5% to 3%	\$ 5,088	\$ 5,088

These loans are all unsecured, repayable in U.S. dollars and are non-recourse to the Company. These related parties have, amongst other things, postponed the repayment of their loans and accrued interest until ABM and its subsidiaries begin to generate positive cash flow, as defined in an agreement entered into on November 6, 2000 (the "Amending Agreement").

These related parties waived the interest charges for the years ended December 31, 2003 and 2002.

It is unlikely that ABM and its subsidiaries will achieve positive cash flow (as defined in the Amending Agreement) prior to January 1, 2005. These loans are therefore classified as a non-current liability.

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16. LONG-TERM DEBT

	December 31,	
	<u>2003</u>	<u>2002</u>
JVCo (Note 2 (a)):		
Share of loan payable (a)	\$ 15,000	\$ 22,500
ABM (Note 2 (a)):		
Deferred purchase obligation (b)	6,878	5,130
Equipment purchase loans (c)	301	1,670
	<u>22,179</u>	<u>29,300</u>
Less: Amount included in current liabilities (a)	<u>(15,301)</u>	<u>(23,766)</u>
	<u>\$ 6,878</u>	<u>\$ 5,534</u>

All of the long-term debt is non-recourse to the Company.

The future principal repayments required on the debt outstanding at December 31, 2003 is as follows:

2004	15,301
Deferred purchase obligation to be settled through future remediation work to be performed	6,878
	<u>\$ 22,179</u>

- (a) JVCo's loan of \$15,000,000 at December 31, 2003 bears interest at a rate equal to LIBOR plus 2.5%, subject to certain adjustments, and is repayable in minimum semi-annual instalments of \$7,500,000 (of which \$3,750,000 is attributable to Ivanhoe Mines) until maturity in August 2005. JVCo will also be required to make additional principal repayments in certain circumstances based on certain financial ratios and the level of cash flow above specified levels. The credit agreement requires that JVCo maintain working capital of not less than \$5,000,000. In addition, the credit agreement contains certain restrictions regarding, amongst other things, the ability of JVCo to incur additional indebtedness and the payment of cash dividends in certain circumstances. The loan facility is secured by, amongst other things, a fixed charge on the Monywa Copper Mine Project assets, an assignment of JVCo's operating and restricted cash balances, and a floating charge on all other assets of JVCo.
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16. LONG-TERM DEBT (Continued)

(a) (continued)

At December 31, 2003 and December 31, 2002, JVCo was not in compliance with the minimum working capital requirement in its credit agreement, and had not received a waiver from its lenders with respect to this requirement and also with respect to the non-compliance with certain other financial covenants in the credit agreement. Accordingly, as required by GAAP, the entire amount of the Company's share of JVCo's loan payable aggregating \$15,000,000 at December 31, 2003 and \$22,500,000 at December 31, 2002 has been included in current liabilities. Management of the JVCo is of the opinion that the lenders will not demand repayment of the loan, notwithstanding the foregoing.

JVCo is required to pay a non-refundable management fee of 0.75% per annum on the amounts drawn-down. This amount is included in interest on long-term debt.

The effective interest rate on the loan facility was 4.47% at December 31, 2003 and 5.05% at December 31, 2002.

Ivanhoe Mines' share of the interest incurred on this loan during the year ended December 31, 2003 and 2002 amounted to \$979,000 and \$1,389,000, respectively.

- (b) A subsidiary of ABM has an agreement with the Tasmanian Parliament to defer the payment for the purchase of the assets of the Savage River Project. This deferred obligation, which amounted to A\$14,549,000 at December 31, 2003 and A\$14,342,000 at December 31, 2002, is non-interest bearing, is secured in part by a bank letter of credit for A\$2,800,000 and is repayable by December 24, 2014, primarily by carrying out remediation work for the purpose of rehabilitating areas disturbed by operations prior to ABM's acquisition of an interest in the site.

The U.S. equivalent of this obligation amounted to \$10,759,000 at December 31, 2003 and \$8,093,000 at December 31, 2002. For accounting purposes, this obligation has been discounted using an interest rate of 10% to its present value of \$6,878,000 at December 31, 2003 and \$5,130,000 at December 31, 2002.

- (c) These equipment purchase loans of A\$406,000 at December 31, 2003 and A\$2,958,000 at December 31, 2002 bear interest at rates between 6.5% and 8.0%, and mature in June 2003. These loans are secured by the related equipment.
- (d) In 2002, the Company completed debt restructuring negotiations which resulted in the Company acquiring, for cash of approximately \$8,100,000, the Savage River Project's bank term loan and an outstanding foreign currency exchange contract obligation aggregating approximately \$41 million. This transaction resulted in a non-cash gain of \$32,466,000 on settlement of debt.
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17. INCOME TAXES

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

	Years ended December 31,	
	<u>2003</u>	<u>2002</u>
Current income taxes	\$ 667	\$ -
Future income taxes	927	3,951
Capital taxes	413	308
	<u>\$ 2,007</u>	<u>\$ 4,259</u>

Future income tax assets and liabilities at December 31, 2003 and 2002 arise from the following:

	<u>2003</u>	<u>2002</u>
Future income tax assets		
Long-term investments	\$ 1,711	\$ 3,419
Mining property, plant and equipment	2,855	-
Loss carry-forwards	84,451	43,650
Other	13,879	3,967
	<u>102,896</u>	<u>51,036</u>
Valuation allowance	<u>(101,115)</u>	<u>(49,995)</u>
Net future income tax assets	<u>1,781</u>	<u>1,041</u>
Future income tax liabilities		
Mining property, plant and equipment	12,304	11,664
Long-term debt	1,213	978
Other	792	-
	<u>14,309</u>	<u>12,642</u>
Future income tax liabilities, net	<u>\$ 12,528</u>	<u>\$ 11,601</u>

Disclosed on the Consolidated Balance Sheets as:

Future income tax assets	\$ 1,781	\$ 1,041
Future income tax liabilities	14,309	12,642
Future income tax liabilities, net	<u>\$ 12,528</u>	<u>\$ 11,601</u>

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

17. INCOME TAXES (Continued)

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

	Years ended December 31,	
	<u>2003</u>	<u>2002</u>
Provision for recovery of income taxes based on the combined Canadian federal and provincial statutory tax rates of 37.6% in 2003 and 39.6% in 2002 applied to the loss before income and capital taxes and minority interest	\$ 26,894	\$ 10,588
Added (deduct)		
JVCo's relief from income taxes	-	395
Lower foreign tax rates	(5,417)	(5,836)
Tax effect of losses not recognized	(21,315)	(2,423)
Change in valuation allowance for future income tax assets	(408)	(6,035)
Capital taxes	(377)	(308)
Other	(1,384)	(640)
Provision for income and capital taxes	<u>\$ (2,007)</u>	<u>\$ (4,259)</u>

At December 31, 2003, Ivanhoe Mines had deductible temporary differences aggregating approximately \$21,410,000 and the following unused tax losses, for which no future income tax assets had been recognized:

<u>In Thousands</u>	<u>Local Currency</u>	<u>U.S. Dollar Equivalent</u>	<u>Expiry Dates</u>
Non-capital losses:			
Canada	Cdn. \$ 58,720	\$ 45,274	2004 to 2010
Australia	A \$ 114,328	\$ 85,975	(a)
Korea	Krw 9,100,430	\$ 7,114	2004 to 2008
Mongolia	Mnt 101,245,760	\$ 90,398	(b)
Capital losses:			
Canada	Cdn. \$ 83,751	\$ 64,573	(c)

- (a) These losses are carried forward indefinitely, subject to continuity of ownership and business tests.
- (b) These losses are carried forward indefinitely until such time as production from a mine commences; thereafter, they can be amortized on a straight-line basis over a period of five years.
- (c) These losses are carried forward indefinitely for utilization against any future net realized capital gains.
-

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

17. INCOME TAXES (Continued)

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.

18. OTHER LIABILITIES

	December 31,	
	<u>2003</u>	<u>2002</u>
Royalty payable	\$ 2,160	\$ 1,699
Provision for employee entitlements	3,540	2,143
Asset retirement obligations	13,723	9,754
	<u>\$ 19,423</u>	<u>\$ 13,596</u>

(a) Royalty payable

JVCo is required to pay a royalty to the Ministry of Mines of the Union of Myanmar on the value of Copper Cathode sold. However, during the first five years following the commencement of sales of Copper Cathode, payment of one-half of the royalty is deferred and is payable in equal instalments over the next five years. Ivanhoe Mines' share of the amount of the royalty payable due within one year is included in accounts payable and accrued liabilities. The balance of the royalty is payable as to \$540,000 in each of 2005 through 2008.

(b) Asset retirement obligations

	December 31,	
	<u>2003</u>	<u>2002</u>
Balance, beginning of year	\$ 9,754	8,644
Increase in obligations for:		
Amounts incurred	1,836	356
Amounts arising on acquisition of mineral property interests	1,731	106
Accretion expense	790	648
Balance, end of year	14,111	9,754
Less: Amount included in current liabilities	(388)	-
	<u>\$ 13,723</u>	<u>\$ 9,754</u>

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

18. OTHER LIABILITIES (Continued)

The total undiscounted amount of estimated cash flows required to settle the obligations is \$22,805,000 (2002 - \$18,149,000), which has been discounted using a credit adjusted risk free rate ranging from 5.6% to 8.4%. Reclamation obligations at the Eunsan mine are expected to be paid in 2004 and will be funded from cash on hand. All other reclamation obligations are not expected to be paid for several years in the future and will be funded from Ivanhoe Mines' cash at the time of mine closures.

19. NON-CONTROLLING INTEREST

During the year ended December 31, 2003, Asia Gold Corp ("AGC") completed an initial public offering resulting in a 49% interest in AGC not being owned by Ivanhoe Mines.

20. 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.

The Share Option Plan authorizes the Board of Directors of the Company to grant options, which vest over a period of years, 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. The Share Option Plan also provides that these options may, upon approval of the Board of Directors, be converted into stock appreciation rights.

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.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

20. SHARE CAPITAL (Continued)

(a) Equity Incentive Plan (Continued)

The Share Purchase Plan entitles each eligible employee of Ivanhoe Mines to contribute a percentage of his or her annual basic salary in semi-monthly instalments. Each participant is, at the end of each calendar quarter during which he or she participates in the Share Purchase Plan, 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 20,000,000 Common Shares pursuant to the Equity Incentive Plan. At December 31, 2003, an aggregate of 3,215,126 Common Shares are available for future grants of awards under the plan.

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2003 is as follows:

	<u>Options Outstanding</u>		Weighted Average Exercise Price
	<u>Options Available for Grant</u>	<u>Number of Common Shares</u>	
			(Expressed in Canadian dollars)
Balances, December 31, 2001	219,330	13,594,244	\$ 1.40
Increase in amount authorized	5,000,000	-	-
Options granted	(2,234,500)	2,234,500	3.23
Options exercised	-	(1,906,775)	1.32
Options cancelled	1,612,875	(1,612,875)	2.26
Shares issued under share purchase plan	(50,321)	-	-
Balances, December 31, 2002	4,547,384	12,309,094	1.64
Options granted	(1,730,000)	1,730,000	9.30
Options exercised		(4,780,683)	1.38
Options cancelled	670,517	(670,517)	2.46
Shares issued for bonus shares	(125,000)	-	-
Shares issued for consulting fees	(98,030)	-	-
Shares issued under share purchase plan	(49,745)	-	-
Balances, December 31, 2003	3,215,126	8,587,894	\$ 3.26

At December 31, 2003, the U.S. dollar equivalent of the weighted average exercise price was \$2.52.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

20. SHARE CAPITAL (Continued)

(a) Equity Incentive Plan (Continued)

The following table summarizes information concerning outstanding and exercisable options at December 31, 2003:

Options Outstanding			Options Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)	Number Exercisable	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)	
98,333	2.09	\$ 1.08	94,333	\$ 1.08	
3,775,561	2.10	1.20	3,020,449	1.20	
1,000,000	2.73	1.60	800,000	1.60	
33,750	2.25	1.61	27,000	1.61	
82,500	2.15	1.70	78,000	1.70	
350,000	2.07	1.85	-	1.85	
40,000	4.36	2.12	40,000	2.12	
120,250	2.89	2.31	66,138	2.31	
100,000	3.10	3.05	55,000	3.05	
1,362,500	3.81	3.25	577,050	3.25	
325,000	3.48	3.50	235,000	3.50	
20,000	3.77	6.74	20,000	6.74	
280,000	4.72	6.75	56,000	6.75	
1,000,000	9.84	12.70	250,000	12.70	
8,587,894	3.52	\$ 3.26	5,318,970	\$ 2.25	

The weighted average grant-date fair value of stock options granted during 2003 and 2002 was Cdn\$6.78 and Cdn\$1.93, respectively. The fair values of these options were determined using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	2003	2002
Risk-free interest rate	4.71%	4.76%
Expected life	7.8 years	5.0 years
Expected volatility	64.59%	71.25%
Expected dividends	\$Nil	\$Nil

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

20. SHARE CAPITAL (Continued)

(b) Share Purchase Warrants

During the year ended December 31, 2003, and in connection with a private placement financing, the Company issued 7,150,000 share purchase warrants. Each warrant entitles the holder to acquire one common share at any time on or before December 19, 2005, at a price of Cdn\$12.00 during the first year following the closing of the financing and Cdn\$12.50 during the second year.

21. WRITE-DOWN OF CARRYING VALUES OF OTHER ASSETS

	Years ended December 31,	
	2003	2002
Investments (Note 10):		
Intec	\$ -	\$ 1,204
RIT	-	686
Savage River Mine Project (Note 11)	-	18,000
South Korea mineral property interests and other capital assets (Notes 12 and 13)	1,213	-
	<u>\$ 1,213</u>	<u>\$ 19,890</u>

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

22. OTHER RELATED PARTY TRANSACTIONS

- (a) Ivanhoe Mines incurred the following expenses, on a cost recovery basis, with a company subject to significant influence, and with companies related by way of directors or shareholders in common:

	Years ended December 31,	
	2003	2002
Consulting	\$ -	\$ 75
Exploration	1,768	261
Management fees	223	294
Office and administrative	1,834	1,234
Salaries and benefits	1,372	1,095
Travel (including aircraft rental)	2,636	2,184
	\$ 7,833	\$ 5,143

- (b) Accounts receivable and accounts payable at December 31, 2003 included \$347,000 and \$777,000, respectively, (December 31, 2002 - \$107,000 and \$2,003,000, respectively) which were due from/to a company under common control or companies related by way of directors in common.

23. CASH FLOW INFORMATION

- (a) *Net change in non-cash operating working capital items*

	Years ended December 31,	
	2003	2002
(Increase) decrease in:		
Accounts receivable	\$ (3,365)	\$ (1,002)
Broken ore on leach pads	243	(2,890)
Inventories	(4,778)	1,434
Prepaid expenses	(1,435)	(638)
Increase in:		
Accounts payable and accrued liabilities	7,876	9,767
	\$ (1,459)	\$ 6,671

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

23. CASH FLOW INFORMATION (Continued)

(b) *Supplementary information regarding other non-cash transactions*

	Years ended December 31,	
	<u>2003</u>	<u>2002</u>
Investing activities:		
Purchase of long-term investments	\$ -	\$ (7,315)
Sale of long-term investment	-	1,898
Acquisition of other mineral property interest	(20,000)	(4,000)
Expenditures on mining property, plant and equipment	-	(2,799)
Expenditures on other mineral property interests	(2,085)	(106)
Financing activities:		
Amount payable on acquisition of other mineral property interest	20,000	4,000
Asset retirement obligations	2,085	6,371
Divestiture of long-term debt	-	(3,466)
Issue of share capital	2,260	6,304
(Transfers from) additional paid-in capital	(1,104)	(189)
(Transfers from) contributed surplus	(1,156)	(698)

(c) *Other supplementary information*

	Years ended December 31,	
	<u>2003</u>	<u>2002</u>
Interest paid	\$ 1,467	\$ 3,934
Income taxes paid	\$ 378	\$ 309

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
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24. SEGMENT DISCLOSURES

Ivanhoe Mines has three operating segments, its copper division, its iron ore division and its exploration division. Capital assets consist of mining property, plant and equipment, other mineral property interests and other capital assets.

Year ended	Operating Segments			Corporate	Consolidated
	Copper Division	Iron Ore Division	Exploration Division		
December 31, 2003					
Revenue	\$ 22,866	\$ 66,833	\$ -	\$ -	\$ 89,699
Cost of operations	(12,428)	(63,480)	-	-	(75,908)
Depreciation and depletion	(5,484)	(5,305)	-	-	(10,789)
Operating profit	4,954	(1,952)	-	-	3,002
Expenses					
General and administrative	(683)	(103)	-	(16,710)	(17,496)
Interest on long-term debt	(1,224)	(991)	(57)	(163)	(2,435)
Exploration	-	-	(67,989)	-	(67,989)
Depreciation	-	-	(1,481)	(20)	(1,501)
Income (loss) before the following	3,047	(3,046)	(69,527)	(16,893)	(86,419)
Other income (expenses)					
Interest income	11	211	49	1,553	1,824
Foreign exchange gains (losses)	(264)	(1,907)	990	11,650	10,469
Mining property shut down costs	-	-	-	(3,356)	(3,356)
Share of loss of significantly influenced investees	-	-	-	(2,423)	(2,423)
Gain on sale of long-term investments	-	-	-	4,625	4,625
Write-down of carrying values of assets	-	-	(1,213)	-	(1,213)
Dilution gain on investment in subsidiary	-	-	4,210	-	4,210
Dilution loss on long-term investment in significantly influenced investees	-	-	-	(237)	(237)
Other	6	308	230	449	993
Income (loss) before income and capital taxes and non-controlling interest	2,800	(4,434)	(65,261)	(4,632)	(71,527)
Income and capital taxes	(691)	(251)	(159)	(906)	(2,007)
Income (loss) before non-controlling interest	2,109	(4,685)	(65,420)	(5,538)	(73,534)
Non-controlling interest	-	-	546	-	546
Net income (loss)	\$ 2,109	\$ (4,685)	\$ (64,874)	\$ (5,538)	\$ (72,988)
Expenditures on capital assets	\$ 1,853	\$ 3,557	\$ 8,527	\$ 39,649	\$ 53,586
Expenditures on deferred stripping costs	\$ 486	\$ 9,110	\$ -	\$ -	\$ 9,596
Total assets	\$ 143,108	\$ 69,550	\$ 85,703	\$ 157,361	\$ 455,722

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

24. SEGMENT DISCLOSURES (Continued)

Year ended	Operating Segments				
	Copper Division	Iron Ore Division	Exploration Division	Corporate	Consolidated
December 31, 2002					
Revenue	\$ 20,227	\$ 66,894	\$ -	\$ -	\$ 87,121
Cost of operations	(10,539)	(52,753)	-	-	(63,292)
Write-down of inventories	-	(1,049)	-	-	(1,049)
Depreciation and depletion	(4,976)	(7,240)	-	-	(12,216)
Operating profit	4,712	5,852	-	-	10,564
Expenses					
General and administrative	(492)	(144)	-	(11,788)	(12,424)
Interest on long-term debt	(1,821)	(2,535)	(8)	(152)	(4,516)
Exploration	-	-	(33,934)	-	(33,934)
Depreciation	-	-	(810)	(50)	(860)
Income (loss) before the following	2,399	3,173	(34,752)	(11,990)	(41,170)
Other income (expenses)					
Interest income	80	147	26	848	1,101
Foreign exchange gains (losses)	(33)	1,672	80	239	1,958
Mining property shut down costs	-	-	-	(2,995)	(2,995)
Share of loss of significantly influenced investee	-	-	-	(847)	(847)
Gain on sale of long-term investments	-	-	-	508	508
Gain on settlement of debt	-	32,466	-	-	32,466
Write-down of carrying values of other assets	-	(18,000)	-	(1,890)	(19,890)
Other	21	(513)	60	2,565	2,133
Income (loss) before income and capital taxes	2,467	18,945	(34,586)	(13,562)	(26,736)
Income and capital taxes	171	(3,483)	(1,199)	252	(4,259)
Net income (loss)	\$ 2,638	\$ 15,462	\$ (35,785)	\$ (13,310)	\$ (30,995)
Expenditures on capital assets	\$ 3,408	\$ 3,427	\$ 8,655	\$ 53	\$ 15,543
Expenditures on deferred stripping costs	\$ 1,072	\$ 12,120	\$ -	\$ -	\$ 13,192
Total assets	\$ 147,366	\$ 59,423	\$ 12,649	\$ 56,628	\$ 276,066

Capital assets at the end of the year:	December 31,	
	2003	2002
Australia	\$ 33,098	\$ 27,482
Mongolia	46,584	7,867
Myanmar	129,183	132,913
South Korea	806	2,122
Canada	2,502	44
Other	535	112
	\$ 212,708	\$ 170,540

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

24. SEGMENT DISCLOSURES (Continued)

During the years ended December 31, 2003 and 2002, substantially all of the revenue of the Copper Division and the Iron Ore Division arose from sales made to the major customers referred to in Notes 25(b) and (c).

25. COMMITMENTS

- (a) Ivanhoe Mines has commitments in the ordinary course of business to expend funds towards retaining its interests in certain mineral property interests (Note 12). In that regard, Ivanhoe Mines has lodged letters of credit aggregating \$2,000,000 at December 31, 2003 and \$6,000,000 at December 31, 2002 in support of certain of these commitments.
- (b) JVCo has entered into an agreement for the sale of a guaranteed quantity of Grade A Product (as defined in the agreement) from the Monywa Copper Mine Project to a company (the "Major Customer") affiliated with one of the lenders of the project financing. This agreement terminates no later than December 31, 2006, but may terminate earlier if certain events occur.
- (c) ABM has entered into contracts with two of its major customers for the sale of a guaranteed quantity of iron ore. The sales price of iron ore specified in these agreements is renegotiated annually.
- (d) 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 natural gas, power, port operations, equipment rentals and other arrangements as follows:

2004	\$	39,383
2005		20,279
2006		12,592
2007		6,773
2008		-
Thereafter		-
	\$	<u>79,027</u>

Approximately \$70.4 million of these commitments relate to the Savage River operations, comprising mainly natural gas, power and a mining contract commitments.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars; tabular amounts in thousands)

26. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

- (a) The estimated fair value of Ivanhoe Mines' financial instruments was as follows:

	December 31,			
	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$ 108,177	\$ 108,177	\$ 35,445	\$ 35,445
Investments	50,000	50,000	-	-
Accounts receivable	6,790	6,790	3,425	3,425
Long-term investments	14,716	49,770	15,537	25,920
Restricted cash	5,403	5,403	11,467	11,467
Due from joint venture	1,532	1,532	1,482	1,482
Accounts payable and accrued liabilities	53,272	53,272	29,174	29,174
Loans payable to related parties	5,088	5,088	5,088	5,088
Long-term debt	22,179	22,179	29,300	29,300
Royalty payable	2,160	-	1,699	-

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.

Ivanhoe Mines' investments, amount due from the joint venture, loan payable to related parties and long-term debt bear effective interest rates principally at current market rates and accordingly, their fair value approximates their carrying value.

The fair value of the royalty payable is not readily determinable.

The fair value of Ivanhoe Mines' remaining financial instruments was estimated to approximate their carrying value 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 Myanmar and Australia. JVCo does not mitigate this risk in light of the credit worthiness of its major customer. ABM mitigates this risk by obtaining letters of credit in advance of the shipment of iron ore.
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IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

26. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS (Continued)

- (c) The credit agreement discussed in Note 16 (a) provides that JVCo shall, at the request of the lenders, from time to time maintain one or more swaps, caps, collars or similar hedge products commonly used to hedge against interest rate fluctuations, to protect itself against the LIBOR interest rate rising more than 2% per annum above that in effect on January 13, 1998 and as to a notional principal amount equal to 75% of the principal amount outstanding from time to time. JVCo will, however, be subject to interest rate cash flow risk on the remaining unhedged amount.

Ivanhoe Mines is also subject to interest rate cash flow risk on its loans payable to related parties and its other long-term debt since a significant portion of these liabilities bear interest at floating rates.

- (d) Ivanhoe Mines is subject to market risk arising from revenues from the sale of metals, which are subject to price fluctuations beyond its control. Management of Ivanhoe Mines attempts to reduce its exposure to this market risk through the use of sale contracts designed to fix the sales prices of metals on a monthly or annual basis.
 - (e) Ivanhoe Mines earns its revenues in U.S. dollars, but incurs certain of its expenses in currencies other than the U.S. dollar. As such, Ivanhoe Mines is subject to foreign exchange risk as a result of fluctuations in exchange rates.
-

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As indicated in Note 2, these consolidated financial statements have been prepared in accordance with Canadian GAAP, which, in the case of the Company, conforms in all material respects with U.S. GAAP, except as set forth below.

Consolidated Statements of Operations (a)

(in thousands, except per share amounts)

	December 31,	
	2003	2002
Net loss in accordance with Canadian GAAP	\$ (72,988)	\$ (30,995)
Amortization of deferred stock compensation (b)	(202)	(251)
Adjustment to write-down of the Savage River Project (c)	2,235	9,693
Amortization of other mineral property interests (d)	(2,698)	(2,941)
Reversal of retroactive application of accounting change (e)	-	763
Cumulative effect of accounting change (e)	(2,728)	-
Net loss in accordance with U.S. GAAP	\$ (76,381)	\$ (23,731)
Weighted-average number of shares outstanding under U.S. GAAP (in thousands)	243,814	194,551
Basic and diluted loss per share in accordance with U.S. GAAP	\$ (0.31)	\$ (0.12)
Net loss under U.S. GAAP	\$ (76,381)	\$ (23,731)
Unrealized gain (loss) on portfolio investments, net of income taxes (f)	(2,350)	1,668
Comprehensive loss under U.S. GAAP (g)	\$ (78,731)	\$ (22,063)

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Consolidated Balance Sheets

	December 31,	
	2003	2002
Total assets in accordance with Canadian GAAP	\$ 455,722	\$ 276,066
Reduction in fair value of the Savage River Project assets acquired (b)	(5,634)	(5,634)
Adjustment to write-down of the Savage River Project (c)	(27,733)	(29,968)
Amortization of other mineral property interests (d)	(6,521)	(2,941)
Reversal of retroactive application of accounting change (e)	-	(4,511)
Adjustment to carrying value of long-term investments (f)	1,780	4,710
Total assets in accordance with U.S. GAAP	\$ 417,614	\$ 237,722
Total liabilities in accordance with Canadian GAAP	\$ 120,475	\$ 89,800
Reversal of retroactive application of accounting change (e)	-	(7,239)
Income tax effect of U.S. GAAP adjustments for:		
Amortization of other mineral property interests (d)	(882)	
Adjustment to carrying value of long-term investments (f)	193	773
Total liabilities in accordance with U.S. GAAP	\$ 119,786	\$ 83,334
Total shareholders' equity in accordance with Canadian GAAP	\$ 335,247	\$ 186,266
Reduction in fair value of shares issued to acquire ABM (b)	(4,930)	(4,930)
Deferred stock compensation arising on acquisition of ABM (b)	-	(202)
(Increase) decrease in the deficit for:		
Amortization of deferred stock compensation (b)	(704)	(502)
Adjustment to write-down of the Savage River Project (c)	(27,733)	(29,968)
Amortization of other mineral property interests (d)	(5,639)	(2,941)
Reversal of retroactive application of accounting change (e)	-	2,728
Other comprehensive income (f)	1,587	3,937
Total shareholders' equity in accordance with U.S. GAAP	\$ 297,828	\$ 154,388

Under U.S. GAAP, the components of shareholders' equity would be as follows:

	2003	2002
Share capital	\$ 714,359	\$ 517,269
Special warrants	49,975	26,516
Additional paid-in capital	6,448	4,826
Other comprehensive income	1,587	3,937
Deficit	(474,541)	(398,160)
	\$ 297,828	\$ 154,388

IVANHOE MINES LTD.

Notes to the Consolidated Financial Statements

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

27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Consolidated Statements of Cash Flows

	Years ended December 31,	
	2003	2002
Net cash used in operating activities in accordance with Canadian GAAP	\$ (79,124)	\$ (37,145)
Adjustments to net loss involving use of cash:		
Write off expenditures on other mineral interests (d)	(255)	(1,142)
Net cash used in operating activities in accordance with U.S. GAAP	(79,379)	(38,287)
Net cash used in investing activities in accordance with Canadian GAAP	(81,493)	(22,500)
Reclassification of expenditures on mineral property interests (d)	255	1,142
Net cash used in investing activities in accordance with U.S. GAAP	(81,238)	(21,358)
Net cash flows from financing activities in accordance with Canadian and U.S. GAAP	219,245	75,428
Effect of exchange rate changes on cash	14,104	707
Net increase in cash and cash equivalents in accordance with Canadian and U.S. GAAP	72,732	16,490
Cash, beginning of year in accordance with Canadian and U.S. GAAP	35,445	18,955
Cash, end of year in accordance Canadian and U.S. GAAP	\$ 108,177	\$ 35,445

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Notes to the Consolidated Financial Statements

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

27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(a) *Statements of operations*

Under U.S. GAAP, the loss before other income (expenses) would include mining property shut-down costs and the write-down of carrying values of other assets.

(b) *Acquisition of ABM*

Under Canadian GAAP, the fair value of the shares issued in 2000 to effect the acquisition of ABM were measured at the transaction date whereas, under U.S. GAAP, the shares issued would be measured at the date the acquisition is announced and the terms agreed to. This difference would have resulted in the cost of the acquisition under U.S. GAAP being \$4,930,000 lower than under Canadian GAAP.

Under Canadian GAAP, the Company included in the cost of the acquisition of ABM \$1,750,000 for the fair value of stock options granted by the Company in 2000 as consideration for the acquisition of all of the outstanding stock options of ABM. Under U.S. GAAP, the intrinsic value of the unvested options granted by the Company would be allocated to deferred stock compensation included in shareholders' equity. This difference would have resulted in the cost of the acquisition under U.S. GAAP being \$704,000 lower than under Canadian GAAP. Under U.S. GAAP, the deferred stock compensation would be recognized as a compensation cost over the remaining future vesting period of the options.

(c) *Impairment of long-lived assets*

Under Canadian GAAP, impairment charges on long-lived assets in 2002 and prior years were recorded as the excess of the carrying amount over the recoverable amount, which was determined based on the undiscounted estimated future net cash flows, whereas under U.S. GAAP impairment charges are recorded based on the discounted estimated future net cash flows.

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Notes to the Consolidated Financial Statements
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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(c) *Impairment of long-lived assets (continued)*

Under U.S. GAAP, the Savage River Project would have been fully written off as at December 31, 2001. In 2002, additional amounts capitalized under Canadian GAAP would also be written off under U.S. GAAP and the related depreciation and depletion would be reversed. The differences between Canadian and U.S. GAAP are as follows:

	<u>2003</u>	<u>2002</u>
Impairment of amounts capitalized under Canadian GAAP	\$ (2,580)	\$ (15,240)
Reversal of impairment charge recorded under Canadian GAAP	-	18,000
Reversal of depreciation and depletion recorded under Canadian GAAP	4,815	6,933
	\$ 2,235	\$ 9,693

(d) *Other mineral property interests*

Under Canadian GAAP, the costs of acquisition of mineral property interests are capitalized. Under U.S. GAAP, where the interests are without, at the date of acquisition, economically recoverable reserves, these costs are generally considered to be exploration costs, which are expensed as incurred. However, the costs of acquisition of the Company's mineral exploration licenses would be classified as intangible assets under U.S. GAAP and, since the properties are without proven and probable reserves, amortized over the term of the licenses. As a result, for U.S. GAAP purposes, the Company has recorded \$2,698,000 and \$2,941,000, net of deferred income taxes of \$882,000 and \$Nil in amortization or write-offs of other mineral property interests for each of the years ended December 31, 2003 and 2002, respectively. For purposes of the Consolidated Statements of Cash Flows, the acquisition costs that are written-off for U.S. GAAP purposes are classified as cash used in operating activities.

(e) *Accounting change*

Under Canadian GAAP, the accounting change with respect to asset retirement obligations discussed in Note 3 (a) has been applied on a retroactive basis. Under U.S. GAAP, this accounting change would be applied as of the beginning of 2003 and the cumulative effect of the initial application accounted for as part of the result of operations for 2003.

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

27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(f) *Long-term investments*

Portfolio investments are carried at their original cost less provisions for impairment under Canadian GAAP. Under U.S. GAAP, these investments would be classified as available-for-sale securities, which are carried at market value. The resulting unrealized gains or losses would be included in the determination of comprehensive income, net of income taxes.

(g) *Other comprehensive income*

U.S. GAAP requires that a statement of comprehensive income be displayed with the same prominence as other financial statements and that the aggregate amount of comprehensive income excluding the deficit be disclosed separately in shareholders' equity. Comprehensive income, which incorporates the net loss, includes all changes in shareholders' equity during a period except those resulting from investments by and distributions to owners. There is currently no requirement to disclose comprehensive income under Canadian GAAP.

(h) *Income taxes*

Under Canadian GAAP, future income taxes are calculated based on enacted or substantially enacted tax rates applicable to future years. Under U.S. GAAP, only enacted rates are used in the calculation of deferred income taxes. This difference in GAAP did not have any effect on the financial position or results of operations of the Company for the years ended December 31, 2003 and 2002.

(i) *Stock-based compensation*

During 2002, the Company adopted the fair-value based method of accounting under Canadian GAAP for stock-based compensation, as described in Notes 2(m) and 3(b), with retroactive application without restatement of prior years' financial statements. This approach, the "modified prospective method", is permissible under Statement of Financial Accounting Standard ("SFAS") No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, issued by the United States Financial Accounting Standards Board ("FASB"), which provides alternative methods of transition for entities that voluntarily change to the fair value based method of accounting and amends the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

Under Canadian GAAP, the measurement of the recorded stock-based compensation, as well as the assumptions and methodology, are consistent with those prescribed by SFAS No. 123.

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(j) *Joint venture*

Under Canadian GAAP, the Company has accounted for its joint venture interest in JVCo (Note 5) on a proportionate consolidation basis. Under U.S. GAAP, interests in joint ventures are accounted for using the equity method. However, in accordance with practices prescribed by the United States Securities and Exchange Commission (“SEC”) for foreign filing companies, if JVCo meets certain conditions, the Company is exempt from applying the equity method to its investment therein. JVCo satisfies the SEC conditions and, accordingly, there is no adjustment required for U.S. GAAP purposes.

(k) *Commodity and foreign exchange contracts*

As stated in Note 2 (o), from time to time the Company uses forward sales and options contracts to hedge its metals inventories and future production, recognizing the gains or losses at the settlement date of the transaction. Under U.S. GAAP, unless the Company has formal documentation designating the derivative instruments as a hedge of a specific transaction, any unrealized gain or loss on such transactions at the balance sheet date should be recognized in operations. This GAAP difference did not have any effect on the financial position or results of operations of the Company for the years ended December 31, 2003 and 2002.

(l) *Recently released accounting standards*

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*, (“FIN 46”), an interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46, as it relates to the Company, is effective immediately for all variable interest entities created after January 31, 2003 and for the first annual reporting period ending after December 31, 2003 for variable interests entities created before February 1, 2003. It is expected that the adoption of FIN 46 will not have a material effect on the Company’s financial position or results of operations.

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28. OTHER SUBSEQUENT EVENTS

- (a) In January 2004, the 5,760,000 Special Warrants outstanding at December 31, 2003 were converted into 5,760,000 Common Shares of the Company and 5,760,000 share purchase warrants. Each 10 warrants entitled the holder to acquire one common share at a price of \$8.68 at any time on or before February 15, 2004. In February 2004, the Company extended the expiry date of the warrants to February 15, 2005.
 - (b) In February 2004, Ivanhoe Mines reached an agreement with Olympus to sell its 32.64% interest in the Phouc Son Gold Project joint venture in Vietnam to Olympus. Under the agreement, Ivanhoe Mines will receive 10,277,646 million common shares of Olympus at a deemed price of Cdn\$0.67 per share. The closing is subject to regulatory and Olympus shareholder approval. Upon completion of the transaction, Ivanhoe Mines equity interest in Olympus will be approximately 19.9%.
 - (c) In February 2004, the Company sold its entire investment in Resource Investment Trust (Note 10), generating proceeds of \$2,460,000. This transaction resulted in a pre-tax gain of \$1,248,000.
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