IVANHOE MINES NEW HORIZONS

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IVANHOE MINES LTD.

FINANCIAL STATEMENTS
December 31, 2002 and 2001

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

(Stated in U.S. dollars)

Overview

In 2002, the Company conducted a substantial exploration program on the Oyu Tolgoi Project, concentrating its drilling efforts on the Central Oyu, Southwest Oyu, South Oyu and Far North Oyu mineralized zones. During the year a total of approximately 136,000 meters was drilled by the Company on its various Mongolian properties. In 2002, the Company spent a total of approximately $30 million in Mongolia, including $18 million on its Oyu Tolgoi property.

In February of 2003, the Company received from AMEC E&C Services Limited a revised resource estimate on the Oyu Tolgoi property which included an inferred resource of 1.6 billion tonnes at 0.63% copper and 0.17 grams per tonne ("gpt") gold and an additional indicated resource of 0.5 billion tonnes at 0.40% copper and 0.59 gpt gold. This revised estimate amended the previous inferred resource estimate announced in March 2002 which totalled 588 million tonnes grading 0.41% copper and 0.53 gpt gold.

On the strength of its Mongolian exploration results, in 2002 and January 2003, the Company raised a total of $53.8 million through the issue of 29.4 million common shares and an additional Cdn$60 million from the issue of Special Warrants convertible into common shares of the Company at Cdn$3 per share. These financings will enable the Company to further advance the exploration and development of the Mongolian properties.

The net loss for the year was $30.2 million, or $0.16 per share, compared with $85.0 million or $0.66 per share in 2001. Included in the 2002 loss is:

- A profit of $3.0 million from the S&K Mine copper operations in Myanmar.
- A profit of $15.7 million from the Savage River Mine operation in Australia, including a gain on settlement of debt of $32.5 million and after a $18.0 million write-down of the Savage River Mine assets.
- Exploration division expenses, net after tax, of $35.8 million including total expenditures of $28 million in Mongolia.
- Corporate expenses of $13.2 million, including $3.0 million for mining property care and maintenance costs in Kazakhstan, a $1.9 million write-down of portfolio investments and $11.8 million of general and administrative expenses.

In 2002 the Company acquired a 38.2% interest in Pacific Minerals Inc. for approximately $9.1 million. In 2003, the Company will be finalizing negotiations with Pacific Minerals Inc. providing for the option to acquire a majority interest in several Chinese properties.

Results of Operations

Financial Data

($ in millions, except per share data)	Year ended December 31, 2002	2001
Earnings and cash flow		
Revenue	**$ 87**	$ 75
Mine operating income (after depreciation and depletion, but before inventory allowances)	**11**	10
Net loss	**30**	85
Cash used for operations	**(25)**	(13)
Loss per share	**$ 0.16**	$ 0.66
Capital Expenditures and Investments		
Capital expenditures	**$ 23**	$ 12
Acquisitions of investments	**6**	–
Balance Sheet		
Cash	**47**	26
Working capital	**22**	6
Total assets	**272**	248
Long-term debt, less current portion	**11**	47
Shareholders' equity	**189**	130
Debt to equity ratio	**0.44**	0.90
Common shares outstanding (millions)	**205**	171

CRITICAL ACCOUNTING POLICIES

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the Consolidated Financial Statements.

Management is required to make assumptions and estimates that affect the valuation of its mineral assets. Significant estimates used in the valuation of mineral assets include quantities of mineral in heaps and in circuit, proven and probable ore reserves, the estimated recoverable tonnes of ore, the expected economic life of and the estimated future operating results and net cash flows from mining property, plant and equipment, and the anticipated reclamation costs of mine sites.

Following generally accepted accounting principles, impairments in the valuation of mineral assets are recorded in the Company's consolidated financial statements, while increases in the valuation of mineral assets are not permitted. The most likely changes in estimates used in the valuation of mineral assets are the changes in estimates based on noticeable changes in trends of operating costs and commodity prices. A small percentage change in costs or revenues, when spread over the remaining life of a mining project, that can exceed twenty years, can have a significant impact on the valuation calculations, resulting in a material reduction in the valuation of the Company's mineral assets.

Based on the Company's evaluation of operating difficulties experienced in 2001, the decrease in iron ore pellet prices in 2002 and the strengthening of the Australian currency ("A$") in the later part of 2002, the Savage River Mine assets were written-down by $53.8 million in 2001 and an additional $18 million in 2002.

FORWARD LOOKING STATEMENTS

Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. 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. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other ecological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors described in this report under the heading "Outlook". The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinion should change. The reader is cautioned not to place undue reliance on forward-looking statements.

OPERATIONS

Copper operation

The production and sales for 2002 and 2001 are shown in the table below:

COPPER
S&K MINE, MYANMAR
Year ended December 31, 2002

		Total Operation			Company's 50% net share		
		2002	2001	% Increase (decrease)	2002	2001	% Increase (decrease)
Total tonnes moved	Tonnes (000's)	17,343	9,857	76%			
Tonnes of ore to heap	Tonnes (000's)	7,634	5,805	32%			
Grade	CuCn %	0.49%	0.58%	(16%)			
Strip ratio	Waste/Ore	0.67	0.34	97%			
Cathode production	Tonnes	27,542	26,025	6%	13,771	13,013	6%
Tonnage sold	Tonnes	26,749	25,865	3%	13,375	12,933	3%
Average sale price received	U.S.$/pound				$0.73	$0.73	–
Annual sales	U.S.$(000)				20,227	19,556	3%
Cost of operations	U.S.$(000)				10,795	9,246	17%
Operating profit	U.S.$(000)				4,825	6,289	(23%)

In 2002, the tonnes of ore to the heaps were increased by 32% over 2001 production and offset the lower grades and lower recoveries. The lower recoveries reflected the increased clay content of the ore which reduced heap permeability. Waste mining was also increased by some 177% as the next pit, Sabetaung South, was developed and the second phase of the Sabetaung pit was pre-stripped.

Ore zones with a high proportion of clay material was encountered throughout 2002. The presence of clay material in the heaps reduces the efficiency of leach kinetics and copper extraction. A pilot fines material removal plant was constructed in 2002. Based on the success of the pilot plant, a fines removal plant will be added to the crushing circuit during 2003 and is expected to remove a sufficient amount of fines to permit optimum copper leach extraction.

Total operating profit decreased from $6.3 million in 2001 to $4.8 million in 2002, the $1.5 million decrease being mainly attributed to an increase in operating costs. Mining costs increased by 44% due to higher heavy equipment rentals and increases in the cost of fuel. Processing costs increased by 19% mainly resulting from the increase of heavy equipment rentals and a 9% increase in the cost of power. The 28% increase in administrative cost in 2002 is mainly attributed to an increase in the cost of insurance.

Construction of heap leach pad #3 resumed in December with the onset of the dry season and an additional 303,000 square meters of heap leach area will be constructed by June 2003. The increased pad space will increase the capacity for ore under leach and improve copper availability in 2003. Also in 2003, the S&K Mine anticipates a decrease in total tonnes moved compared to the prior year.

In 2003, the S&K Mine expects to release results from an independent report commissioned in 2002 which contemplates increasing annual copper production output and extending the life of mine past the next 25 years by combining the existing S&K Mine operations with the multi-stage development of the Letpadaung Copper project.

Iron operation

Production and sales of iron products during 2002 are shown in the table below.

IRON
SAVAGE RIVER MINE, TASMANIA
Year ended December 31, 2002

		2002	2001	Percent Increase (decrease)
Total volumes moved	BCM (000's)	9,749	7,962	22%
Tonnes milled	(000's)	5,002	4,865	3%
Concentrate production	(000's)	2,210	2,064	7%
Grade	DTR %	46.5%	44.7%	4%
Pellet production	Tonnes	2,139,186	2,024,285	6%
Pellet sales	Tonnes	2,269,773	1,820,699	25%
Sales	U.S.$/tonne	$29	$31	(4%)
	U.S.$(000)	66,894	55,778	20%
Operating profit	U.S.$(000)	6,632	3,664	81%

Total pellet production in 2002 increased by 6% over 2001. The increase in production was a combination of a 3% increase in tonnes milled plus a 4% increase in grade, resulting in a 7% increase in concentrate tonnage production. In the third quarter of 2002, iron grade DTR% dropped from a high of 51% in May 2002 to a low of 39% in September 2002. DTR% gradually increased to 45% by the end of the year.

Total tonnage of pellets sold in 2002 increased by 25% over 2001. The majority of the increase in sale volumes is attributed to changes in inventory levels and the 6% increase in pellet production in 2002. Pellet prices are denominated in U.S. dollars and the resulting 4% decrease in unit pellet price in 2002 resulted in a 20% increase in total U.S. dollar sales.

Operating profit increased from $3.7 million in 2001 to $6.6 million in 2002. The $2.9 million increase in profit is a result of a $1.6 million decrease in depreciation due to the prior year asset write-down and a $1.4 million increase in operating profit from increased sales. In 2002, operating costs were up by 22% over the prior year, including a nominal 6% attributable to the strengthening of the Australian currency to the U.S. dollar. The majority of the remaining increase in operating costs during 2002 is mainly attributable to increases in rental charges, fuel costs, explosives, tyre charges, insurance, wages and related provisions.

A five-year supply contract with BHP Steel was signed in late 2002. This contract covers the supply of 1.0 to 1.25 million tonnes of pellets per year for the five year period starting July 2002. POSCO has extended the current contract to March 2003 with the intention of reviewing their ore supply requirements in the first half of 2003.

The majority of the ore feed in the first part of 2003 will come from high-grade soft ore with high nickel impurities, which will require improved pellet quality monitoring. Blending from low grade stockpiled ore will be used to control the level of nickel impurities until new ore lens from the South Deposit become exposed from the ongoing cutback. In 2002, the total volumes moved increased by 22% over the previous year. The removal of waste constitutes the majority of the increase in volumes moved resulting in a capitalized pre-stripping charge of approximately $12 million for 2002 compared to a $2 million similar charge in 2001.

In 2001, based on the Company's evaluation of operational events during that year and the negative outlook for iron ore and pellet prices, the Company wrote-down the Savage River Mine assets by $53.8 million. In the third quarter of 2002, the Company wrote-down the Savage River Mine assets by an additional $18 million to reflect the lowering of estimated recoverable reserves over the remaining five year mine life and the strengthening of the Australian currency.

Other projects

Eunsan Gold and Silver Mine, South Korea

In 2002, the Eunsan mine produced and sold approximately 5,000 ounces of gold and 200,000 ounces of silver. In the fourth quarter of 2002, the Company suspended its trial mining operations at the Eunsan mine in order to complete infill drilling of the eastern half of the deposit and develop a mine plan. Upon resuming trial mining in early 2003, the mine encountered an underground cavity and as a result the trial mining operation was halted. The decision to restart the underground mining operation in 2003 will be based on obtaining favourable results from incorporating this new information into an updated block model forming the basis of a new mine design for the Eastern half of the deposit. The Company is also continuing its exploration efforts on the nearby Kunsan and Gasado Island prospects with an emphasis on delineating resources able to be processed in the Eunsan mill.

Bakyrchik Gold Mine, Kazakhstan

In 2002, the Bakyrchik Gold Mine continued its trial mining of oxide ore. Gold production at the Bakyrchik Gold Mine was approximately 2,600 ounces in 2002. In the second half of 2002, gold operations were halted as the project, due to new security controls imposed by the Kazakh government on the import of hazardous materials, experienced difficulties in importing the necessary chemicals for the leaching of its oxidize gold ore.

The Company expects to be able to resolve these difficulties and also intends to continue its test work on processing of sulphide ore material in 2003. The resumption of gold operations in 2003 will follow the successful completion of a mine scheduling program based on the control drilling confirmation program currently underway. All gold revenues from the mine have been netted against operating costs and the Company continues to classify the mine activities as mine property shut-down costs.

Gold prices exceeding $400 per ounce and lower infrastructure capital costs, possibly resulting from technological innovations, will be required to successfully develop the existing large gold resources at the Bakyrchik Gold Mine.

Bjørnevatn Iron Ore Mine, Norway

In 2002, the Company relinquished its interest in the Bjørnevatn mine in Norway and classified the costs as part of mining property shut-down costs.

Letpadaung Copper Project, Myanmar

Throughout 2002, Ivanhoe continued its negotiating efforts with potential lenders to finance the future development of the Letpadaung deposit. The Company is also considering merging the Letpadaung Copper Project with its existing S&K Mine operations (see Copper section).

Exploration

During 2002 and 2001, exploration expenditures were geographically allocated as follows:

	2002	2001
Mongolia	79%	52%
Myanmar	7%	16%
Indonesia & Thailand	5%	9%
Korea	8%	23%
China	1%	0%
	100%	100%

Mongolia

The Exploration Division operating expenses increased from $7.2 million in 2001 to $33.9 million in 2002. Seventy nine percent of the 2002 exploration expenses were concentrated on the Mongolia properties. In 2002, the Company exercised an earn-in right to acquire a 100% interest in the Oyu Tolgoi property from BHP

Minerals International Exploration Inc. ("BHP") by committing to make a $5 million property payment to BHP and committing to a $3 million second phase of exploration expenditure program which was completed in April 2002. BHP's back-in privilege in the Oyu Tolgoi property expired in 2002 and BHP sole interest in the property is a 2% net smelter royalty.

During the second half of 2001 and through early 2002, the Company increased its Mongolian mineral property holdings and total licences granted and under application total approximately 90,000 square kilometres. The Company plans to spend between $18 million to $20 million in exploration activities during the first six months of 2003 on its Oyu Tolgoi property and on various reconnaissance work on the balance of its Mongolian property holdings.

In February 2003, the Company announced the result of a new resource estimate at its Oyu Tolgoi property in Mongolia. The resource estimate was independently prepared by AMEC E&C Services Limited. The total estimate for inferred resources and additional indicated resources, using a 0.30% copper equivalent cut-off grade, is:

	Tonnes Million	Copper %	Gold gpt
Inferred	1,602	0.63%	0.17
Indicated	509	0.40%	0.59

In February 2003 the Company also announced the appointment of members of a team of engineering consultants, comprised of AMEC E&C Services Limited, of Canada, Ausenco Limited of Australia and SRK Consultants of Australia, who have been chosen to undertake a feasibility study of the Oyu Tolgoi project.

Myanmar

Throughout 2002, the Company continued its underground exploration efforts at the Modi Taung gold project, Block 10. A draft scoping study was submitted in 1Q'03 and the Company intends to finalize a Joint Venture agreement with the Myanmar government authorities for the development and mining of this project.

China

In 2002, the Company acquired a 38.2% interest in Pacific Minerals Inc. for approximately $9.1 million. In the second quarter of 2003, the Company plans to finalize an agreement with Pacific Minerals Inc. covering several China properties. In each case, Ivanhoe will have the right to gain the majority interest in the property by advancing it to production. After an initial $1 million funding, shared equally between the Company and Pacific Minerals Inc., the Company has the option to earn an 80% interest in each project by funding all project expenses until the completion of a feasibility study and by arranging project financing.

In 2002, following reconnaissance work on various properties in Inner Mongolia, the Company entered into a Framework Agreement with a Chinese government agency which contemplates the negotiation of definitive joint venture agreements between the parties. The intent is for the Company to conduct exploration activities on these properties in order to earn up to an 80% interest in each property.

General

Interest expense decreased from $9.9 million in 2001 to $3.9 million in 2002. The majority of the decrease is attributable to the reduction of debt either through debt conversion, at the end of 2001, into common shares of the Company, the acquisition of ABM's bank debt by the Company during the year and lower LIBOR interest rate averaging less than 2% per annum for 2002.

General and administrative expenses increased from $6.2 million in 2001 to $12.4 million in 2002. The majority of the increase is attributed to higher travel, legal and administrative expenses related to the Company's expansion programs and financing activities during the year.

The $2.2 million foreign exchange gain in 2002 mainly relates to the cancellation during the year of the mark to market U.S.$ hedge commitment at the Savage River Mine. At the end of 2002, the Company had no currency or commodity hedge positions.

The $32.5 million gain on settlement of debt relates to the acquisition by the Company of A$74.9 million of Savage River Mine's bank debt for A$15 million. In connection with this debt acquisition, the State of Tasmania also agreed to relinquish its security in the Savage River Mine in exchange for the Company agreeing to lodge a A$2.8 million guarantee as substitute security.

Cash Resources and Liquidity

At December 31, 2002, consolidated working capital was $22.3 million including cash of $46.9 million compared with working capital of $5.7 million and cash of $25.8 million at the end of 2001.

The restrictions on the Company's cash balances at December 31, 2002 totaled $11.5 million, consisting of the Company's share of the S&K Mine's $4.4 million restricted cash balance (net $2.2 million), the Savage River restricted cash balance of $3.3 million and $6.0 million restricted by letters of credit issued by the Company to secure obligations with respect to the Oyu Tolgoi Mongolia property.

During 2002 and the beginning of 2003, the Company has raised a total of $91.0 million through the sale of a total of 29.4 million common shares of the Company and an additional 20 million Special Warrants exchangeable into 20 million common shares of the Company. The proceeds will be used for working capital and to fund the Mongolia exploration and property acquisition activities in 2003.

Total expenditures for the first half of 2003, including all exploration, mine care and maintenance costs and corporate administrative costs, are estimated to range between $30 million to $35 million.

Outlook

In the second quarter of 2003, annual copper production at the S&K Mine is expected to increase to 33,000 tonnes while annual pellet and iron concentrate production at the Savage River Mine is expected to remain at approximately 2.2 million tonnes per annum.

Apart from variations in production volumes, the Company's earnings and cash flows are directly affected by metal prices, variations in the exchange rate between the U.S. dollar and the Australian dollar, and variations in interest rates. The sensitivity of the Company's earnings to metal prices, exchange rates and interest rates is summarized in the table below.

Earnings Sensitivity
(Based on 2003 plan)

	Change	Impact on Pre-Tax Earnings ($ in thousands)
Copper	U.S.¢1/lb	$ 300
Iron Pellet	U.S.$1/tonne	$ 2,200
U.S.$/A$	A$0.01	$ 1,000
U.S. prime	1%	$ 250

Various risks, including fluctuations in commodity prices, foreign exchange rates, customer demand, and financing and political uncertainties, can adversely affect the Company's future profitability and its ability to realize anticipated increases in production capacity.

Unlike copper cathode, whose characteristics are set by commonly agreed standards, iron ore products need to reflect the specific requirements and limitations of customers. With only a few customers, the Savage River Mine's operations could be adversely affected, in the short and medium term, by the loss of a key customer. A limited customer base is also a risk to the S&K Mine as a substantial part of its copper production is sold, under a take or pay contract, to a single Japanese buyer. The buyer resells the cathode to customers throughout Asia. The S&K Mine's profitability could be negatively affected if economic sanctions or boycotts against trade with Myanmar were enacted in the future by major Asian countries.

The Company's existing cash resources are sufficient to meet all of its planned capital expenditures for the first six month of 2003. However, over the long term, the Company still needs to obtain additional funding for, or third party participation in, its undeveloped or partially developed projects in order to bring them into full production. Such projects include the Letpadaung Copper project, the Mongolia properties and the Bakyrchik Gold Mine.

Since the majority of the Company's indebtedness is not at fixed interest rates, future fluctuations in interest rates will have a significant impact on the profitability of both the S&K Mine and the Savage River Mine as well as the Company's ability to successfully finance its other undeveloped or partially developed projects.

Since factors beyond the Company's control may adversely affect its access to funding or its ability to recruit third party participants, there can be no assurance the Company's undeveloped or partially developed projects can be fully developed in whole or in part.

Quarterly Data
($ in millions except per share information)

	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	21.3	19.3	24.8	21.8	19.5	15.9	21.9	18.0
Operating profit	(0.7)	2.1	5.6	4.5	1.0	2.3	1.1	5.6
Net (income) loss	28.8	(0.5)	2.6	(0.7)	66.6	5.6	1.6	11.2
Cash provided (used) by operations	(8.8)	(11.2)	(4.2)	(0.5)	(3.8)	(7.2)	4.5	(6.7)
Loss per share	$0.15	$0.00	$0.01	$0.00	$0.52	$0.05	$0.01	$0.08

Selected Financial Information
($ in million except per share information)

	Years ended December 31,								
	2002	2001	2000	1999	1998	1997	1996	1995	1994
Balance sheet									
Cash	46.9	25.8	40.4	50.8	55.2	44.5	125.9	22.2	10.9
Working capital	22.3	5.7	30.5	49.1	30.0	34.0	130.7	17.1	10.1
Total assets	271.6	247.8	316.4	206.2	238.5	268.6	282.1	57.0	23.2
Long term debt, less current portion	10.6	46.5	75.7	37.5	40.0	–	–	–	–
Shareholders' equity	189.0	130.2	177.9	154.3	160.4	223.3	277.6	50.4	22.1
Earnings and cash flow									
Revenue	87.1	75.3	22.5	20.6	–	–	–	–	–
Operating profit	11.5	10.0	10.0	7.2	–	–	–	–	–
Exploration	33.9	7.2	5.3	6.0	9.7	12.4	9.0	15.8	0.9
Depreciation and amortization	12.4	12.7	4.5	3.9	0.3	0.6	0.6	0.1	–
Interest expense	3.9	9.9	4.5	4.2	–	0.2	0.3	0.1	–
General and administrative	12.4	6.2	5.9	6.6	7.0	12.3	11.2	5.6	2.8
Mining property shut-down costs	3.0	3.7	2.5	3.2	13.5	–	–	–	–
Asset write downs	19.9	59.2	11.0	0.5	43.4	90.3	–	–	–
Net loss	30.2	85.0	17.9	7.6	63.1	116.9	17.3	20.8	3.3
Cash provided (used) by operations	(24.6)	(13.2)	(3.5)	(5.8)	(21.2)	(44.6)	(17.2)	(20.8)	(3.3)
Investments, including acquisition of subsidiary, net	6.3	(0.4)	(1.8)	0.6	6.4	73.0	72.2	17.8	11.4
Investment in capital assets	23.3	11.5	2.7	3.7	27.5	38.9	42.1	3.5	0.3
Loss per share	$0.16	$0.66	$0.24	$0.10	$0.88	$1.68	$0.32	$0.58	$0.32

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements and the management's discussion and analysis of financial condition and results of operations ("MD&A") are the responsibility of the management of Ivanhoe Mines Ltd. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, using management's best estimates and judgement of all information available up to March 14, 2003.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities to the Directors who approve the consolidated financial statements.

These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 2 of the Notes to the Consolidated Financial Statements.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

R. Edward Flood
Deputy Chairman

P.F. Massé
Chief Financial Officer

March 14, 2003
Vancouver, BC Canada

Auditors' Report

To the Shareholders of
Ivanhoe Mines Ltd.

We have audited the consolidated balance sheets of Ivanhoe Mines Ltd. as at December 31, 2002 and 2001 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, 2002 and 2001 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 14, 2003

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

	December 31, 2002	December 31, 2001
ASSETS		
CURRENT		
Cash (Note 6)	$ **46,912**	$ 25,805
Accounts receivable (Note 7)	**3,425**	2,423
Inventories (Note 8)	**22,935**	22,309
Prepaid expenses	**1,971**	1,333
Future income taxes (Note 16)	**–**	4,635
	75,243	56,505
INVESTMENTS (Note 9)	**15,537**	4,823
MINING PROPERTY, PLANT AND EQUIPMENT (Note 10)	**166,500**	180,744
OTHER MINERAL PROPERTY INTERESTS (Note 11)	**6,748**	687
OTHER CAPITAL ASSETS (Note 12)	**3,481**	763
FUTURE INCOME TAXES (Note 16)	**1,041**	2,440
OTHER ASSETS (Note 13)	**3,004**	1,870
	$ **271,554**	$ 247,832
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ **29,174**	$ 15,187
Accrued loss on foreign exchange contract (Note 15 (b))	**–**	15,450
Current portion of long-term debt (Note 15)	**23,766**	20,133
	52,940	50,770
LOANS PAYABLE TO RELATED PARTIES (Note 14)	**5,088**	4,696
LONG-TERM DEBT (Note 15)	**5,534**	41,837
FUTURE INCOME TAXES (Note 16)	**12,642**	13,731
OTHER LIABILITIES (Note 17)	**6,358**	6,627
	82,562	117,661
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 18)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
205,163,382 (2001 – 171,158,484) common shares	**522,199**	460,389
SPECIAL WARRANTS (Note 25 (b))	**26,516**	–
ADDITIONAL PAID-IN CAPITAL	**1,508**	1,697
CONTRIBUTED SURPLUS	**3,520**	–
DEFICIT	**(364,751)**	(331,915)
	188,992	130,171
	$ **271,554**	$ 247,832

COMMITMENTS (Note 23)

APPROVED BY THE BOARD:

J. Weatherall, Director

K. Thygesen, Director

Consolidated Statements of Operations

(Stated in thousands of U.S. dollars, except per share amounts)

	Years ended December 31, 2002	2001
REVENUE	**$ 87,121**	$ 75,334
COST OF OPERATIONS	**(64,124)**	(52,836)
DEPRECIATION AND DEPLETION	**(11,540)**	(12,545)
OPERATING PROFIT	**11,457**	9,953
EXPENSES		
General and administrative	**(12,426)**	(6,163)
Interest on long-term debt	**(3,867)**	(9,929)
Exploration	**(33,934)**	(7,192)
Depreciation	**(839)**	(145)
Write-down of inventories (Note 8)	**(1,049)**	(2,584)
LOSS BEFORE THE FOLLOWING	**(40,658)**	(16,060)
OTHER INCOME (EXPENSES)		
Interest income	**1,101**	1,220
Foreign exchange gains (losses)	**2,208**	(7,669)
Mining property shut-down costs (Note 10)	**(2,995)**	(3,744)
Share of loss of significantly influenced investee (Note 9 (a))	**(847)**	—
Gain on settlement of debt (Note 15 (b))	**32,466**	—
Write-down of carrying values of other assets (Note 19)	**(19,890)**	(59,192)
Other (Note 9 (b))	**2,641**	520
	14,684	(68,865)
LOSS BEFORE INCOME AND CAPITAL TAXES	**(25,974)**	(84,925)
(Provision for) recovery of income and capital taxes (Note 16)	**(4,259)**	(73)
NET LOSS	**$ (30,233)**	$ (84,998)
BASIC AND DILUTED LOSS PER SHARE	**$ (0.16)**	$ (0.66)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000's)	**194,551**	128,866

Consolidated Statement of Shareholders' Equity
(Stated in thousands of U.S. dollars)

	Share Capital						
	Number of Shares	Amount	Special Warrants	Additional Paid-In Capital	Contributed Surplus	Deficit	Total
Balances, December 31, 2000	124,849,053	$414,489	$ –	$10,375	$ –	$(246,917)	$177,947
Shares issued for:							
Private placement	15,227,139	16,349	–	–	–	–	16,349
Exercise of stock options	371,500	325	–	(53)	–	–	272
Share purchase plan	85,792	66	–	–	–	–	66
Conversion of loans payable to related parties	30,625,000	29,160	–	(8,625)	–	–	20,535
Net loss	–	–	–	–	–	(84,998)	(84,998)
Balances, December 31, 2001	171,158,484	460,389	–	1,697	–	(331,915)	130,171
Effect of accounting change (Note 3 (a))	–	–	–	–	2,603	(2,603)	–
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 investments (Note 9)							
Pacific Minerals Inc.	2,374,960	4,818	–	–	–	–	4,818
Intec Ltd.	287,678	599	–	–	–	–	599
Special Warrants issued (Note 25 (b))	–	–	26,516	–	–	–	26,516
Stock compensation charged to operations	–	–	–	–	1,615	–	1,615
Net loss	–	–	–	–	–	(30,233)	(30,233)
Balances, December 31, 2002	205,163,382	$522,199	$26,516	$ 1,508	$3,520	$(364,751)	$188,992

Consolidated Statements of Cash Flows

(Stated in thousands of U.S. dollars)

	Years ended December 31, 2002	2001
OPERATING ACTIVITIES		
Net loss	$ **(30,233)**	$ (84,998)
Items not involving use of cash		
Depreciation and depletion	**12,379**	12,690
Non-cash stock based compensation	**1,615**	–
Non-cash interest expense	**392**	5,803
Write-down of inventories	**1,049**	2,584
Unrealized foreign exchange (gains) losses	**(8,221)**	3,107
Share of loss of significantly influenced investee	**847**	–
Gain on settlement of debt	**(32,466)**	–
Write-down of carrying values of other assets	**19,890**	59,192
Non-cash recovery of bad debt	**(1,248)**	–
Gain on sale of investments	**(508)**	(171)
Future income taxes	**3,951**	168
Increase in non-current portion of royalty payable	**418**	413
Provision for employee entitlements	**959**	346
Provision for future waste mining costs	**(1,072)**	(236)
Provision for mine reclamation obligations	**936**	343
	(31,312)	(759)
Net change in non-cash operating working capital items (Note 21 (a))	**6,671**	(12,486)
	(24,641)	(13,245)
INVESTING ACTIVITIES		
Expenditures on mining property, plant and equipment	**(18,641)**	(11,487)
Expenditures on other mineral property interests	**(1,142)**	–
Expenditures on other capital assets	**(3,557)**	(269)
Purchase of investments	**(6,288)**	–
Proceeds from sale of investments	**10**	429
Other	**(62)**	(16)
	(29,680)	(11,343)
FINANCING ACTIVITIES		
Issue of share capital	**55,506**	16,687
Issue of special warrants	**26,516**	–
Proceeds from long-term debt	**10,306**	3,671
Repayment of long-term debt	**(16,900)**	(10,338)
	75,428	10,020
NET CASH INFLOW (OUTFLOW)	**21,107**	(14,568)
CASH, BEGINNING OF YEAR	**25,805**	40,373
CASH, END OF YEAR	$ **46,912**	$ 25,805
CASH IS COMPRISED OF:		
Cash on hand and demand deposits	$ **11,870**	$ 17,700
Time deposits		
Restricted	**5,467**	4,850
Short-term money market instruments		
Restricted	**6,000**	2,000
Unrestricted	**23,575**	1,255
	$ **46,912**	$ 25,805

SUPPLEMENTARY INFORMATION (Note 21 (b) and (c))

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 mineral resource projects 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"). 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.), Korea Gold Mines Limited (Malta), Ivanhoe Myanmar Holdings Limited (Myanmar) 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.

(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 in heap and circuit, the proven and probable ore reserves, the estimated recoverable tonnes of ore, 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 reclamation costs of mine sites.

(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) *Inventories*

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(f) *Investments*

Investments in companies 20% to 50% owned, 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 investments are accounted for using the cost method, whereby income is included in operations when received or receivable.

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

(g) *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 three to fifteen years), as appropriate.

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

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.

Ivanhoe Mines reviews the carrying values of its mining property, plant and equipment on a regular basis, primarily by reference to estimated future operating results and undiscounted net cash flows. When the carrying values of these assets exceed their estimated net recoverable amounts, an impairment provision is made for the other than temporary decline in value.

(h) *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.

Gains and losses are recognized on property dispositions when the value of the consideration received exceeds and is less than, respectively, the carrying value of the property. Partial dispositions or option proceeds with respect to undeveloped properties are credited against the cost of the related property except that, when the proceeds exceed the cost, the excess is

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

credited to operations. The aggregate costs related to abandoned properties are charged to operations.

Ivanhoe Mines reviews the carrying values of its other mineral property interests on a regular basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by Ivanhoe Mines and others. When the carrying value of a property exceeds its estimated net recoverable amount, an impairment provision is made for the other than temporary decline in value.

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

(i) Environmental protection practices

Ivanhoe Mines is subject to the laws and regulations relating to environmental matters in the jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

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.

(j) Future mine reclamation costs

Ivanhoe Mines reviews, from time to time, the anticipated costs associated with the reclamation of mine sites. These costs are accrued and charged to operations over the estimated life of each mine using the unit-of-production method based on proven and probable reserves.

(k) 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.

(l) Stock-based compensation

The Company has an Employees' and Directors' Equity Incentive Plan which is disclosed in Note 18. 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 accrued and 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.

(m) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(n) *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.

(o) *Loss per share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, 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 stock options that are used to purchase common shares at the average market price during the year.

(p) *Comparative figures*

Certain of the comparative figures have been reclassified to conform with the presentation as at and for the year ended December 31, 2002.

3. ACCOUNTING CHANGES

(a) In 2002, the Company adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants (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 (l). This change has been applied retroactively; however, financial statement amounts for 2001 and prior years have not been 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).

(b) In 2001, the Company adopted the new accounting recommendations of the CICA with respect to the loss per share, as described in Note 2 (o). In prior years, the computation of the fully diluted loss per share used the imputed earnings approach for determining the common share equivalents with respect to outstanding stock options to be included in the weighted average number of common shares outstanding. This change did not have any effect on the basic and diluted loss per share for 2002 and 2001.

(c) In 2001, the Company also adopted the new accounting recommendations of the CICA with respect to foreign currency translation, as described in Note 2 (c). Prior to 2001, the unrealized exchange gains or losses relating to term debt denominated in foreign currencies were deferred and amortized over the remaining term of the underlying debt. These exchange gains or losses are now included in operations. This change has resulted in a decrease in the net loss for the year ended December 31, 2001 of $2,150,000 ($0.02 per share).

4. INVESTMENT IN ABM

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 and ABM's ability to attract new customers. A number of options are currently being considered by ABM in order to meet the anticipated cash flow shortfalls and to mitigate the foreign currency risks, including arranging a credit facility with a third party lender and new currency hedging arrangements. There can be no assurance that ABM will be able to make suitable external financing arrangements. However, a failure to do so will have an adverse effect on ABM's ability to continue as a going concern.

The following is a summary of the carrying values of the Savage River operation's assets and liabilities as at December 31, 2002, which are included in these financial statements:

ASSETS		
CURRENT		
Cash	$	5,979
Accounts receivable		1,778
Inventories		14,940
Prepaid expenses		556
		23,253
MINING PROPERTY, PLANT AND EQUIPMENT (Note 10)		35,602
	$	58,855
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$	10,924
Current portion of long-term debt		1,266
		12,190
LOANS PAYABLE TO RELATED PARTIES (non-recourse to the Company)		5,088
LONG-TERM DEBT (non-recourse to the Company)		5,534
FUTURE INCOME TAXES		978
OTHER LIABILITIES		3,654
		27,444
INVESTMENT IN ABM ELIMINATED ON CONSOLIDATION	$	31,411

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.

5. JOINT VENTURE (Continued)

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, 2002	December 31, 2001
Current assets	**$ 12,902**	$ 14,998
Capital assets	**130,898**	132,177
Other assets	**1,680**	1,420
Current liabilities	**(27,309)**	(12,080)
Other liabilities	**(13,448)**	(12,507)
Long-term debt	**–**	(22,500)
Retained earnings	**(12,050)**	(9,093)
Investment in JVCo eliminated on consolidation	**$ 92,673**	$ 92,415

	Years ended December 31, 2002	Years ended December 31, 2001
Revenues	**$ 20,227**	$ 19,556
Expenses	**(17,270)**	(17,043)
Net income	**$ 2,957**	$ 2,513
Cash flows		
From operating activities	**$ 7,388**	$ 8,183
For investing activities	**(3,410)**	(3,335)
For financing activities	**(7,500)**	(7,500)
	$ (3,522)	$ (2,652)

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.

JVCo has been granted certain exemptions and relief from income taxes payable under the laws of Myanmar including, amongst other things, an exemption from income taxes for a period of four consecutive years commencing on January 1, 1999, the date of commencement of commercial production. JVCo may also apply to the appropriate authority in Myanmar for certain other exemptions following the four-year tax holiday period.

6. CASH

Cash at December 31, 2002 and 2001 included Ivanhoe Mines' share of JVCo's cash balances of approximately $3,874,000 and $7,396,000, respectively, which were not available for Ivanhoe Mines' general corporate purposes. Cash at December 31, 2002 and 2001 was also restricted to the extent of support for outstanding letters of credit discussed in Note 23(a).

7. ACCOUNTS RECEIVABLE

	December 31, 2002	December 31, 2001
Trade	**$ 2,091**	$ 960
Refundable taxes	**267**	600
Accrued interest	**142**	–
Other	**925**	863
	$ 3,425	$ 2,423

8. INVENTORIES

	December 31, 2002	December 31, 2001
Metals		
Finished goods	$ **9,220**	$ 6,701
Work in progress	**7,284**	10,065
Mine stores, supplies and other	**6,431**	5,543
	$ **22,935**	$ 22,309

During 2002 and 2001, ABM wrote down its run-of-mine work in progress iron ore inventory by $1,049,000 and $2,584,000, respectively, primarily as a result of declining grades.

9. INVESTMENTS

	December 31, 2002			December 31, 2001		
	Equity Interest	Carrying Value	Quoted Market Value	Equity Interest	Carrying Value	Quoted Market Value
Investment in company subject to significant influence:						
Pacific Minerals Inc. (“Pacific”) (a)	**38.2%**	**$ 8,270**	**$ 13,943**	–%	$ –	$ –
Portfolio investments:						
Emperor Minerals Ltd. (Note 23 (a))	**13.7%**	**2,084**	**6,568**	17.6%	2,084	2,665
Olympus Pacific Minerals Inc. (b)	**17.6%**	**2,587**	**2,813**	11.0%	1,339	2,449
Intec Ltd. (“Intec”) (c)	**19.9%**	**1,384**	**1,384**	–%	–	–
Resource Investment Trust (“RIT”) (d)	**6.2%**	**1,212**	**1,212**	–%	–	–
GTL Resources Plc (“GTL”) (d)	**–%**	**–**	**–**	5.0%	1,400	1,978
		$ 15,537	**$ 25,920**		$ 4,823	$ 7,092

(a) This investment was 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 (g). At March 14, 2003, the quoted market value of the Company’s investment was $9,110,000.

(b) In January 2002, the Company received from Olympus $1,320,000 in cash, 3,780,000 common shares of Olympus with a fair value of $1,248,000 and a credit of $1,430,000 against the Company’s future obligations with respect to its interest in an exploration joint venture in Vietnam, in payment of a note receivable that had been written off in prior years. This resulted in a gain of $2,568,000 which is included in other income.

(c) This investment was 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.

(d) This investment was acquired during 2002 through an exchange of the Company’s previous investment in GTL. The equity market conditions for RIT deteriorated during the second half of 2002 with the result that the quoted market value of Ivanhoe Mines’ investment in RIT

9. INVESTMENTS (Continued)

decreased significantly below its carrying value. Accordingly, the Company made an impairment provision of $686,000 against this investment.

10. MINING PROPERTY, PLANT AND EQUIPMENT

	December 31,			
	2002			2001
	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value	Net Book Value
Mining properties, including development and preproduction costs	**$ 155,318**	**$ (46,185)**	**$ 109,133**	$ 104,808
Mine buildings	**20,834**	**(12,992)**	**7,842**	8,094
Plant and equipment	**150,699**	**(101,174)**	**49,525**	67,635
Other	**–**	**–**	**–**	207
	$ 326,851	**$ (160,351)**	**$ 166,500**	$ 180,744

Capital projects in progress amounted to $1,490,000 at December 31, 2002 and $3,636,000 at December 31, 2001.

In view of the operating results of the Savage River iron ore mine in Tasmania during 2001, Ivanhoe Mines reviewed the carrying values of its mining property, plant and equipment with the result that an impairment provision of $53,812,000 was made in the fourth quarter of 2001 for the estimated other than temporary decline in value. Following the restructuring discussed in Note 15 (b), 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 a further 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. 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.

In 2001, management of the Company concluded that Ivanhoe Mines' iron ore mine in Norway, which was on a care-and-maintenance basis since its acquisition, was a non-core asset and that no further expenditures of a material nature would be made with respect to that project. As a consequence, Ivanhoe Mines made an impairment provision in 2001 of $5,380,000 for the estimated other than temporary decline in value. This project had a carrying value of $3,366,000 at December 31, 2001. During 2002, Ivanhoe Mines divested itself of this project, with no gain or loss.

Ivanhoe Mines placed the Bakyrchik Mining Venture on a care and maintenance basis in prior years. During 2002, Ivanhoe Mines continued work on the process development for the primary sulphide resources at the Bakyrchik Mine Project, and work is also progressing on methods of oxidation of the concentrates. This project, which had a cost of $90,814,000 as at December 31, 2002 and 2001, is carried at a nominal value.

11. OTHER MINERAL PROPERTY INTERESTS

	December 31, 2002		2001	
Mongolia (a)	$	**5,882**	$	–
South Korea (b)		**866**		687
Myanmar (c)		**–**		–
Vietnam (d)		**–**		–
China (e)		**–**		–
	$	**6,748**	$	687

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

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

(b) South Korea – Ivanhoe Mines has a 90% interest in an exploration project in the Cholla-namdo 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. Construction of the mine and mine facilities was completed in 2002. However, commercial production is subject to the successful completion of an underground mine plan based on updated reserve estimates. Ivanhoe Mines has also acquired the mining rights to certain other mining prospects.

(c) Myanmar Exploration Projects – Ivanhoe Mines has entered into agreements with the Myanmar Department of Geological Survey and Mineral Exploration ("DGSE"), whereby Ivanhoe Mines has been granted the exclusive right to undertake gold and copper prospecting and exploration activities on certain exploration blocks located in the Union of Myanmar. These agreements provide that, upon the determination of economically recoverable reserves in any of these exploration blocks, Ivanhoe Mines and the appropriate state mining entity nominated by the government of Myanmar will each hold an 65% and 35% equity interest, respectively, in any joint venture company formed to develop the project.

(d) Vietnam – Ivanhoe Mines owns a 32.6% interest in a joint venture with Olympus and Zedex Limited to explore and develop two exploration licences in the Phuoc Son area of Vietnam. Olympus is the operator of the joint venture. In November 2002, Ivanhoe Mines reached an agreement with Olympus and Zedex Limited to sell a 10.18% interest in the joint venture to Olympus in exchange for 8.5 million common shares of Olympus. The closing is subject to regulatory and Olympus shareholder approval. Upon completion of the transaction, Ivanhoe Mines will own a direct 22.46% participating interest in the Phuoc Son joint venture and its equity interest in Olympus will be approximately 25%.

(e) China – 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.

12. OTHER CAPITAL ASSETS

	December 31, 2002 Cost	2002 Accumulated Depreciation	2002 Net Book Value	2001 Net Book Value
Non-producing mining plant and equipment	$ **3,217**	$ **(490)**	$ **2,727**	$ 239
Furniture and fixtures	**1,735**	**(981)**	**754**	524
	$ **4,952**	$ **(1,471)**	$ **3,481**	$ 763

The non-producing mining plant and equipment are for the Mongolia and South Korea projects referred to in Notes 11 (a) and (b), respectively.

13. OTHER ASSETS

	December 31, 2002	2001
Due from joint venture partner	$ **1,482**	$ 1,420
Provision for future waste mining costs	**1,522**	450
	$ **3,004**	$ 1,870

The amount due from the joint venture partner is unsecured with no fixed terms of repayment and bears interest at LIBOR plus 2%. Ivanhoe Mines charged interest of $60,000 in 2002 and $78,000 in 2001, which is included in the balance receivable.

14. LOANS PAYABLE TO RELATED PARTIES

	December 31, 2002	2001
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**	$ 4,696

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 year ended December 31, 2002.

It is unlikely that ABM and its subsidiaries will achieve positive cash flow (as defined in the Amending Agreement) prior to January 1, 2004. These loans, including accrued interest, are therefore classified as a non-current liability.

15. LONG-TERM DEBT

	December 31, 2002	December 31, 2001
JVCo:		
Share of loan payable (a)	**$ 22,500**	$ 30,000
ABM:		
Bank term loan (b)	**–**	22,292
Deferred purchase obligation (c)	**5,130**	3,933
Equipment purchase loans (d)	**1,670**	2,325
Other loans (e)	**–**	3,420
	29,300	61,970
Less: Amount included in current liabilities (a)	**(23,766)**	(20,133)
	$ 5,534	$ 41,837

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

The future principal repayments required on the debt outstanding at December 31, 2002 is as follows:

2003	$ 23,766
2004	404
Deferred purchase obligation to be settled through future remediation work to be performed (Note 23 (e))	5,130
	$ 29,300

(a) JVCo's loan of $22,500,000 at December 31, 2002 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.

At 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 $22,500,000 at December 31, 2002 has been included in current liabilities. Management of the Company 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 5.05% at December 31, 2002 and 7.82% at December 31, 2001.

Ivanhoe Mines' share of the interest incurred on this loan during the year ended December 31, 2002 and 2001 amounted to $1,389,000 and $4,032,000, respectively, of which $Nil and $422,000, respectively, was capitalized to mining property, plant and equipment.

15. LONG-TERM DEBT (Continued)

(b) ABM's bank term loan was part of a senior secured credit facility including a project financing facility, an environmental letter of credit facility and a working capital facility. This credit facility was to mature on December 31, 2004. In 2002, the Company completed debt restructuring negotiations which resulted in the Company acquiring, for cash of approximately $8,100,000, this 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.

(c) 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 Australian ("A") $14,342,000 at December 31, 2002 and A$13,869,000 at December 31, 2001, 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 (Note 23 (e)).

The U.S. equivalent of this obligation amounted to $8,093,000 at December 31, 2002 and $7,065,000 at December 31, 2001. For accounting purposes, this obligation has been discounted using an interest rate of 10% to its present value of $5,130,000 at December 31, 2002 and $3,933,000 at December 31, 2001.

(d) These equipment purchase loans of A$2,958,000 at December 31, 2002 and A$4,566,000 at December 31, 2001 bear interest at rates between 5.64% and 6.60% and are repayable in monthly instalments of A$155,000, including interest, until maturity in June 2004. These loans are secured by the related equipment.

(e) These loans, which aggregated Norwegian Kroner 30,639,000 at December 31, 2001, were extinguished during 2002 by Ivanhoe Mines on divestiture of its iron ore mine project in Norway.

16. INCOME TAXES

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

	Years ended December 31,	
	2002	2001
Future income taxes	$ **3,951**	$ 168
Capital taxes	**308**	(95)
	$ **4,259**	$ 73

16. INCOME TAXES (Continued)

Future income tax assets and liabilities at December 31, 2002 and 2001 arise from the following:

		2002		2001
Future income tax assets				
Investments	$	**3,419**	$	11,050
Mining property, plant and equipment		**–**		1,537
Accrued loss on a foreign currency contract		**–**		5,410
Loss carry-forwards		**43,650**		31,361
Other		**3,967**		3,332
		51,036		52,690
Valuation allowance		**(49,995)**		(45,615)
Net future income tax assets		**1,041**		7,075
Future income tax liabilities				
Mining property, plant and equipment		**11,664**		12,751
Long-term debt		**978**		980
		12,642		13,731
Future income tax liabilities, net	$	**11,601**	$	6,656

		2002		2001
Disclosed on the Consolidated Balance Sheets as:				
Future income tax assets (including current portion of $4,635,000 in 2001 arising from the current portion of an accrued loss on a foreign currency contract)	$	**1,041**	$	7,075
Future income tax liabilities		**12,642**		13,731
Future income tax liabilities, net	$	**11,601**	$	6,656

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

	Years ended December 31,			
		2002		2001
Provision for recovery of income taxes based on combined Canadian federal and provincial statutory rates of 39.6% in 2002 and 44.6% in 2001	$	**11,974**	$	37,908
Add (deduct)				
JVCo's relief from income taxes		**443**		391
Lower foreign tax rates		**(5,711)**		(12,169)
Tax effect of losses not recognized		**(4,621)**		(10,119)
Change in valuation allowance for future income tax assets		**(4,380)**		(15,049)
Capital taxes		**(309)**		95
Other		**(1,655)**		(1,130)
Provision for income and capital taxes	$	**(4,259)**	$	(73)

16. INCOME TAXES (Continued)

At December 31, 2002, Ivanhoe Mines had deductible temporary differences aggregating approximately $13,127,000 and the following unused tax losses, for which no future income tax assets had been recognized:

In Thousands		Local Currency		U.S. Dollar Equivalent	Expiry Dates
Non-capital losses:					
Canada	Cdn. $	46,481	$	29,572	2003 to 2009
Australia	A $	96,599	$	54,511	(a)
Korea	Krw	9,858,171	$	7,768	2003 to 2007
Mongolia	Mnt	29,255,091	$	26,596	(b)
Capital losses:					
Canada	Cdn. $	68,515	$	43,590	(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 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.

17. OTHER LIABILITIES

	December 31, 2002		December 31, 2001	
Accrued loss on foreign exchange contract (Note 15 (b))	$	**–**	$	2,582
Royalty payable		**1,699**		1,281
Provision for employee entitlements		**2,143**		1,184
Provision for mine reclamation obligations		**2,516**		1,580
	$	**6,358**	$	6,627

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.

18. 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.

18. EQUITY INCENTIVE PLAN (Continued)

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.

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, 2002, an aggregate of 4,547,384 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, 2002 is as follows:

	Options Outstanding		
	Options Available for Grant	Number of Common Shares	Weighted Average Exercise Price
			(Expressed in Canadian dollars)
Balances, December 31, 2000	8,078,039	6,199,077	$ 1.76
Options granted	(8,747,167)	8,747,167	1.31
Options exercised	–	(371,500)	1.13
Options cancelled	980,500	(980,500)	4.02
Shares issued under share purchase plan	(85,792)	–	–
Shares issued under share bonus plan	(6,250)	–	–
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

At December 31, 2002, the U.S. dollar equivalent of the weighted average exercise price was $1.04.

18. EQUITY INCENTIVE PLAN (Continued)

The following table summarizes information concerning outstanding and exercisable options at December 31, 2002:

Options Outstanding				Options Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share		Number Exercisable	Weighted Average Exercise Price Per Share	
		(Expressed in Canadian dollars)			(Expressed in Canadian dollars)	
163,200	0.85	$	0.95	163,200	$	0.95
118,333	2.94		1.08	102,333		1.08
7,807,561	3.12		1.20	4,294,159		1.20
1,000,000	3.73		1.60	550,000		1.60
70,000	3.25		1.61	38,500		1.61
315,000	3.12		1.70	292,500		1.70
400,000	3.07		1.85	–		1.85
155,000	3.30		2.12	155,000		2.12
190,000	3.89		2.31	104,500		2.31
200,000	3.86		2.50	110,000		2.50
120,000	4.30		3.00	39,600		3.00
100,000	4.10		3.05	30,000		3.05
1,434,500	3.54		3.25	346,900		3.25
200,000	4.41		3.50	60,000		3.50
35,500	4.77		6.74	35,500		6.74
12,309,094	4.16	$	1.64	6,322,192	$	1.50

The weighted average grant-date fair value of stock options granted during 2002 was Cdn$1.93. 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:

Risk-free interest rate	4.76%
Expected life	5.0 years
Expected volatility	71.25%
Expected dividends	$Nil

19. WRITE-DOWN OF CARRYING VALUES OF OTHER ASSETS

	Years ended December 31,			
	2002		2001	
Investments (Note 9):				
Intec	$	**1,204**	$	–
RIT		**686**		–
Savage River Mine Project (Note 10)		**18,000**		53,812
Norway Mine Project (Note 10)		**–**		5,380
	$	**19,890**	$	59,192

20. OTHER RELATED PARTY TRANSACTIONS

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

	Years ended December 31, 2002	2001
Consulting	$ **75**	$ 39
Exploration	**261**	–
Interest (Note 14)	**–**	3,643
Management fees	**294**	705
Office and administrative	**1,234**	641
Salaries and benefits	**1,095**	831
Travel (including aircraft rental)	**2,184**	837
	$ **5,143**	$ 6,696

(b) Accounts receivable and accounts payable at December 31, 2002 included $107,000 and $2,003,000, respectively, (December 31, 2001 – $206,000 and $916,000, respectively) which were due from/to directors of the Company or its subsidiaries, a company under common control or companies related by way of directors in common.

21. CASH FLOW INFORMATION

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

	Years ended December 31, 2002	2001
(Increase) decrease in:		
Accounts receivable	$ **(1,002)**	$ 3,098
Inventories	**(1,456)**	(7,405)
Prepaid expenses	**(638)**	(342)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**9,767**	(7,837)
	$ **6,671**	$ (12,486)

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

	Years ended December 31, 2002	2001
Investing Activities:		
Purchase of investments	$ **(7,315)**	$ –
Sale of investment	**1,898**	–
Acquisition of mineral property interest	**(4,000)**	–
Expenditures on mining property, plant and equipment	**3,466**	(2,704)
Financing Activities:		
Amount payable on acquisition of mineral property interest	**4,000**	–
Proceeds from long-term debt	**–**	2,704
Conversion of long-term debt	**–**	(20,535)
Divesture of long-term debt	**(3,466)**	–
Issue of share capital	**6,304**	29,213
(Transfers from) additional paid-in capital	**(189)**	(8,678)
(Transfers from) contributed surplus	**(698)**	–

21. CASH FLOW INFORMATION (Continued)

(c) *Other supplementary information*

		Years ended December 31,		
		2002		2001
Interest received	$	**959**	$	1,840
Interest paid	$	**3,475**	$	4,127

22. 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 December 31, 2002	Operating Segments Copper Division	Iron Ore Division	Exploration Division	Corporate	Consolidated
Revenue	$ 20,227	$ 66,894	$ –	$ –	$ 87,121
Cost of operations	(10,795)	(53,329)	–	–	(64,124)
Depreciation and depletion	(4,607)	(6,933)	–	–	(11,540)
Operating profit	4,825	6,632	–	–	11,457
Other expenses					
General and administrative	(493)	(144)	–	(11,789)	(12,426)
Interest on long-term debt	(1,614)	(2,253)	–	–	(3,867)
Exploration	–	–	(33,934)	–	(33,934)
Depreciation	–	–	(789)	(50)	(839)
Write-down of inventories	–	(1,049)	–	–	(1,049)
Income (loss) before the following	2,718	3,186	(34,723)	(11,839)	(40,658)
Other income (expenses)					
Interest income	80	147	26	848	1,101
Foreign exchange gains (losses)	(33)	1,922	80	239	2,208
Mining property shut-down costs	–	–	–	(2,995)	(2,995)
Share of loss of significantly influenced investee	–	–	–	(847)	(847)
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	3,073	2,641
Income (loss) before income and capital taxes	2,786	19,208	(34,557)	(13,411)	(25,974)
Income and capital taxes	171	(3,483)	(1,199)	252	(4,259)
Net income (loss)	$ 2,957	$ 15,725	$ (35,756)	$ (13,159)	$ (30,233)
Expenditures on capital assets					
Pre-stripping costs	$ –	$ 12,120	$ –	$ –	$ 12,120
Other	3,393	3,120	4,655	52	11,220
	$ 3,393	$ 15,240	$ 4,655	$ 52	$ 23,340
Total assets	$ 145,521	$ 56,842	$ 12,564	$ 56,627	$ 271,554

22. SEGMENT DISCLOSURES (Continued)

Year ended December 31, 2001	Operating Segments: Copper Division	Operating Segments: Iron Ore Division	Operating Segments: Exploration Division	Corporate	Consolidated
Revenue	$ 19,556	$ 55,778	$ –	$ –	$ 75,334
Cost of operations	(9,246)	(43,590)	–	–	(52,836)
Depreciation and depletion	(4,021)	(8,524)	–	–	(12,545)
Operating profit	6,289	3,664	–	–	9,953
Other expenses					
General and administrative	(385)	(79)	–	(5,699)	(6,163)
Interest on long-term debt	(3,779)	(4,843)	–	(1,307)	(9,929)
Exploration	–	–	(7,192)	–	(7,192)
Depreciation	–	–	(131)	(14)	(145)
Write-down of inventories	–	(2,584)	–	–	(2,584)
Income (loss) before the following	2,125	(3,842)	(7,323)	(7,020)	(16,060)
Other income (expenses)					
Interest income	368	110	4	738	1,220
Foreign exchange gains (losses)	–	(7,873)	(52)	256	(7,669)
Mining property shut-down costs	–	–	–	(3,744)	(3,744)
Write-down of carrying values of other assets	–	(53,812)	–	(5,380)	(59,192)
Other	–	312	(3)	211	520
Income (loss) before income and capital taxes	2,493	(65,105)	(7,374)	(14,939)	(84,925)
Income and capital taxes	20	(1,130)	1,096	(59)	(73)
Net income (loss)	$ 2,513	$ (66,235)	$ (6,278)	$ (14,998)	$ (84,998)
Expenditures on capital assets					
Pre-stripping costs	$ –	$ 2,264	$ –	$ –	$ 2,264
Other	2,288	6,730	–	474	9,492
	$ 2,288	$ 8,994	$ –	$ 474	$ 11,756
Total assets	$ 147,476	$ 68,641	$ 4,025	$ 27,690	$ 247,832

	December 31, 2002	December 31, 2001
Capital assets at the end of the year:		
Australia	$ **35,602**	$ 45,295
Mongolia	**7,782**	256
Myanmar	**131,067**	132,125
Norway	**–**	3,420
South Korea	**2,122**	951
Other	**156**	147
	$ **176,729**	$ 182,194

The capital assets in Australia include unamortized pre-stripping costs of $18,146,000 at December 31, 2002 and $11,095,000 at December 31, 2001.

23. COMMITMENTS

(a) Ivanhoe Mines has commitments in the ordinary course of business to expend funds towards retaining its interests in mineral properties (Note 11). In that regard, Ivanhoe Mines has lodged letters of credit aggregating $6,000,000 at December 31, 2002 and $2,000,000 at December 31, 2001 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, 2005, but may terminate earlier if certain events occur.

During the years ended December 31, 2002 and 2001, substantially all of the Copper Division sales were made to the Major Customer.

(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 power, port operations, equipment rentals and other arrangements as follows:

2003	$	15,090
2004		14,341
2005		8,733
2006		6,506
2007		4,695
Thereafter		–
	$	49,365

Approximately 90% of these commitments relate to natural gas, power and a mining contract.

(e) ABM is committed, pursuant to the deferred purchase obligation (Note 15 (c)), to co-manage with the Tasmanian Government the remediation of environmental exposures created by prior operations on the Savage River site. The cost of the remediation work will be offset against the face value of the deferred purchase obligation over its remaining 12 year term, with the balance to be paid in cash. The remediation work may be carried out by ABM in conjunction with normal mining operations. At December 31, 2002, the estimated cost of this remediation work in excess of the deferred purchase obligation was $3,860,000, of which $1,511,000 had been accrued.

24. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

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

	December 31,			
	2002		2001	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash	**$ 46,912**	**$ 46,912**	$ 25,805	$ 25,805
Accounts receivable	**3,425**	**3,425**	2,423	2,423
Investments	**15,537**	**25,920**	4,823	7,092
Due from joint venture partner	**1,482**	**1,482**	1,420	1,420
Accounts payable and accrued liabilities	**29,174**	**29,174**	15,187	15,187
Loans payable to related parties	**5,088**	**5,088**	4,696	4,696
Accrued loss on foreign exchange contract				
Current	**–**	**–**	15,450	15,450
Long-term	**–**	**–**	2,582	2,582
Long-term debt	**29,300**	**29,300**	61,970	61,970
Royalty payable	**1,699**	**–**	1,281	–

The fair value of Ivanhoe Mines' investments and the accrued loss on a foreign exchange contract were determined by reference to published market quotations or by use of a discounted present value calculation, all of which may not be reflective of future values.

Ivanhoe Mines' loan due from joint venture partner, loan payable to related party 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. Historically, Ivanhoe Mines has not experienced any significant credit losses, other than a provision for losses made in 1998, and this is not expected to change.

(c) The credit agreement discussed in Note 15 (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.

24. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS (Continued)

(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.

25. SUBSEQUENT EVENTS

(a) In January 2003, the Company sold its entire investment in Emperor (Note 9) for A$0.75 per share, generating proceeds of $6,709,000 (A$11,542,000). This transaction resulted in a pre-tax gain of $4,625,000.

(b) In January 2003, the Company completed a financing that consisted of 20 million Special Warrants at a price of $1.92 (C$3.00) each. Each Special Warrant entitled the holder to acquire one common share of the Company, at no additional cost. The Special Warrants were issued between December 13, 2002 and January 21, 2003. At December 31, 2002, 14,500,000 Special Warrants had been issued for proceeds of $26,516,000, net of issue costs of $1,441,000. Subsequent to the year end, the balance of 5,500,000 Special Warrants were issued for gross and net proceeds of $10,679,000. The Special Warrants were converted into common shares of the Company in February 2003.