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Setting straight The Globe and Mail record on Ivanhoe Mines' investment in Mongolia

ULAANBAATAR, MONGOLIA — Ivanhoe Mines and the Mongolian Government have been engaged in good-faith negotiations toward a stability agreement for the construction of a world-scale mining complex at the Oyu Tolgoi copper and gold deposits discovered by Ivanhoe in southern Mongolia. The following letter, dated July 30, 2004, was sent to The Globe and Mail newspaper in Canada to address a misleading and incomplete record that was created by the publication of a story on July 26 that purported to cover alleged “criticism” of the purchase of a Mongolian Government treasury bill by Ivanhoe Mines in December, 2003. The newspaper declined to publish the submitted letter, which now is being distributed by Ivanhoe Mines in an attempt to provide a more complete factual record on the subject.

(Text of letter to the editor, The Globe and Mail, Toronto, July 30, 2004)

A Globe and Mail Report on Business story published July 26, 2004, misrepresented the true circumstances involving the purchase of a Mongolian national government treasury bill by Ivanhoe Mines in December, 2003.

The story implied, falsely, that Ivanhoe was the sole “benefactor” that helped the Mongolian government raise the capital needed to retire Mongolia’s long-standing debt to the Russian Federation. The Globe did not tell readers that the Erdenet Mining Corporation, a Mongolia-Russia joint venture that owns the 26-year-old Erdenet copper mine, currently the largest producing mine in Mongolia, also participated in the initiative. Other investors, including Mongolia’s central bank, also supported the initiative. While Ivanhoe invested in a \$50 million treasury bill, an additional \$200 million was provided by other investors.

With this support, the government was able to take advantage of an extraordinary, 98% discount repayment incentive on the \$12 billion national debt that Russia was offering only until the end of 2003.

There is no connection between Ivanhoe’s purchase of the Mongolian treasury bill seven months ago and Ivanhoe’s negotiations with the Mongolian government for a long-term stability agreement that will set terms and conditions that will apply to Ivanhoe’s planned Oyu Tolgoi copper and gold mine development in Mongolia’s South Gobi region. Ivanhoe and the Mongolian government explained to The Globe that there was no connection between the treasury bill and the stability agreement. Yet much of the Globe story was woven around unsupported speculation and insinuations that there was something questionable about Ivanhoe’s investment in the treasury bill. Contrary to an allegation reported by The Globe, there was nothing “clandestine” about the treasury bill purchase. It was properly handled by the government on behalf of the people of Mongolia. Ivanhoe’s potential purchase of the treasury bill was disclosed in advance in a public prospectus and the subsequent completion of the purchase was announced in Mongolia and disclosed in an internationally circulated news release.

As Ivanhoe advised The Globe before it published its misleading story, the company has never heard criticisms from any quarter that the treasury-bill purchase was, or could create, a conflict of interest for the government. The purchase of a treasury bill does not disqualify the purchaser from dealings with the issuing government — either in Mongolia or anywhere else.

The record is clear. Ivanhoe purchased the interest-earning treasury bill, with no favours asked, offered or given by either side. The government recently re-affirmed to Ivanhoe that the loan will be repaid, on schedule and in full, at the end of this year.

As The Globe was advised, the stability agreement, covering such matters as rates of taxation, is an entirely separate issue. The Globe's suggestion that there is something unusual or surprising about the time being taken to conclude such a complex agreement is a misrepresentation.

Ivanhoe advised The Globe before the story was published:

- Oyu Tolgoi will represent the largest investment ever made in an industrial project in Mongolia;
- Oyu Tolgoi, a world-scale project, is much larger, and will be in production longer, than any mining project previously advanced in Mongolia;
- it is not unusual for stability agreements in other countries to take several months, and even years, to complete; and
- the government and Ivanhoe have recognized that the existing model form of stability agreement used in Mongolia is inadequate and that an alternative form has been drafted to reflect the scope, financial commitment and complexity of the project. The new form could serve as a template for other future large-scale development projects in Mongolia that are similar to the Oyu Tolgoi project. The agreement's terms are being negotiated within the current law and to a standard that will be acceptable to international banking and investment institutions.

The Globe's misrepresentation of Ivanhoe's sincere community support actions, taken on behalf of our hundreds of Mongolian employees, as well as our shareholders, is an unjustified cheap shot apparently to shore up the story's core of contrived controversy. The story's suggestion — that Ivanhoe's long-term support of an orphanage, the support of the rebuilding of a South Gobi Buddhist temple razed during the Stalinist era and the creation of an infectious-disease clinic during the last year's SARS crisis are just image-grooming gestures to curry political favour in Mongolia — is false and contemptible.

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