IVANHOE MINES LTD
Form 6-K
August 18, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
From: August 16, 2010
IVANHOE MINES LTD.
(Translation of Registrant s Name into English)
Suite 654 999 CANADA PLACE, VANCOUVER, BRITISH COLUMBIA V6C 3E1
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F- o Form 40-F- þ

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes: o No: þ

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_________.)

Enclosed:
CEO Interim Certification
CFO Interim Certification
Q2- 2010 Financial Statements
Q2 -2010 MD&A

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IVANHOE MINES LTD.

Date: August 16, 2010

By: */s/ Beverly A. Bartlett*

BEVERLY A. BARTLETT
Vice President &
Corporate Secretary

Form 52-109F2
Certification of interim filings   full certificate

I, John Macken, President and Chief Executive Officer of Ivanhoe Mines Ltd., certify the following:

1. ***Review:*** I have reviewed the interim financial statements and interim MD&A (together, the   interim filings   ) of Ivanhoe Mines Ltd. (the   issuer   ) for the interim period ended **June 30, 2010**.
2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. ***Responsibility:*** The issuer   s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers   Annual and Interim Filings,* for the issuer.
5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer   s other certifying officer(s) and I have, as at the end of the period covered by the interim filings
   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
      (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer   s GAAP.

5.1 ***Control framework:*** The control framework the issuer   s other certifying officer(s) and I used to design the issuer   s ICFR is the Internal Control   Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 ***ICFR   material weakness relating to design:*** N/A

5.3 ***Limitation on scope of design:*** N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer   s ICFR that occurred during the period beginning on April 1, 2010 and ended on June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer   s ICFR.

Date: August 16, 2010

John Macken

John Macken
President and Chief Executive Officer
Ivanhoe Mines Ltd.

FORM 52-109F1

Certification of interim filings full certificate

I, Tony Giardini, Chief Financial Officer of Ivanhoe Mines Ltd., certify that:

1. ***Review:*** I have reviewed the interim financial statements and interim MD&A (together, the interim filings) of Ivanhoe Mines Ltd. (the issuer) for the interim period ended **June 30, 2010**.
2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. ***Responsibility:*** The issuer s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers Annual and Interim Filings,* for the issuer.
5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer s other certifying officer(s) and I have, as at the end of the period covered by the interim filings
   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
      (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer s GAAP.

5.1 ***Control framework:*** The control framework the issuer s other certifying officer(s) and I used to design the issuer s ICFR is the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 ***ICFR material weakness relating to design:*** N/A

5.3 ***Limitation on scope of design:*** N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer s ICFR that occurred during the period beginning on April 1, 2010 and ended on June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer s ICFR.

Date: August 16, 2010

Tony Giardini

Tony Giardini
Chief Financial Officer
Ivanhoe Mines Ltd.

SECOND QUARTER REPORT
JUNE 30, 2010

TABLE OF CONTENTS

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

	June 30, 2010	December 31, 2009
(Unaudited)		
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	**$ 1,454,475**	$ 965,823
Short-term investments	**2,498**	14,999
Accounts receivable	**47,375**	39,349
Inventories	**26,447**	18,015
Prepaid expenses	**17,686**	15,988
TOTAL CURRENT ASSETS	**1,548,481**	1,054,174
LONG-TERM INVESTMENTS (Note 5)	**67,762**	93,511
OTHER LONG-TERM INVESTMENTS (Note 6)	**212,095**	145,035
PROPERTY, PLANT AND EQUIPMENT (Note 12 (b))	**625,449**	218,781
DEFERRED INCOME TAXES	**10,563**	6,953
OTHER ASSETS	**8,678**	16,227
TOTAL ASSETS	**$ 2,473,028**	$ 1,534,681
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 105,510**	$ 55,128
Amounts due under credit facilities (Note 7)	**17,056**	17,544
Interest payable on long-term debt (Note 8 (b))	**4,296**	4,712
Convertible credit facility (Note 8 (a))	**391,950**	378,916
TOTAL CURRENT LIABILITIES	**518,812**	456,300
CONVERTIBLE CREDIT FACILITY (Note 8 (b))	**278,034**	544,990
AMOUNTS DUE UNDER CREDIT FACILITIES (Note 7)	**37,598**	37,979
DEFERRED INCOME TAXES	**10,923**	10,888
ASSET RETIREMENT OBLIGATIONS	**5,543**	5,436
TOTAL LIABILITIES	**850,910**	1,055,593
CONTINGENCIES (Note 16)		
SHAREHOLDERS EQUITY		

SHARE CAPITAL (Note 9)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
488,036,669 (2009 425,447,552) common shares	**2,544,774**	1,886,789
SHARE PURCHASE WARRANTS (Note 9 (b) and (c))	**18,443**	27,386
BENEFICIAL CONVERSION FEATURE (Note 8 (a))	**33,869**	30,250
ADDITIONAL PAID-IN CAPITAL	**1,144,720**	348,468
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 10)	**(26,128)**	(14,578)
DEFICIT	**(2,024,075)**	(1,800,179)
TOTAL IVANHOE MINES LTD. SHAREHOLDERS EQUITY	**1,691,603**	478,136
NONCONTROLLING INTERESTS (Note 11)	**(69,485)**	952
TOTAL SHAREHOLDERS EQUITY	**1,622,118**	479,088
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 2,473,028**	$ 1,534,681

APPROVED BY THE BOARD:

/s/ D. Korbin /s/ K. Thygesen

D. Korbin, Director K. Thygesen, Director

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
(Unaudited)				
REVENUE	**$ 17,668**	$ 10,666	**$ 31,585**	$ 14,207
COST OF SALES				
Production and delivery	**(10,901)**	(7,515)	**(22,098)**	(10,311)
Depreciation and depletion	**(2,304)**	(1,623)	**(4,827)**	(2,041)
Write-down of carrying value of inventory			**(6,535)**	
COST OF SALES	**(13,205)**	(9,138)	**(33,460)**	(12,352)
EXPENSES				
Exploration (Note 2 and 9 (a))	**(39,483)**	(35,198)	**(110,906)**	(69,263)
General and administrative (Note 9 (a))	**(14,730)**	(10,546)	**(23,047)**	(18,314)
Depreciation	**(354)**	(962)	**(1,270)**	(1,828)
Accretion of convertible credit facilities (Note 8)	**(4,535)**	(3,512)	**(8,662)**	(6,946)
Accretion of asset retirement obligations	**(48)**	(33)	**(91)**	(64)
Gain on sale of other mineral property rights		3,000		3,000
TOTAL EXPENSES	**(72,355)**	(56,389)	**(177,436)**	(105,767)
OPERATING LOSS	**(54,687)**	(45,723)	**(145,851)**	(91,560)
OTHER INCOME (EXPENSES)				
Interest income	**2,538**	678	**7,167**	1,430
Interest expense	**(8,278)**	(4,264)	**(21,677)**	(9,017)
Foreign exchange (losses) gains	**(4,859)**	21,741	**(3,189)**	12,463
Listing fees SouthGobi		(98)		(333)
Unrealized losses on long-term investments (Note 5 (d))	**(4,509)**		**(5,212)**	
Unrealized gains (losses) on other long-term investments	**789**	555	**1,509**	(634)
Realized gain on redemption of other long-term investments (Note 6 (a))	**26**	1,136	**87**	1,136
Change in fair value of embedded derivatives (Note 8 (b))	**72,233**		**70,861**	
Loss on conversion of convertible credit facility (Note 8 (b))			**(154,316)**	
Write-down of carrying value of long-term investments (Note 5 (c))	**(161)**		**(417)**	
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	**3,092**	(25,975)	**(251,038)**	(86,515)

(Provision) recovery for income taxes		**(1,308)**		(123)		**2,174**		(226)
Share of loss of significantly influenced investees (Note 5)		**(13,151)**		(3,020)		**(23,210)**		(7,798)
NET LOSS FROM CONTINUING OPERATIONS		**(11,367)**		(29,118)		**(272,074)**		(94,539)
INCOME FROM DISCONTINUED OPERATIONS (Note 3)				2,069		**6,585**		9,405
NET LOSS		**(11,367)**		(27,049)		**(265,489)**		(85,134)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS (Note 11)		**(18,664)**		2,153		**41,593**		4,189
NET LOSS ATTRIBUTABLE TO IVANHOE MINES LTD.	**$**	**(30,031)**	$	(24,896)	**$**	**(223,896)**	$	(80,945)
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO IVANHOE MINES LTD. FROM								
CONTINUING OPERATIONS	**$**	**(0.07)**	$	(0.08)	**$**	**(0.53)**	$	(0.24)
DISCONTINUED OPERATIONS				0.01		**0.02**		0.02
	$	**(0.07)**	$	(0.07)	**$**	**(0.51)**	$	(0.22)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000 s)		**442,117**		378,118		**435,156**		378,103

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

IVANHOE MINES LTD.
Consolidated Statements of Shareholders Equity
(Stated in thousands of U.S. dollars, except for share amounts)
(Unaudited)

	Share Capital Number of Shares	Share Capital Amount	Share Purchase Warrants	Beneficial Conversion Feature	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Deficit	Noncontrolling Interests	Total
Balances, December 31, 2009	425,447,552	$ 1,886,789	$ 27,386	$ 30,250	$ 348,468	$ (14,578)	$ (1,800,179)	$ 952	$ 479,088
Net loss							(223,896)		(223,896)
Other comprehensive income (Note 10)						(11,550)			(11,550)
Comprehensive loss									(235,446)
Shares issued for:									
Exercise of stock options	1,281,000	14,216			(4,261)				9,955
Exercise of Share Purchase Warrants (Note 9 (b)), net of issue costs of $2,695	46,026,522	399,316	(8,943)						390,373
Private placement (Note 9 (b)), net of issue costs of $167	15,000,000	240,749							240,749
Consulting services	261,900	3,421							3,421
Share purchase plan	19,695	283							283
Convertible credit facility (Note 8 (a))				3,619					3,619
Movement in noncontrolling								(70,437)	(70,437)

interests (Note 11)									
Dilution gains					781,883				781,883
Stock-based compensation					18,630				18,630
Balances, June 30, 2010	488,036,669	$ 2,544,774	$ 18,443	$ 33,869	$ 1,144,720	$ (26,128)	$ (2,024,075)	$ (69,485)	$ 1,622,118

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

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

(Unaudited)	Three Months Ended June 30, **2010**	Three Months Ended June 30, 2009	Six Months Ended June 30, **2010**	Six Months Ended June 30, 2009
OPERATING ACTIVITIES				
Cash used in operating activities (Note 12)	**$ (39,052)**	$ (38,133)	**$ (99,135)**	$ (77,339)
INVESTING ACTIVITIES				
Proceeds from sale of discontinued operations	**6,442**	37,000	**6,442**	37,000
Purchase of long-term investments	**(7,322)**	(8,968)	**(13,025)**	(13,460)
Purchase of other long-term investments	**(50,000)**		**(80,000)**	
Proceeds from sale of other mineral property rights		3,000		3,000
Proceeds from redemption of short-term investments			**15,000**	
Proceeds from sale of long-term investments			**1,800**	
Proceeds from redemption of other long-term investments	**42**	1,721	**144**	1,721
Expenditures on property, plant and equipment	**(168,407)**	(8,418)	**(207,855)**	(14,074)
Proceeds from (expenditures on) other assets	**38**	(679)	**(47)**	(679)
Cash (used in) provided by investing activities of continued operations	**(219,207)**	23,656	**(277,541)**	13,508
Cash used in investing activities of discontinued operations		(3,528)		(4,180)
Cash (used in) provided by investing activities	**(219,207)**	20,128	**(277,541)**	9,328
FINANCING ACTIVITIES				
Issue of share capital	**394,599**	112	**446,138**	223
Proceeds from credit facilities		34,575		34,575
Repayment of credit facilities (Note 7)	**(349)**	(369)	**(431)**	(369)
Noncontrolling interests investment in subsidiaries	**929**	158	**421,141**	380
Cash provided by financing activities	**395,179**	34,476	**866,848**	34,809
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(6,090)**	24,438	**(1,520)**	17,121
NET CASH INFLOW (OUTFLOW)	**130,830**	40,909	**488,652**	(16,081)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**1,323,645**	327,120	**965,823**	384,110
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 1,454,475**	$ 368,029	**$ 1,454,475**	$ 368,029
CASH AND CASH EQUIVALENTS IS COMPRISED OF:				
Cash on hand and demand deposits	**$ 726,510**	$ 26,698	**$ 726,510**	$ 26,698
Short-term money market instruments	**727,965**	341,331	**727,965**	341,331
	$ 1,454,475	$ 368,029	**$ 1,454,475**	$ 368,029

Supplementary cash flow information (Note 12)
The accompanying notes are an integral part of these consolidated financial statements.

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These unaudited interim consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles (U.S. GAAP). The accounting policies followed in preparing these consolidated financial statements are those used by Ivanhoe Mines Ltd. (the Company) as set out in the audited consolidated financial statements for the year ended December 31, 2009.

Certain information and note disclosures normally included for annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. These interim consolidated financial statements should be read together with the audited consolidated financial statements of the Company for the year ended December 31, 2009.

In the opinion of management, all adjustments considered necessary (including reclassifications and normal recurring adjustments) to present fairly the financial position, results of operations and cash flows at June 30, 2010 and for all periods presented, have been included in these financial statements. The interim results are not necessarily indicative of results for the full year ending December 31, 2010, or future operating periods. For further information, see the Company s annual consolidated financial statements, including the accounting policies and notes thereto.

The Company operates two reportable segments, being its coal division located in Mongolia, and its exploration and development division with projects located primarily in Mongolia and Australia.

References to Cdn$ refer to Canadian currency, Aud$ to Australian currency, and $ to United States currency.

(b) Basis of presentation

For purposes of these consolidated financial statements, the Company, subsidiaries of the Company, and variable interest entities for which the Company is the primary beneficiary, are collectively referred to as Ivanhoe Mines .

(c) Accounting changes

In January 2010, the Financial Accounting Standards Board Accounting Standards Codification (ASC) guidance for fair value measurements and disclosures was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The updated guidance clarified the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques be used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for the Company s fiscal year beginning January 1, 2010, except for the level 3 disaggregation which is effective for the Company s fiscal year beginning January 1, 2011. The adoption of the updated guidance had no impact on the Company s consolidated financial position, results of operations or cash flows.

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Accounting changes (continued)

In June 2009, the ASC guidance for consolidation accounting was updated to require an entity to perform a qualitative analysis to determine whether the enterprise s variable interest gives it a controlling financial interest in a Variable Interest Entity (VIE). This qualitative analysis identifies the primary beneficiary of a VIE as the entity that has both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE. The updated guidance was effective for the Company s fiscal year beginning January 1, 2010. The adoption of the updated guidance had no impact on the Company s consolidated financial position, results of operations or cash flows.

2. EXPLORATION EXPENSES

Generally, exploration costs are charged to operations in the period incurred until it has been determined that a property has economically recoverable reserves, at which time subsequent exploration costs and the costs incurred to develop a property are capitalized. Up to March 31, 2010, exploration costs charged to operations included development costs associated with the Oyu Tolgoi Project located in Mongolia. On April 1, 2010, Ivanhoe Mines commenced capitalizing Oyu Tolgoi Project development costs. As of this date, reserve estimates for the Oyu Tolgoi Project had been announced and the procedural and administrative conditions contained in the Investment Agreement were satisfied. During the three months ended June 30, 2010, expenditures on property, plant and equipment included $41.0 million of Oyu Tolgoi Project development costs that would have been expensed as exploration costs if incurred prior to April 1, 2010.

Summary of exploration expenditures by location:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Mongolia				
Oyu Tolgoi	**$ 7,887**	$ 20,352	**$ 60,010**	$ 42,963
Coal Division	**14,307**	4,348	**20,871**	8,463
Other Mongolia Exploration	**982**	514	**1,534**	673
	23,176	25,214	**82,415**	52,099
Australia	**14,868**	8,807	**25,686**	14,888
Indonesia	**732**	945	**1,279**	1,622
Other	**707**	232	**1,526**	654
	39,483	35,198	**110,906**	69,263

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

3. DISCONTINUED OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Savage River (a)	**$**	$ 4,967	**$ 6,585**	$ 15,665
Indonesia Coal Division (b)		(2,898)		(6,260)
	$	$ 2,069	**$ 6,585**	$ 9,405

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

During the three month period ended June 30, 2010, Ivanhoe Mines received amounts totalling $6.4 million in relation to the fifth annual contingent payment. Ivanhoe Mines is currently in correspondence with the original purchaser of the Project who has disputed the estimated $22.1 million remaining balance of the fifth annual contingent payment. Ivanhoe Mines is committed to collecting the full amount of the fifth annual contingent payment and has included the total estimated amount of $22.1 million in accounts receivable as at June 30, 2010.

To date, Ivanhoe Mines has received $144.4 million in proceeds from the sale.

(b) During December 2009, Ivanhoe Mines sold the Indonesia Coal Division, which was composed entirely of the Mamahak Coal Project (Mamahak). Ivanhoe Mines divested its 85.0% interest in Mamahak to Kangaroo Resources Limited (Kangaroo) for consideration comprising of $1.0 million cash and 50.0 million shares of Kangaroo possessing a fair value of $8.8 million. Ivanhoe Mines incurred transaction costs of $1.0 million related to the disposition of Mamahak. As a result of this transaction, Ivanhoe Mines held 6.7% of the issued and outstanding shares of Kangaroo on December 23, 2009, the closing date, and those shares are subject to a one year hold period.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2010 included SouthGobi Resources Ltd. s (Canada) (57.3% owned) (SouthGobi) balance of $667.2 million (December 31, 2009 $357.3 million) and Ivanhoe Australia Ltd. s (Australia) (80.9% owned) (Ivanhoe Australia) balance of $9.0 million (December 31, 2009 $10.6 million), which were not available for Ivanhoe Mines general corporate purposes.

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

5. LONG-TERM INVESTMENTS

	June 30, 2010	December 31, 2009
Investments in companies subject to significant influence:		
Altynalmas Gold Ltd. (a)	**$ 3,279**	$ 9,860
Exco Resources N.L. (b)	**9,214**	10,499
Investments available-for-sale (c)	**50,605**	63,276
Investments held-for-trading (d)	**4,664**	9,876
	$ 67,762	$ 93,511

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

On March 8, 2010, all of the parties to the original agreement agreed to put themselves into the position they would be in as if a certain entity was not a party to the original agreement. The corresponding amendments made to the original agreement resulted in Ivanhoe Mines interest in Altynalmas increasing from 49% to 50%.

	June 30, 2010	December 31, 2009
Amount due from Altynalmas	**$ 84,544**	$ 68,533
Carrying amount of equity method investment	**(81,265)**	(58,673)
Net investment in Altynalmas	**$ 3,279**	$ 9,860

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

During the six month period ended June 30, 2010, Ivanhoe Mines recorded a $22,592,000 (2009 $7,446,000) equity loss on this investment.

(b) During the six month period ended June 30, 2010, Ivanhoe Mines recorded a $618,000 (2009 $352,000) equity loss on its investment in Exco Resources N.L. (Exco).

At June 30, 2010, the market value of Ivanhoe Mines 20.0% investment in Exco was $12,725,000 (Aud$15,135,000).

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

5. LONG-TERM INVESTMENTS (Continued)

(c) Investments available-for-sale

	June 30, 2010				December 31, 2009			
	Equity Interest	**Cost Basis**	**Unrealized Gain**	**Fair Value**	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value
Entrée Gold Inc.	**14.0%**	**$ 19,957**	**$ 5,595**	**$ 25,552**	14.3%	$ 19,957	$ 12,799	$ 32,756
Emmerson Resources Limited	**10.0%**	**2,727**	**1,495**	**4,222**	10.0%	3,107	6,637	9,744
Intec Ltd. (i)	**3.9%**	**104**		**104**	4.8%	521	(3)	518
GoviEx Gold Inc.	**1.5%**	**1,043**		**1,043**	1.5%	1,043		1,043
Ivanhoe Nickel & Platinum Ltd. (ii)	**6.3%**	**19,492**		**19,492**	6.1%	18,929		18,929
Other		**60**	**132**	**192**		60	226	286
		$ 43,383	**$ 7,222**	**$ 50,605**		$ 43,617	$ 19,659	$ 63,276

(i) During the six month period ended June 30, 2010, Ivanhoe Mines recorded an impairment provision of $417,000 against the investment in Intec Ltd. (Intec) based on an assessment of the fair value of Intec.

(ii) During the three month period ended March 31, 2010, Ivanhoe Mines acquired 125,665 common shares of Ivanhoe Nickel and Platinum Ltd. (Ivanplats) at a cost of $563,000.

As at June 30, 2010, Ivanhoe Mines held a 9.3% equity interest in Ivanplats on a fully diluted basis.

(d) Investments held-for-trading

At June 30, 2010, the market value of Ivanhoe Mines 6.4% investment in Kangaroo Resources Limited was $4,664,000, resulting in an unrealized loss of $5,211,000 during the six month period ended June 30, 2010.

6. OTHER LONG-TERM INVESTMENTS

	June 30, 2010	December 31, 2009
Long-Term Notes (a)	**$ 25,946**	$ 24,689
Government of Mongolia Treasury Bills (b)	**76,673**	73,152
Government of Mongolia Tax Prepayment (b)	**34,810**	
Money market investments (c)	**74,666**	47,194
	$ 212,095	$ 145,035

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

6. OTHER LONG-TERM INVESTMENTS (Continued)

(a) Long-Term Notes

As at June 30, 2010, the Company held $64.5 million principal amount of Long-Term Notes (received in 2009 upon the completion of the Asset-Backed Commercial Paper restructuring) which was recorded at a fair value of $25.9 million. The decrease from December 2009 in principal of $0.7 million was due to the weakening of the Canadian dollar ($0.5 million), in addition to principal redemptions ($0.2 million). The Company has designated the Long-Term Notes as held-for-trading. The Long-Term Notes are recorded at fair value with unrealized holding gains and losses included in earnings.

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

The Company is aware of a limited number of trades in the Long-Term Notes that occurred prior to June 30, 2010, but does not consider them to be of sufficient volume or value to constitute an active market. Accordingly, the Company has not used these trades to determine the fair value of its Long-Term Notes.

The Company has used a discounted cash flow approach to value the Long-Term Notes as at June 30, 2010 incorporating the following assumptions:

Bankers Acceptance Rate:	0.58%
Discount Rates:	9% to 25%
Maturity Dates:	6.5 years
Expected Return of Principal:	
A-1 Notes	100%
A-2 Notes	100%
B Notes	10%
C Notes	0%
IA Notes	0%
TA Notes	100%

Based on the discounted cash flow model as at June 30, 2010, the fair value of the Long-Term Notes was estimated at $25.9 million. As a result of this valuation, the Company recorded an unrealized trading gain of $1.5 million for the six month period ended June 30, 2010.

Continuing uncertainties regarding the value of the assets that underlie the Long-Term Notes, the amount and timing of cash flows and changes in general economic conditions could give rise to a further change in the fair value of the Company s investment in the Long-Term Notes, which would impact the Company s results from operations. A 1.0% increase, representing 100 basis points, in the discount rate will decrease the fair value of the Long-Term Notes by approximately $1.7 million.

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

6. OTHER LONG-TERM INVESTMENTS (Continued)

(b) Government of Mongolia Treasury Bill and Tax Prepayment

On October 6, 2009, Ivanhoe Mines agreed to purchase three Treasury Bills (T-Bills) from the Mongolian Government, having an aggregate face value of $287.5 million, for the aggregate sum of $250.0 million. The annual rate of interest on the T-Bills was set at 3.0%. The initial T-Bill, with a face-value of $115.0 million, was purchased by Ivanhoe Mines on October 20, 2009 for $100.0 million and will mature on October 20, 2014.

However, on March 31, 2010 Ivanhoe Mines agreed to an alternative arrangement for the advancement of funds that would not involve the purchase of the remaining two T-Bills. Specifically, rather than purchasing the second and third remaining T-Bills, with face values of $57.5 million and $115.0 million respectively, Ivanhoe Mines has agreed to make a series of tax prepayments.

The first tax prepayment of $50.0 million was made pursuant to this arrangement on April 7, 2010.

The second tax prepayment of $100.0 million will be made within 14 days of Oyu Tolgoi LLC fully drawing down the financing necessary to enable the complete construction of the Oyu Tolgoi Project, or on June 30, 2011, whichever date is earlier.

The annual rate of interest on the tax prepayments is 1.75% compounding quarterly from the date on which such prepayments are made to the Mongolian Government by Ivanhoe Mines. Unless already off-set fully against Mongolian taxes, the Mongolian Government must immediately repay any remaining tax prepayment balance, including accrued interest, on the fifth anniversary of the date the tax prepayment was made.

The Company has designated the T-Bill and first tax prepayment as available-for-sale with changes in fair value recognized in accumulated other comprehensive income. The fair values of the T-Bill and first tax prepayment are estimated based on available public information regarding what market participants would consider for such investments.

The Company has used a discounted cash flow approach to value the T-Bill at June 30, 2010 incorporating the following assumptions:

	T-Bill
Face Value:	$ 115,000,000
Discount Rates:	9.9%
Term to Maturity	4.3 years

Based on the discounted cash flow model as at June 30, 2010, the fair value of the T-Bill was estimated at $76.7 million. As a result of this valuation, Ivanhoe Mines recorded an unrealized gain of $2.1 million in accumulated other comprehensive income for the six month period ended June 30, 2010.

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

6. OTHER LONG-TERM INVESTMENTS (Continued)

(b) Government of Mongolia Treasury Bill and Tax Prepayment (continued)

The Company has used a discounted cash flow approach to value the first tax prepayment at June 30, 2010 incorporating the following assumptions:

	First Tax Prepayment
Face Value:	$ 50,000,000
Discount Rates:	9.9%
Term to Maturity	4.8 years

Based on the discounted cash flow model as at June 30, 2010, the fair value of the first tax prepayment was estimated at $34.8 million. As a result of this valuation, Ivanhoe Mines recorded an unrealized loss of $15.4 million in accumulated other comprehensive income for the six month period ended June 30, 2010.

(c) Money Market Investments

As at June 30, 2010, Ivanhoe Mines held $74.7 million of money market investments with remaining maturities in excess of one year.

7. AMOUNTS DUE UNDER CREDIT FACILITIES

	June 30, 2010	December 31, 2009
Current		
Non-revolving bank loans (a)	**$ 14,353**	$ 14,544
Revolving line of credit facility (b)	**2,703**	3,000
	$ 17,056	$ 17,544
Non-Current		
Two-year extendible loan facility (c)	**$ 37,598**	$ 37,979

(a) In October 2007, Ivanhoe Mines obtained non-revolving bank loans which are due on demand and secured against certain securities and other investments.

(b) In December 2009, Ivanhoe Mines obtained a one year revolving line of credit facility, which is secured against certain equipment in Mongolia.

(c) In April 2009, Ivanhoe Mines obtained a non-revolving, two-year extendible loan facility, which is secured against certain securities and other investments.

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

8. CONVERTIBLE CREDIT FACILITIES

(a) Rio Tinto

	June 30, 2010	December 31, 2009
Principal amount of convertible credit facility	**$ 350,000**	$ 350,000
Accrued paid-in-kind interest	**47,740**	40,678
	397,740	390,678
(Deduct) add:		
Beneficial conversion feature	**(33,869)**	(30,250)
Share purchase warrants	**(9,403)**	(9,403)
Accretion of discount	**37,482**	27,891
	$ 391,950	$ 378,916

In September 2007, Rio Tinto provided Ivanhoe Mines with a $350.0 million convertible credit facility to finance ongoing mine development activities at the Oyu Tolgoi Project. In 2007, Ivanhoe Mines made an initial draw against the credit facility of $150.0 million and further draws totalling $200 million were made in 2008.

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

As part of the credit facility transaction, Rio Tinto also received share purchase warrants exercisable to purchase up to 35.0 million common shares of Ivanhoe Mines at a price of $10.00 per share for a period of five years (Note 9 (c)).

During the three and six months ended June 30, 2010, Ivanhoe Mines capitalized $0.6 million and $0.7 million of interest expense and $0.8 million and $1.0 million of accretion expense, respectively, incurred on the convertible credit facility.

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

8. CONVERTIBLE CREDIT FACILITIES (Continued)

(b) China Investment Corporation

	June 30, 2010	December 31, 2009
Principal amount of convertible debenture	**$ 500,000**	$ 500,000
(Deduct) add:		
Bifurcation of embedded derivative liability	**(313,292)**	(313,292)
Accretion of discount	**43**	10
Reduction of carrying amount upon partial conversion	**(93,370)**	
Carrying amount of debt host contract	**93,381**	186,718
Embedded derivative liability	**184,653**	358,272
Convertible credit facility	**278,034**	544,990
Accrued interest	**4,296**	4,712
Transaction costs allocated to deferred charges	**(2,800)**	(5,601)
Net carrying amount of convertible debenture	**$ 279,530**	$ 544,101

On November 19, 2009, SouthGobi issued a convertible debenture to a wholly-owned subsidiary of China Investment Corporation (CIC) for $500.0 million. The convertible debenture is secured, bears interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in shares of SouthGobi) and has a term of 30 years. The financing primarily will support an accelerated investment program in Mongolia and up to $120.0 million of the financing may also be used for working capital, repayment of debt due on funding, general and administrative expense and other general corporate purposes.

Pursuant to the convertible debentures terms, SouthGobi had the right to call for the conversion of up to $250.0 million of the convertible debenture upon SouthGobi achieving a public float of 25.0% of its common shares under certain agreed circumstances. On March 29, 2010, SouthGobi exercised this right and completed the conversion of $250.0 million of the convertible debenture into 21.5 million shares at a conversion price of $11.64 (Cdn$11.88). Also on March 29, 2010, SouthGobi settled the $1.4 million accrued interest payable in shares on the $250.0 million converted by issuing 0.1 million shares at the 50-day VWAP conversion price of $15.97 (Cdn$16.29). On April 1, 2010, SouthGobi settled the outstanding accrued interest payable in cash on the $250.0 million converted with a cash payment of $5.7 million.

As at March 29, 2010, the fair value of the embedded derivative liability associated with the $250.0 million converted was $102.8 million, a decrease of $9.4 million compared to its fair value at December 31, 2009. The $347.6 million fair value of the SouthGobi shares issued upon conversion exceeded the $193.3 million aggregate carrying value of the debt host contract, embedded derivative liability and deferred charges. The difference of $154.3 million was recorded as a loss on conversion of the convertible debenture.

16

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

8. CONVERTIBLE CREDIT FACILITIES (Continued)

(b) China Investment Corporation (Continued)

As at June 30, 2010, the fair value of the embedded derivative liability associated with the remaining $250.0 million principal outstanding was determined to be $184.7 million.

The embedded derivative liability was valued using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement in the inputs can be independent of each other. Some of the key inputs used by the Monte Carlo simulation include: floor and ceiling conversion prices, risk-free rate of return, expected volatility of SouthGobi s share price, forward Cdn$ exchange rate curves and spot Cdn$ exchange rates.

Assumptions used in the Monte Carlo valuation model are as follows:

	June 30, 2010	December 31, 2009
Floor conversion price	**Cdn$ 8.88**	Cdn$ 8.88
Ceiling conversion price	**Cdn$ 11.88**	Cdn$ 11.88
Expected volatility	**75%**	75%
Risk-free rate of return	**3.59%**	4.09%
Spot Cdn$ exchange rate	**0.94**	0.96
Forward Cdn$ exchange rate curve	**0.89 0.94**	0.90 0.95

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

9. SHARE CAPITAL

(a) Equity Incentive Plan

Stock-based compensation charged to operations was allocated between exploration expenses and general and administrative expenses as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Exploration (i)	**$ 5,466**	$ 4,725	**$ 12,254**	$ 11,572
General and administrative	**2,537**	5,374	**4,777**	9,203
	$ 8,003	$ 10,099	**$ 17,031**	$ 20,775

(i) During the three months ended June 30, 2010, stock-based compensation of $1,599,000 (2009 $nil) relating to the development of the Oyu Tolgoi Project was capitalized as property, plant and equipment (Note 2).

Stock-based compensation charged to operations was incurred by Ivanhoe Mines as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Ivanhoe Mines Ltd. (i)	**$ 3,543**	$ 6,524	**$ 7,649**	$ 13,637
SouthGobi Resources Ltd.	**2,344**	1,715	**4,693**	3,910
Ivanhoe Australia Ltd.	**2,116**	1,860	**4,689**	3,228
	$ 8,003	$ 10,099	**$ 17,031**	$ 20,775

(i) During the six months ended June 30, 2010, 1,281,000 options were exercised, 134,000 options were cancelled and 1,200,000 options were granted. These granted options have a weighted average exercise price of Cdn$15.18, lives of seven years, and vest over periods ranging from one to four years. The weighted average grant-date fair value of stock options granted during the six months ended June 30, 2010 was Cdn$8.88. The fair value of these options was determined using the Black-Scholes option pricing model. The option valuation was based on a weighted average expected life of 3.6 years, risk-free interest rate of 2.48%, expected volatility of 77%, and dividend yield of nil%.

During the three months ended June 30, 2010, stock-based compensation of $1,599,000 (2009 $nil) relating to the development of the Oyu Tolgoi Project was capitalized as property, plant and equipment (Note 2).

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

9. SHARE CAPITAL (Continued)

(b) Rio Tinto Placements

In March 2010, Ivanhoe Mines issued 15.0 million shares to Rio Tinto at Cdn$16.31 per share, for total proceeds of $241.1 million (Cdn$244.7 million) (Note 12 (b)).

In June 2010, Rio Tinto exercised its 46.0 million Series A warrants, which were granted during 2006. Pursuant to the exercise of the Series A warrants, Ivanhoe Mines issued 46.0 million shares to Rio Tinto at $8.54 per share for total proceeds of $393.1 million. As a result, the $8.9 million carrying value of the Series A warrants was reclassified from share purchase warrants to share capital.

As at June 30, 2010, 46,026,522 share purchase warrants granted to Rio Tinto during 2006 were outstanding. These warrants have exercise prices ranging between $8.38 and $9.02 per share and are exercisable until two years after the earlier of the date an approved Investment Agreement is reached or October 27, 2009.

In addition to the share purchase warrants granted to Rio Tinto during 2006, the following were granted to Rio Tinto during 2008 and were outstanding as at June 30, 2010:

(i) 720,203 share purchase warrants with exercise prices of Cdn$3.15 per share. These warrants are exercisable until one year after the earlier of the date an approved Investment Agreement is reached or October 27, 2009.

(ii) 720,203 share purchase warrants with exercise prices of Cdn$3.15 per share. These warrants are exercisable until two years after the earlier of the date an approved Investment Agreement is reached or October 27, 2009.

(c) Rio Tinto Financing

As part of the convertible credit facility disclosed in Note 8 (a), Rio Tinto received share purchase warrants exercisable to purchase up to 35.0 million common shares of Ivanhoe Mines at a price of $10.00 per share at any time on or before October 24, 2012. As at June 30, 2010, 35.0 million share purchase warrants were exercisable.

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

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Accumulated OCI at beginning of period				
Long-term investments, net of tax of $1,653, $nil, $1,896, $nil	**$ 21,905**	$ (2,567)	**$ 17,763**	$ (8,635)
Other long-term investments, net of tax of $nil, $nil, $nil, $nil	**(26,363)**		**(27,448)**	
Currency translation adjustment, net of tax of $nil, $nil, $nil, $nil	**(5,305)**	(19,328)	**(6,015)**	(18,256)
Noncontrolling interests	**1,880**	2,751	**1,122**	2,669
	$ (7,883)	$ (19,144)	**$ (14,578)**	$ (24,222)
Other comprehensive income (loss) for the period:				
Changes in fair value of long-term investments	**$ (16,335)**	$ (1,107)	**$ (12,439)**	$ 4,961
Changes in fair value of other long-term investments	**(14,327)**		**(13,242)**	
Currency translation adjustments	**(2,893)**	7,706	**(2,183)**	6,634
Noncontrolling interests	**13,657**	(709)	**14,415**	(627)
Less: reclassification adjustments for gains/losses recorded in earnings:				
Investments:				
Other than temporary impairment charges			**3**	
Other comprehensive income, before tax	**(19,898)**	5,890	**(13,446)**	10,968
Income tax expense related to OCI	**1,653**		**1,896**	
Other comprehensive income, net of tax	**$ (18,245)**	$ 5,890	**$ (11,550)**	$ 10,968
Accumulated OCI at end of period				
Long-term investments, net of tax of $nil, $nil, $nil, $nil	**$ 7,223**	$ (3,674)	**$ 7,223**	$ (3,674)
Other long-term investments, net of tax of $nil, $nil, $nil, $nil	**(40,690)**		**(40,690)**	
Currency translation adjustment, net of tax of $nil, $nil, $nil, $nil	**(8,198)**	(11,622)	**(8,198)**	(11,622)
Noncontrolling interests	**15,537**	2,042	**15,537**	2,042
	$ (26,128)	$ (13,254)	**$ (26,128)**	$ (13,254)

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

11. NONCONTROLLING INTERESTS

At June 30, 2010 there were noncontrolling interests in SouthGobi, Ivanhoe Australia and Oyu Tolgoi LLC:

	Noncontrolling Interests			
	SouthGobi	Ivanhoe Australia	Oyu Tolgoi LLC (a)	Total
Balance, December 31, 2009	$ 2,478	$ (1,526)	$	$ 952
Changes in noncontrolling interests arising from changes in ownership interests	309,786	(159)	(338,080)	(28,453)
Noncontrolling interests share of loss	(34,978)	(4,456)	(2,159)	(41,593)
Noncontrolling interests share of other comprehensive loss		(580)	189	(391)
Balance, June 30, 2010	$ 277,286	$ (6,721)	$ (340,050)	$ (69,485)

(a) The Shareholders Agreement, which was signed and approved on October 6, 2009, established the basis upon which the Mongolian Government would, in accordance with Mongolian law, through its wholly-state-owned company, Erdenes MGL LLC, obtain and hold an initial 34% equity interest in OT LLC and provides for the respective rights and obligations of the shareholders of OT LLC.

On May 31, 2010, in accordance with the Shareholders Agreement, the Mongolian Government obtained a 34% interest in OT LLC upon the receipt of fully registered shares of OT LLC. This disposition of a 34% interest in OT LLC by the Company is a nonmonetary transaction as no monetary consideration was exchanged by the parties. The fair value of neither the consideration received nor the asset relinquished is determinable within reasonable limits. Furthermore, the Company did not transfer a nonmonetary asset with a carrying amount to use as a measure of the transaction. Therefore, in accordance with the ASC guidance for nonmonetary transactions, no value was assigned to the consideration received by the Company.

In accordance with the ASC guidance for consolidation accounting, the Company continued to consolidate its remaining 66% interest in OT LLC. As at May 31, 2010, the Company recognized a deficit noncontrolling interest balance of $338.1 million associated with noncontrolling interest s share of the carrying amount of OT LLC s net deficit. Accumulated other comprehensive income and additional paid-in capital were adjusted by $14.0 million and $324.1 million, respectively.

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

12. CASH FLOW INFORMATION

(a) Reconciliation of net loss to net cash flow used in operating activities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Net loss	**$ (11,367)**	$ (27,049)	**$ (265,489)**	$ (85,134)
Income from discontinued operations		(2,069)	**(6,585)**	(9,405)
Items not involving use of cash				
Stock-based compensation	**8,003**	10,099	**17,031**	20,775
Accretion expense	**4,583**	3,545	**8,753**	7,010
General and administrative expenses	**3,421**		**3,421**	
Depreciation	**2,658**	2,585	**6,097**	3,869
Gain on sale of other mineral property rights		(3,000)		(3,000)
Accrued interest income	**(1,529)**	4,129	**(5,120)**	8,840
Accrued interest expense	**(5,753)**		**7,325**	
Unrealized losses on long-term investments	**4,508**		**5,211**	
Unrealized (gains) losses on other long-term investments	**(789)**	(555)	**(1,509)**	634
Realized gain on redemption of other long-term investments	**(26)**	(1,136)	**(87)**	(1,136)
Change in fair value of embedded derivatives	**(72,233)**		**(70,861)**	
Loss on conversion of convertible debenture			**154,316**	
Unrealized foreign exchange losses (gains)	**3,347**	(19,645)	**(113)**	(12,879)
Share of loss of significantly influenced investees	**13,151**	3,020	**23,210**	7,798
Write-down of carrying value of inventory			**6,535**	
Write-down of carrying value of long-term investments	**161**		**417**	
Deferred income taxes	**850**	(30)	**(2,773)**	(61)
Net change in non-cash operating working capital items:				
(Increase) decrease in:				
Accounts receivable	**(1,720)**	(8,094)	**(6,337)**	(6,788)
Inventories	**(14,425)**	3,679	**(14,980)**	2,913
Prepaid expenses	**(704)**	(281)	**(1,698)**	(693)
Increase (decrease) in:				
Accounts payable and accrued liabilities	**28,812**	(433)	**44,101**	(3,822)
Cash used in operating activities of continuing operations	**(39,052)**	(35,235)	**(99,135)**	(71,079)
Cash used in operating activities of discontinued operations		(2,898)		(6,260)
Cash used in operating activities	**$ (39,052)**	$ (38,133)	**$ (99,135)**	$ (77,339)

22

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

12. CASH FLOW INFORMATION (Continued)

(b) Supplementary information regarding other non-cash transactions

The non-cash investing and financing activities relating to continuing operations not already disclosed in the Consolidated Statements of Cash Flows were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Investing activities:				
Acquisition of property, plant and equipment (i)	**$**	$	**$ 195,357**	$
Financing activities:				
Partial conversion of convertible debenture (Note 8 (b))			**349,079**	
	$	$	**$ 544,436**	$

(i) In March 2010, Ivanhoe Mines and Rio Tinto completed an agreement whereby Ivanhoe Mines issued 15.0 million common shares to Rio Tinto for net proceeds of $241.1 million (Cdn$244.7 million) (Note 9 (b)). Ivanhoe Mines used $195.4 million of the proceeds to purchase from Rio Tinto key mining and milling equipment to be installed during the construction of the Oyu Tolgoi Project.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
13. SEGMENT DISCLOSURES

	Six Months Ended June 30, 2010			
	Exploration	Coal	Corporate	**Consolidated**
REVENUE	$	$ 31,585	$	**$ 31,585**
COST OF SALES				
Production and delivery		(22,098)		**(22,098)**
Depreciation and depletion		(4,827)		**(4,827)**
Write-down of carrying value of inventory		(6,535)		**(6,535)**
COST OF SALES		(33,460)		**(33,460)**
EXPENSES				
Exploration	(90,035)	(20,871)		**(110,906)**
General and administrative			(23,047)	**(23,047)**
Depreciation	(1,114)	(89)	(67)	**(1,270)**
Accretion of convertible credit facilities		(33)	(8,629)	**(8,662)**
Accretion of asset retirement obligations	(44)	(47)		**(91)**
Gain on sale of other mineral property rights				
TOTAL EXPENSES	(91,193)	(54,500)	(31,743)	**(177,436)**
OPERATING LOSS	(91,193)	(22,915)	(31,743)	**(145,851)**
OTHER INCOME (EXPENSES)				
Interest income	1,768	1,224	4,175	**7,167**
Interest expense		(14,733)	(6,944)	**(21,677)**
Foreign exchange losses	(188)	(601)	(2,400)	**(3,189)**
Listing fees SouthGobi				
Unrealized losses on long-term investments		(5,212)		**(5,212)**
Unrealized (losses) gains on other long-term investments		(30)	1,539	**1,509**
Realized gain on redemption of other long-term investments			87	**87**
Change in fair value of embedded derivatives		70,861		**70,861**
Loss on conversion of convertible credit facility		(154,316)		**(154,316)**
Write-down of carrying value of long-term investments			(417)	**(417)**
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(89,613)	(125,722)	(35,703)	**(251,038)**
(Provision) recovery for income taxes	(1,315)	3,141	348	**2,174**
Share of loss of significantly influenced investees	(618)		(22,592)	**(23,210)**

NET LOSS FROM CONTINUING OPERATIONS	(91,546)	(122,581)	(57,947)	**(272,074)**
INCOME FROM DISCONTINUED OPERATIONS			6,585	**6,585**
NET LOSS	(91,546)	(122,581)	(51,362)	**(265,489)**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	6,615		34,978	**41,593**
NET LOSS ATTRIBUTABLE TO IVANHOE MINES LTD.	$ (84,931)	$ (122,581)	$ (16,384)	**$ (223,896)**
CAPITAL EXPENDITURES	$ 154,477	$ 53,334	$ 44	**$ 207,855**
TOTAL ASSETS	$ 714,699	$ 958,710	$ 799,619	**$ 2,473,028**

During the six months ended June 30, 2010, all of the coal division s revenue arose from coal sales in Mongolia to three customers. Total revenues by customer were $20.2 million, $10.8 million and $0.6 million.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
13. SEGMENT DISCLOSURES (Continued)

	Three Months Ended June 30, 2010			
	Exploration	Coal	Corporate	**Consolidated**
REVENUE	$	$ 17,668	$	**$ 17,668**
COST OF SALES				
Production and delivery		(10,901)		**(10,901)**
Depreciation and depletion		(2,304)		**(2,304)**
Write-down of carrying value of inventory				
COST OF SALES		(13,205)		**(13,205)**
EXPENSES				
Exploration	(25,176)	(14,307)		**(39,483)**
General and administrative			(14,730)	**(14,730)**
Depreciation	(268)	(25)	(61)	**(354)**
Accretion of convertible credit facilities		(11)	(4,524)	**(4,535)**
Accretion of asset retirement obligations	(22)	(26)		**(48)**
Gain on sale of other mineral property rights				
TOTAL EXPENSES	(25,466)	(27,574)	(19,315)	**(72,355)**
OPERATING LOSS	(25,466)	(9,906)	(19,315)	**(54,687)**
OTHER INCOME (EXPENSES)				
Interest income	936	649	953	**2,538**
Interest expense		(4,974)	(3,304)	**(8,278)**
Foreign exchange gains (losses)	23	(187)	(4,695)	**(4,859)**
Listing fees SouthGobi				
Unrealized losses on long-term investments		(4,509)		**(4,509)**
Unrealized (losses) gains on other long-term investments		(48)	837	**789**
Realized gain on redemption of other long-term investments			26	**26**
Change in fair value of embedded derivatives		72,233		**72,233**
Loss on conversion of convertible credit facility				
Write-down of carrying value of long-term investments			(161)	**(161)**
(LOSS) INCOME BEFORE INCOME TAXES AND OTHER ITEMS	(24,507)	53,258	(25,659)	**3,092**
(Provision) recovery for income taxes	(380)	618	(1,546)	**(1,308)**
Share of loss of significantly influenced investees	(217)		(12,934)	**(13,151)**

NET (LOSS) INCOME FROM CONTINUING OPERATIONS		(25,104)		53,876		(40,139)		**(11,367)**
INCOME FROM DISCONTINUED OPERATIONS								
NET (LOSS) INCOME		(25,104)		53,876		(40,139)		**(11,367)**
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS		5,021				(23,685)		**(18,664)**
NET (LOSS) INCOME ATTRIBUTABLE TO IVANHOE MINES LTD.	$	(20,083)	$	53,876	$	(63,824)	**$**	**(30,031)**
CAPITAL EXPENDITURES	$	148,000	$	20,385	$	22	**$**	**168,407**
TOTAL ASSETS	$	714,699	$	958,710	$	799,619	**$**	**2,473,028**

During the three months ended June 30, 2010, all of the coal division s revenue arose from coal sales in Mongolia to three customers. Total revenues by customer were $11.2 million, $5.9 million and $0.6 million.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
13. SEGMENT DISCLOSURES (Continued)

	Six Months Ended June 30, 2009			
	Exploration	Coal	Corporate	**Consolidated**
REVENUE	$	$ 14,207	$	**$ 14,207**
COST OF SALES				
Production and delivery		(10,311)		**(10,311)**
Depreciation and depletion		(2,041)		**(2,041)**
Write-down of carrying value of inventory				
COST OF SALES		(12,352)		**(12,352)**
EXPENSES				
Exploration	(60,800)	(8,463)		**(69,263)**
General and administrative			(18,314)	**(18,314)**
Depreciation	(1,760)	(7)	(61)	**(1,828)**
Accretion of convertible credit facilities			(6,946)	**(6,946)**
Accretion of asset retirement obligations	(44)	(20)		**(64)**
Gain on sale of other mineral property rights	3,000			**3,000**
TOTAL EXPENSES	(59,604)	(20,842)	(25,321)	**(105,767)**
OPERATING LOSS	(59,604)	(6,635)	(25,321)	**(91,560)**
OTHER INCOME (EXPENSES)				
Interest income	732	12	686	**1,430**
Interest expense			(9,017)	**(9,017)**
Foreign exchange (losses) gains	(1,101)	(946)	14,510	**12,463**
Listing fees SouthGobi		(333)		**(333)**
Unrealized losses on long-term investments				
Unrealized losses on other long-term investments			(634)	**(634)**
Realized gain on redemption of other long-term investments			1,136	**1,136**
Change in fair value of embedded derivatives				
Loss on conversion of convertible credit facility				
Write-down of carrying value of long-term investments				
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(59,973)	(7,902)	(18,640)	**(86,515)**
Recovery (provision) for income taxes	22	(177)	(71)	**(226)**
Share of loss of significantly influenced investees	(352)		(7,446)	**(7,798)**
	(60,303)	(8,079)	(26,157)	**(94,539)**

NET LOSS FROM CONTINUING OPERATIONS								
(LOSS) INCOME FROM DISCONTINUED OPERATIONS				(6,260)		15,665		**9,405**
NET LOSS		(60,303)		(14,339)		(10,492)		**(85,134)**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS		2,056				2,133		**4,189**
NET LOSS ATTRIBUTABLE TO IVANHOE MINES LTD.	$	(58,247)	$	(14,339)	$	(8,359)	**$**	**(80,945)**
CAPITAL EXPENDITURES	$	3,025	$	11,033	$	16	**$**	**14,074**
TOTAL ASSETS	$	208,601	$	124,333	$	405,499	**$**	**738,433**

During the six months ended June 30, 2009, all of the coal division s revenue arose from coal sales in Mongolia to two customers. Total revenues by customer were $8.7 million and $5.5 million.

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
13. SEGMENT DISCLOSURES (Continued)

	Three Months Ended June 30, 2009			
	Exploration	Coal	Corporate	**Consolidated**
REVENUE	$	$ 10,666	$	**$ 10,666**
COST OF SALES				
Production and delivery		(7,515)		**(7,515)**
Depreciation and depletion		(1,623)		**(1,623)**
Write-down of carrying value of inventory				
COST OF SALES		(9,138)		**(9,138)**
EXPENSES				
Exploration	(30,850)	(4,348)		**(35,198)**
General and administrative			(10,546)	**(10,546)**
Depreciation	(904)	(3)	(55)	**(962)**
Accretion of convertible credit facilities			(3,512)	**(3,512)**
Accretion of asset retirement obligations	(22)	(11)		**(33)**
Gain on sale of other mineral property rights	3,000			**3,000**
TOTAL EXPENSES	(28,776)	(13,500)	(14,113)	**(56,389)**
OPERATING LOSS	(28,776)	(2,834)	(14,113)	**(45,723)**
OTHER INCOME (EXPENSES)				
Interest income	382	3	293	**678**
Interest expense			(4,264)	**(4,264)**
Foreign exchange gains (losses)	284	(175)	21,632	**21,741**
Listing fees SouthGobi		(98)		**(98)**
Unrealized losses on long-term investments				
Unrealized gains on other long-term investments			555	**555**
Realized gain on redemption of other long-term investments			1,136	**1,136**
Change in fair value of embedded derivatives				
Loss on conversion of convertible credit facility				
Write-down of carrying value of long-term investments				
(LOSS) INCOME BEFORE INCOME TAXES AND OTHER ITEMS	(28,110)	(3,104)	5,239	**(25,975)**
Recovery (provision) for income taxes	94	(206)	(11)	**(123)**
Share of loss of significantly influenced investees	(118)		(2,902)	**(3,020)**
	(28,134)	(3,310)	2,326	**(29,118)**

NET (LOSS) INCOME FROM CONTINUING OPERATIONS								
(LOSS) INCOME FROM DISCONTINUED OPERATIONS				(2,898)		4,967		**2,069**
NET (LOSS) INCOME		(28,134)		(6,208)		7,293		**(27,049)**
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS		1,231				922		**2,153**
NET (LOSS) INCOME ATTRIBUTABLE TO IVANHOE MINES LTD.	$	(26,903)	$	(6,208)	$	8,215	**$**	**(24,896)**
CAPITAL EXPENDITURES	$	2,163	$	6,246	$	9	**$**	**8,418**
TOTAL ASSETS	$	208,601	$	124,333	$	405,499	**$**	**738,433**

During the three months ended June 30, 2009, all of the coal division s revenue arose from coal sales in Mongolia to two customers. Total revenues by customer were $6.7 million and $4.0 million.

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

14. FAIR VALUE ACCOUNTING

The ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

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

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

The following table sets forth the Company s assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at June 30, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Short-term investments	**$ 2,498**	$ 2,498	$	$
Long-term investments	**67,993**	46,468	21,525	
Other long-term investments	**212,095**	74,666		137,429
	$ 282,586	$ 123,632	$ 21,525	$ 137,429
Liabilities:				
Embedded derivative liability	**$ 184,653**	$	$ 184,653	$
	$ 184,653	$	$ 184,653	$

	Fair Value at December 31, 2009			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Short-term investments	**$ 14,999**	$ 14,999	$	$
Long-term investments	**86,443**	62,410	24,033	
Other long-term investments	**145,035**	47,194		97,841
	$ 246,477	$ 124,603	$ 24,033	$ 97,841
Liabilities:				
Embedded derivative liability	**$ 358,272**	$	$ 358,272	$
	$ 358,272	$	$ 358,272	$

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

14. FAIR VALUE ACCOUNTING (Continued)

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

The Company s other long-term investments are classified within Level 1 and 3 of the fair value hierarchy and consist of the Long-Term Notes, T-Bill, first tax prepayment and money market investments.

The Company s embedded derivative liability, included within convertible credit facilities (Note 8 (b)), is classified within Level 2 of the fair value hierarchy as it is determined using a Monte Carlo simulation valuation model, which uses readily observable market inputs.

The table below sets forth a summary of changes in the fair value of the Company s Level 3 financial assets (other long-term investments) for the six months ended June 30, 2010.

	Long-Term Notes	T-Bills	Tax Prepayment	Totals
Balance, December 31, 2009	$ 24,689	$ 73,152	$	**$ 97,841**
Additions			50,000	**50,000**
Accrued interest		1,372	201	**1,573**
Foreign exchange gains	(224)			**(224)**
Fair value redeemed	(58)			**(58)**
Unrealized gain (loss)	1,539	2,149	(15,391)	**(11,703)**
Balance, June 30, 2010	**$ 25,946**	**$ 76,673**	**$ 34,810**	**$ 137,429**

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

15. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

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

	June 30, 2010		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$ 1,454,475**	**$ 1,454,475**	$ 965,823	$ 965,823
Short-term investments	**2,498**	**2,498**	14,999	14,999
Accounts receivable	**47,375**	**47,375**	39,349	39,349
Long-term investments	**67,762**	**152,538**	93,511	154,976
Other long-term investments	**212,095**	**212,095**	145,035	145,035
Accounts payable and accrued liabilities	**105,510**	**105,510**	55,128	55,128
Amounts due under credit facilities	**54,654**	**54,654**	55,523	55,523
Convertible credit facilities	**674,280**	**680,070**	928,618	940,380

The fair value of Ivanhoe Mines long-term investments was determined by reference to published market quotations, which may not be reflective of future values.

The fair value of Ivanhoe Mines other long-term investments, consisting of the Long-Term Notes, T-Bill, first tax prepayment and money market investments, was determined by considering the best available data regarding market conditions for such investments, which may not be reflective of future values.

The fair value of the Rio Tinto convertible credit facility was estimated to approximate the balance of principal and interest outstanding, due primarily to the short-term maturity of this facility.

The fair value of the CIC convertible debenture was estimated to approximate the aggregate carrying amount of the CIC convertible credit facility liability and interest payable. This aggregate carrying amount includes the estimated fair value of the embedded derivative liability which was determined using a Monte Carlo simulation valuation model.

The fair values of Ivanhoe Mines remaining financial instruments were estimated to approximate their carrying values, due primarily to the immediate or short-term maturity of these financial instruments.

(b) Ivanhoe Mines is exposed to credit risk with respect to its accounts receivable. The significant concentrations of credit risk are situated in Mongolia and Australia. Ivanhoe Mines does not mitigate the balance of this risk in light of the credit worthiness of its major debtors.

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

15. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS (Continued)

(c) Ivanhoe Mines is exposed to interest rate risk with respect to the variable rates of interest incurred on the Rio Tinto convertible credit facility (Note 8 (a)) and amounts due under credit facilities (Note 7). Interest rate risk is concentrated in Canada. Ivanhoe Mines does not mitigate the balance of this risk.

16. CONTINGENCIES

Due to the size, complexity and nature of the Company s operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements of the Company.

17. SUBSEQUENT EVENTS

On August 12, 2010, Ivanhoe Australia announced that it had completed a Aud$251 million equity raising, comprising the institutional component of its accelerated, non-renounceable, pro rata entitlement offer and an institutional placement.

In addition to the approximately Aud$251 million raised under the institutional entitlement offer and placement, Ivanhoe Australia is expected to raise approximately Aud$18 million in equity through an underwritten retail entitlement offer and potentially up to a further approximately Aud$158 million through the future exercise of the options issued as part of the equity raising. Therefore the total proceeds of the institutional entitlement offer, institutional placement offer, retail entitlement offer and exercise of options may be up to Aud$427 million. Ivanhoe Mines previously agreed it would not take-up its entitlement under the institutional entitlement offer. The offer securities that correspond to Ivanhoe Mines entitlement were sold to a range of institutional investors. Following the completion of the institutional entitlement offer, institutional placement and retail entitlement offer, Ivanhoe Mines will hold approximately 63% of Ivanhoe Australia.

2

Interim Report for the three and six month periods ended June 30, 2010.

Share Information

Common shares of Ivanhoe Mines Ltd. are listed for trading under the symbol IVN on the New York Stock Exchange, NASDAQ and the Toronto Stock Exchange.

Investor Information

All financial reports, news releases and corporate information can be accessed on our web site at www.ivanhoe-mines.com

At August 16, 2010, the Company had 488.7 million common shares issued and outstanding and warrants and stock options outstanding for 102.7 million additional common shares.

Transfer Agents and Registrars

CIBC Mellon Trust Company
320 Bay Street
Toronto, Ontario, Canada
M5H 4A6
Toll free in North America:
1-800-387-0825

Contact Information

Investors: Bill Trenaman
Media: Bob Williamson
Suite 654-999 Canada Place
Vancouver, B.C., Canada V6C 3E1
Email: info@ivanhoemines.com
Tel: (604) 688-5755

INTRODUCTION

This discussion and analysis of the financial condition and results of operations (MD&A) of Ivanhoe Mines Ltd. should be read in conjunction with the unaudited consolidated financial statements of Ivanhoe Mines Ltd. and the notes thereto for the three- and six-month periods ended June 30, 2010 and with the audited consolidated financial statements of Ivanhoe Mines Ltd. and the notes thereto for the year ended December 31, 2009. These financial statements have been prepared in accordance with United States of America generally accepted accounting principles (U.S. GAAP). In this MD&A, unless the context otherwise dictates, a reference to the Company refers to Ivanhoe Mines Ltd. and a reference to Ivanhoe Mines refers to Ivanhoe Mines Ltd., together with its subsidiaries. Additional information about the Company, including its Annual Information Form, is available at www.sedar.com.

References to C$ refer to Canadian dollars, A$ to Australian dollars, and $ to United States dollars.

This discussion and analysis contains forward-looking statements. Please refer to the cautionary language on page 32.

The effective date of this MD&A is August 16, 2010.

OVERVIEW

IVANHOE MINES ANNOUNCES FINANCIAL RESULTS AND REVIEW OF OPERATIONS FOR THE SECOND QUARTER OF 2010

HIGHLIGHTS

Full-scale construction at Oyu Tolgoi copper and gold mine in Mongolia commenced in June 2010 and there are now approximately 4,400 workers at Oyu Tolgoi. Production is expected to commence in mid-2013.

On May 11, 2010, Ivanhoe Mines released a new Integrated Development Plan that estimates the Oyu Tolgoi Project in Mongolia should produce more than 1.2 billion pounds (544,000 tonnes) of copper and 650,000 ounces of gold every year for the first 10 years. Peak single-year production from Oyu Tolgoi is estimated at 1.7 billion pounds (800,000 tonnes) of copper and 1.1 million ounces of gold.

On May 7, 2010, Ivanhoe Mines shareholders approved a shareholders rights plan that will ensure fair treatment of all Ivanhoe Mines shareholders during any takeover bid for Ivanhoe Mine s outstanding common shares.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

In June 2010, Rio Tinto exercised its Series A warrants and Ivanhoe Mines issued 46 million common shares to Rio Tinto for total proceeds of $393.1 million to be used to finance ongoing mine development activities at Oyu Tolgoi. With the transaction, Rio Tinto increased its ownership in Ivanhoe Mines from 22.4% to 29.6%.

On May 25, 2010, Ivanhoe Mines 81%-owned subsidiary, Ivanhoe Australia (IVA-ASX) signed a binding agreement with Barrick (PD) Australia Limited to acquire the Osborne Copper and Gold Operation. The acquisition is expected to close on September 30, 2010.

On August 12, 2010, Ivanhoe Australia announced that it had successfully completed a A$251 million equity raising, being the institutional component of its accelerated, non-renounceable, pro rata entitlement offer and an institutional placement.

During Q2 10, Ivanhoe Mines 57%-owned subsidiary, SouthGobi Resources (SGQ TSX; 1878 - HK), reported coal sales of $17.7 million from its Ovoot Tolgoi mine in southern Mongolia, representing approximately 449,000 tonnes of coal sold to customers in China.

In July 2010, Ivanhoe Mines 50%-owned Altynalmas Gold received an independent National Instrument 43-101-compliant report on the Kyzyl Gold Project that confirmed the economics of Altynalmas Gold s development plan. The report was prepared by Scott Wilson Inc. of London, England. Fluor Canada has been retained to complete a feasibility study for the planned mine.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

INDEX

The MD&A is comprised of the following sections:

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

SELECTED QUARTERLY DATA

($ in millions of dollars, except per share information)

	Quarter Ended			
	Jun-30 2010	Mar-31 2010	Dec-31 2009	Sep-30 2009
Revenue	$ 17.7	$ 13.9	$ 9.9	$ 11.9
Cost of sales	(13.2)	(20.3)	(8.5)	(8.6)
Exploration expenses	(39.5)	(71.4)	(67.2)	(40.6)
General and administrative	(14.7)	(8.3)	(15.0)	(12.5)
Foreign exchange (losses) gains	(4.9)	1.7	2.2	19.5
Change in fair value of embedded derivatives	72.2	(1.4)	(45.0)	
Loss on conversion of convertible credit facility		(154.3)		
Net loss from continuing operations	(30.0)	(200.5)	(138.7)	(47.5)
Income (loss) from discontinued operations		6.6	9.2	(22.3)
Net loss	(30.0)	(193.9)	(129.5)	(69.8)
Net (loss) income per share basic				
Continuing operations	$ (0.07)	$ (0.47)	$ (0.35)	$ (0.12)
Discontinued operations	$ 0.00	$ 0.02	$ 0.03	$ (0.06)
Total	$ (0.07)	$ (0.45)	$ (0.32)	$ (0.18)
Net (loss) income per share diluted				
Continuing operations	$ (0.07)	$ (0.47)	$ (0.35)	$ (0.12)
Discontinued operations	$ 0.00	$ 0.02	$ 0.03	$ (0.06)
Total	$ (0.07)	$ (0.45)	$ (0.32)	$ (0.18)

	Quarter Ended			
	Jun-30 2009	Mar-31 2009	Dec-31 2008	Sep-30 2008
Revenue	$ 10.7	$ 3.5	$ 3.1	$ 0.0
Cost of sales	(9.1)	(3.2)	(2.2)	
Exploration expenses	(35.2)	(34.1)	(73.0)	(56.8)
General and administrative	(10.5)	(7.8)	(8.1)	(5.1)
Foreign exchange gains (losses)	21.7	(9.3)	(40.6)	(20.0)
Writedown of other long-term investments			(18.0)	
Loss on conversion of convertible credit facility				
Net loss from continuing operations	(27.0)	(63.4)	(165.0)	(95.8)
Income from discontinued operations	2.1	7.4	5.0	7.8
Net loss	(24.9)	(56.0)	(160.0)	(88.0)
Net (loss) income per share basic				
Continuing operations	$ (0.07)	$ (0.17)	$ (0.44)	$ (0.25)

Discontinued operations	$	0.00	$	0.02	$	0.01	$	0.02
Total	$	(0.07)	$	(0.15)	$	(0.43)	$	(0.23)
Net (loss) income per share diluted								
Continuing operations	$	(0.07)	$	(0.17)	$	(0.44)	$	(0.25)
Discontinued operations	$	0.00	$	0.02	$	0.01	$	0.02
Total	$	(0.07)	$	(0.15)	$	(0.43)	$	(0.23)

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

REVIEW OF OPERATIONS

Ivanhoe Mines is an international exploration and development company with activities concentrated in Central Asia and the Asia Pacific Region. The Company s principal assets include:

- A 100% interest in Ivanhoe Oyu Tolgoi (BVI) Ltd. that, together with a related company, holds a 66% interest in Oyu Tolgoi LLC (OT LLC), whose principal asset is the Oyu Tolgoi copper and gold project in southern Mongolia held through validly issued mining licenses.
- A 57% interest in SouthGobi Resources, which is selling coal produced at its Ovoot Tolgoi Mine in southern Mongolia to customers in China and is conducting ongoing exploration and development programs at several other Mongolian coal prospects.
- An 81% interest in Ivanhoe Australia, which owns the Merlin Project, a high-grade molybdenum and rhenium deposit in Queensland, Australia. Ivanhoe Australia also is continuing to explore and advance its iron-oxide-copper-gold (IOCG) projects in the Cloncurry region.
- A 50% interest in Altynalmas Gold, which owns the Kyzyl Gold Project that hosts the Bakyrchik and Bolshevik gold deposits in Kazakhstan.

In Q2 10, Ivanhoe Mines recorded a net loss of $30.0 million ($0.07 per share) compared to a net loss of $24.9 million ($0.07 per share) in Q2 09, representing an increase of $5.1 million. Results for Q2 10 mainly were affected by $39.5 million in exploration expenses, $13.2 million in coal cost of sales, $14.7 million in general and administrative expenses, $8.3 million in interest expense, $4.9 million in mainly unrealized foreign exchange losses and $13.2 million in share of loss of significantly influenced investees. These amounts were offset by coal revenue of $17.7 million, $2.5 million in interest income and a $72.2 million change in fair value of embedded derivatives.

Exploration expenses of $39.5 million in Q2 10 increased $4.3 million from $35.2 million in Q2 09. The exploration expenses included $23.2 million spent in Mongolia ($25.2 million in Q2 09), primarily for Oyu Tolgoi and Ovoot Tolgoi, and $14.9 million incurred by Ivanhoe Australia ($8.8 million in Q2 09). Exploration costs are charged to operations in the period incurred and often represent the bulk of Ivanhoe Mines operating loss for that period.

Ivanhoe Mines cash position, on a consolidated basis at June 30, 2010, was $1.5 billion. As at August 16, 2010, Ivanhoe Mines current consolidated cash position is approximately $1.4 billion.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

A. EXPLORATION ACTIVITIES

In Q2 10, Ivanhoe Mines expensed $39.5 million in exploration activities, compared to $35.2 million in Q2 09. In Q2 10, Ivanhoe Mines exploration activities were largely focused in Mongolia and Australia.

Generally, exploration costs are charged to operations in the period incurred until it has been determined that a property has economically recoverable reserves, at which time subsequent exploration costs and the costs incurred to develop a property are capitalized. Up to March 31, 2010, exploration costs charged to operations included development costs associated with the Oyu Tolgoi Project located in Mongolia. On April 1, 2010, Ivanhoe Mines commenced capitalizing Oyu Tolgoi Project development costs. As of this date, reserve estimates for the Oyu Tolgoi Project had been announced and the procedural and administrative conditions contained in the Investment Agreement were satisfied. During Q2 10, expenditures on property, plant and equipment included $41.0 million of Oyu Tolgoi Project development costs that would have been expensed as exploration costs if incurred prior to April 1, 2010.

Summary of exploration expenditures by location:

	Three Months Ended June 30,	
(Stated in $000 s of dollars)	**2010**	2009
Mongolia		
Oyu Tolgoi	**$ 7,887**	$ 20,352
Coal Division	**14,307**	4,348
Other Mongolia Exploration	**982**	514
	23,176	25,214
Australia	**14,868**	8,807
Indonesia	**732**	945
Other	**707**	232
	$ 39,483	$ 35,198

MONGOLIA

OYU TOLGOI COPPER-GOLD PROJECT (66% owned)

The Oyu Tolgoi Project is approximately 550 kilometres south of Ulaanbaatar, the capital city of Mongolia, and 80 kilometres north of the Mongolia-China border. Mineralization on the property consists of porphyry-style copper, gold and molybdenum contained in a linear structural trend (the Oyu Tolgoi Trend), with a strike length that extends over 20 kilometres. Mineral resources have been identified in a series of deposits throughout this trend. They include, from south to north, the Heruga Deposit, the Southern Oyu deposits (Southwest Oyu, South Oyu, Wedge and Central Oyu), and the Hugo Dummett Deposit (Hugo South, Hugo North and Hugo North Extension).

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

On April 1, 2010, Ivanhoe Mines commenced capitalizing Oyu Tolgoi development costs. In Q2 10, Ivanhoe Mines incurred exploration expenses of $7.9 million at Oyu Tolgoi compared to the $20.4 million incurred in Q2 09. During Q2 10, expenditures on property, plant and equipment included $41.0 million of Oyu Tolgoi Project development costs that would have been expensed as exploration costs if incurred prior to April 1, 2010.

Full-scale mine construction at Oyu Tolgoi

Ivanhoe Mines is in the construction phase of the Oyu Tolgoi Mine, with production planned to commence in 2013. Oyu Tolgoi initially is being developed as an open-pit mining operation at the Southern Oyu deposits, along with a copper concentrator plant, related facilities and necessary infrastructure supporting an initial throughput of 100,000 tonnes of ore per day. An underground block-cave mining operation also is being developed at the Hugo North Deposit.

Full-scale construction activities commenced in Q2 10 as additional infrastructure (including a new 200 cubic metres per hour concrete batch plant), manpower and contractors were mobilized to site. The work force totalled approximately 4,400 at the end of July, 2010. Fluor Corporation is in charge of overall program management as well as services related to engineering, procurement and construction management for the ore processing plant and mine-related infrastructure such as roads, water supply, a regional airport and administration buildings. Fluor is executing the engineering for the project from its Vancouver, Canada, and Beijing, China, offices with operations being managed onsite in Mongolia. Engineering is expected to be completed in Q1 11.

The development of the first lift of the underground block-cave mine at the Hugo North Deposit is well underway, with full production scheduled to begin by the end of the fifth year of operations. Shaft #1 lateral mine development on the 1300-metre level at the Hugo North underground deposit is ahead of schedule, with a year-to-date advance of 1,712 metres. Raise-bore drilling for the first of two ventilation shafts near Shaft #1 has commenced, and a second mining fleet has been purchased to increase advance rates for the underground mine development.

Detailed engineering at Shaft #2 has reached 67% completion. Construction of the headframe foundation is progressing to plan. Major works during Q2 10 included installation of scaffolding and the commencement of rebar placement and anchor-bolt alignment for the hoist foundation and concrete placement. Foundation work also has begun for the air ventilation facilities that will serve for the sinking and operation of Shaft #2. When completed, Shaft #2 will be the main service shaft for the Hugo North Mine.

Detailed engineering for the ore concentrator now is at 80%. Foundation preparation work has been completed for the first of two Semi-Autogenous Grinding (SAG) mills, ball mill, pebble crusher, south reclaim tunnel and construction offices. The first concrete pours for the concentrator foundations commenced in June, 2010. The concentrator initially is being built as a modular two-line mill, capable of treating 100,000 tonnes of ore per day.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

The 2010 independent Integrated Development Plan estimates that the concentrator will be expanded from the initial rate of 100,000 tonnes per day to 160,000 tonnes per day when the first lift of the Hugo North underground block cave begins commercial production, augmenting the ore mined from the Southern Oyu open-pit mine.

New 2010 Integrated Development Plan for Oyu Tolgoi copper-gold mining complex

On May 11, 2010, Ivanhoe Mines announced that a new, independent 2010 Integrated Development Plan (IDP-10) confirmed that Ivanhoe Mine s Oyu Tolgoi Project in southern Mongolia has the mineral resources to become one of the world s top three copper-gold producers and an industry model of responsible, environmentally-sound mineral development.

The IDP-10 is a comprehensive update of the original 2005 Integrated Development Plan and supports Ivanhoe Mines commitment to advance Oyu Tolgoi into full construction, with production of copper and gold expected to begin in 2013.

The Oyu Tolgoi development blueprint contains the first published declaration of underground reserves for the planned Hugo Dummett block-cave mine. It also presents the results of extensive studies of two complementary development scenarios:

1. A Reserve Case, based only on proven & probable mineral reserves established to this point in time, which would sustain mining for a projected 27 years.
2. A Life-of-Mine Sensitivity Case, which adds to the Reserve Case a large base of resources identified through exploration to date but currently classified only to the level of inferred resources under Canada s internationally recognized standards. Inferred mineral resources are considered too speculative geologically to have the economic considerations applied to them that would allow them to be categorized as mineral reserves, and there is no certainty that the Life-of-Mine Sensitivity Case will be realized. The IDP-10 estimates that the Life-of-Mine Sensitivity Case would sustain mining at Oyu Tolgoi for a projected 59 years. Part of the ongoing exploration program at Oyu Tolgoi is directed at upgrading inferred resources to higher classifications, as has been progressively accomplished during the past nine years of exploration and discovery at the project.

In both cases, the average annual production at Oyu Tolgoi over the first 10 years would exceed 1.2 billion pounds (544,000 tonnes) of copper and 650,000 ounces of gold.

The IDP-10 is an independent report commissioned for the project by Ivanhoe Mines from a team of the world s foremost engineering, mining and environmental consultants, led by Australia-based AMEC Minproc and including U.S.-based Stantec Engineering. The IDP-10, a technical report compliant with Canada s NI 43-101 reporting standard, is available on SEDAR and on Ivanhoe Mines website at www.ivanhoemines.com.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

Oyu Tolgoi Exploration

Exploration drilling continued on the area between the Southwest Oyu and Heruga deposits; Zeus IP survey is ongoing

Less than half of the 20-kilometre-long mineralized trend at Oyu Tolgoi has been extensively drill-tested to date. An ongoing exploration program using Zeus™ proprietary, induced-polarization (IP) technology has identified numerous additional exploration and development targets. Drilling continues to be directed at expanding the project s resources and reserves.

During Q2 10, Ivanhoe Mines completed 10,030 metres of drilling on a number of targets on the Oyu Tolgoi Project. The drilling of two deep diamond-drill holes (OTD1502 and OTD1510) began during Q2 10 in the area between the Southwest Oyu and Heruga deposits. These two holes currently are at the top of the mineralized system at approximately 1,800 metres below surface. OTD1502 is an infill hole, 250 metres from holes OTD1487A and OTD1500B, which previously intersected broad zones of copper-gold mineralization. OTD1510 is a 300-metre step-out to the southeast from OTD1500B.

In the area east of Central and Southwest Oyu, three condemnation holes (OTD1503, OTD1504 and OTD1505) totalling 2,270 metres were completed. The holes targeted an easterly displaced segment of the Oyu Tolgoi Trend and a corresponding gravity anomaly in the area of the proposed tailings dam. No significant mineralization was found.

During Q2 10, the linear IP survey anomaly that lies between the Southwest Oyu and Hugo Dummett deposits was targeted under the strongest mineralized part of Southwest Oyu by deepening an existing hole, OTD749, from 1,018 metres to 1,655 metres. The hole deviated to the south and failed to drill across the entire interpreted IP survey anomaly. It intercepted quartz monzodiorite, lacking any sulfides or mineralization.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

Average assay intercepts as of the date of this MD&A are shown below:

Average Assay Intercepts, New Discovery Zone Drilling

Hole Number	From (m)	To (m)	Interval (m)	Au (g/t)	Cu (%)	Mo (ppm)
OTD1498A	1978	2100	122	0.05	0.42	54
	2240	2318	78	0.07	0.61	12
	2346	2418	72	0.07	0.44	41
	2464	2478	14	0.31	0.21	28
	2546	2562	16	0.19	0.27	72.5
	2582	2632 (E.O.H.)	50	0.17	0.32	74.6
OTD1500	1800	1910	110	0.17	0.44	189
OTD1500A	1462	1506	44	0.09	0.55	55
OTD1501	1662	1682	20	0.12	1.06	11.5
	1724	1730	6	0.07	1.23	30
	1754	1776	22	0.03	0.59	39
OTD1500B	2066	2094	28	2.30	1.35	200
	2182	2276	94	0.91	0.60	60.32
EJD0035A	1426	1452	24	0.01	1.14	66.2

During Q2 10, the expanded gradient array IP survey utilizing the Zeus technology continued from the northern end of the Hugo North Deposit to the northern part of the Ivanhoe Mines/Entrée Gold Joint Venture area.

Ivanhoe Mines advances financing for Oyu Tolgoi copper-gold project in discussions with leading international financial institutions

The 2010 Oyu Tolgoi Integrated Development Plan (IDP-10) estimated that the initial capital cost required to achieve first production from the open-pit mine on the Southern Oyu deposits will be $4.6 billion. This amount includes $1.1 billion to be spent advancing underground development at the Hugo North Deposit in preparation for the start of block-cave mining following the commencement of production from the open-pit mine. Alternatives to finance the remainder of the estimated capital costs include, but are not limited to, additional potential debt, equity offerings, a credit facility, the possible sale of subsidiaries or assets, equity investments, project financing and/or various corporate transactions.

On May 21, 2010, Ivanhoe Mines signed a joint mandate letter with the European Bank for Reconstruction and Development (EBRD) and the World Bank Group s International Finance Corporation (IFC) for evaluation of a major syndicated financing package for the construction of the planned Oyu Tolgoi mining complex.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

Under terms of the joint mandate letter, EBRD and IFC will consider providing a two-part package consisting of:

- up to $300 million each from EBRD and IFC, as part of a group of primary lenders, in limited-recourse project financing under an A loan structure; and
- mobilization of a further $1.2 billion from commercial lenders under a B loan structure.

Export Development Canada (EDC), the Canadian government s export credit agency, is considering providing up to $500 million in direct project financing capacity, subject to necessary approvals, including ensuring that the Oyu Tolgoi Project meets EDC s environmental and social impact review requirements. EDC is reviewing information in that regard provided by Ivanhoe Mines.

Ivanhoe Mines selected Paris-based BNP Paribas and London-based Standard Chartered to work with EBRD, IFC and EDC in arranging the financing. The group of institutions will jointly work with the commercial banks that will structure the debt financing package, with completion targeted for Q1 11.

As leading global institutions, BNP Paribas and Standard Chartered have a very strong presence in Asia and, consistent with the commitments of the other core lenders, have indicated that they are considering retaining a significant exposure to the Oyu Tolgoi Project debt package through a mix of possible facilities. The facilities include EBRD and IFC A loans, facilities backed by export credit agencies and commercial loans.

IFC and EBRD financings are subject to detailed due diligence, including a review of the extensive environmental and social studies conducted by the Oyu Tolgoi Project, and approval by their respective managements and boards of directors. The arrangements also are subject to agreement of the Ivanhoe Mines Board of Directors and other related approval processes.

Mongolian Government obtains a 34% interest in the Oyu Tolgoi Project

On May 31, 2010, the Mongolian Government obtained a 34% interest in Oyu Tolgoi s licence holder, OT LLC, upon the receipt of fully registered shares of OT LLC. Ivanhoe Mines now holds a controlling 66% interest in OT LLC.

Provisions of the Investment Agreement address the amount and term of the parties investments in the Oyu Tolgoi Project, the protection of those investments and the right to realize the benefits from such investments, as well as the commencement of mining operations with minimum environmental impacts and progressive rehabilitation, the social and economic development of the South Gobi Region and the training and employment of thousands of new workers in Mongolia.

The Shareholders Agreement, which accompanied the execution of the Investment Agreement and also was signed on October 6, 2009, established the basis upon which the Mongolian Government, through its wholly-state-owned company, Erdenes LLC (Erdenes), obtained and will hold the initial 34% equity interest in OT LLC. The Shareholders Agreement provides the terms that govern the respective rights and obligations of the parties as shareholders of OT LLC. The Shareholders Agreement also addresses the circumstances and the requirements pursuant to which Ivanhoe Mines and Rio Tinto will assume or arrange financing for the Oyu Tolgoi Project and for Erdenes portion of the investment capital needed for the Project.

First meeting of OT LLC Board and shareholders held in Ulaanbaatar, Mongolia

On June 9 and 10, 2010, the first meeting of the Board of Directors of OT LLC was held in Ulaanbaatar, Mongolia. The meeting addressed the normal organizational issues of a first board meeting and formally approved the recent nomination of the former Mongolian diplomat, Galsan Batsukh, as Chairman of the Board of Directors of OT LLC. Under the authority of the Shareholders Agreement, Ivanhoe Mines appointed six of the nine members of the OT LLC Board of Directors and the Mongolian Government appointed three members. The nine members of the Board met over a two-day period to address a number of organizational issues pertaining to the business and governance of OT LLC, including approval of Board Procedural Rules and the Board s Code of Conduct. OT LLC is the entity that is constructing and will operate the Oyu Tolgoi Project; it also holds the Oyu Tolgoi mining licences.

On June 11, 2010, the first Shareholders meeting of OT LLC was held in Ulaanbaatar to approve formally and by resolution the nomination and appointment of the nine members of the Board and to address preliminary shareholder issues, including pertinent amendments to the Charter of OT LLC. Representatives of Ivanhoe Mines and Erdenes attended and participated in the meeting.

OT LLC is progressing with discussions with key Mongolian Government agencies to improve infrastructure at the Mongolia-China border crossing to accommodate increased freight volumes and implementation of regular transportation schedules through the remainder of 2010 and the start of 2011. Community consultations have taken place to address the construction schedule for the new paved road to China and the new regional airport.

The OT LLC five-year training plan was released on June 30, 2010, to key Mongolian Government ministries in accordance with the project s Investment Agreement. The project has authorized development of educational and training programs for Mongolian citizens in order to elevate the skills necessary for development of an effective mine workforce. In that regard, a memorandum of understanding covering ongoing training activities was signed with the Ministry of Education on July 9, 2010.

Prepayment made of Mongolian taxes

On October 6, 2009, as an adjunct to the Investment Agreement, OT LLC agreed to purchase three Treasury Bills (T-Bills) from the Mongolian Government, having an aggregate face value of $287.5 million, for the aggregate sum of $250 million. The annual rate of interest on the T-Bills was set at 3.0%. The initial T-Bill, with a face-value of $115.0 million, was purchased by OT LLC on October 20, 2009 for $100.0 million and will mature on October 20, 2014.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

During discussions with the Mongolian Government in March 2010 that led to satisfaction of the Investment Agreement s conditions precedent, the Mongolian Government requested an alternative arrangement for the advancement of funds that would not involve the purchase of the remaining two T-Bills. Specifically, Ivanhoe Mines agreed to make two tax prepayments rather than purchasing the second and third remaining T-Bills, with face values of $57.5 million and $115.0 million respectively.

The first tax prepayment of $50.0 million was made pursuant to this arrangement on April 7, 2010.

The second tax prepayment of $100.0 million will be made within 14 days of OT LLC fully drawing down the financing necessary to enable the complete construction of the Oyu Tolgoi Project or on June 30, 2011, whichever date is earlier.

The annual rate of interest on the tax prepayments is 1.75% compounding from the date on which such prepayments are made to the Mongolian Government by OT LLC. Unless already off-set fully against Mongolian taxes, the Mongolian Government must immediately repay any remaining tax prepayment balance, including all accrued interest, on the fifth anniversary of the date the tax prepayment was made by OT LLC to the Mongolian Government.

MONGOLIA

COAL PROJECTS

SOUTHGOBI RESOURCES (57% owned)

Expansion planned for SouthGobi s Ovoot Tolgoi coal mine

SouthGobi is producing and selling coal at its Ovoot Tolgoi Project in Mongolia s South Gobi Region, 40 kilometres north of the Shivee Khuren-Ceke crossing at the Mongolia-China border.

To increase the amount of coal traffic across the border, Chinese and Mongolian authorities agreed in July 2009 to create a designated coal transportation corridor at the Shivee Khuren-Ceke border crossing. This facility is largely completed and is in partial use, permitting coal to be transported across the border through three corridors that are separate from other, non-coal, border traffic. On April 28, 2010, the Mongolian Government approved a plan that would allow the checkpoint at the Shivee Khuren-Ceke border crossing to operate 24 hours per day, seven days per week. SouthGobi believes that these improvements in the border-crossing capacity will allow SouthGobi to continue to substantially increase the amount of coal shipped into China.

The Ovoot Tolgoi Mine s proximity to the Shivee Khuren-Ceke border crossing allows SouthGobi s customers to transport coal by truck on an unpaved road from the minesite to China. SouthGobi is studying the feasibility of building additional road infrastructure from the Ovoot Tolgoi complex to the Mongolia-China border.

A north-south railway line in China already connects Ceke with Jiayuguan City in Gansu Province and with the interior of China. An east-west railway line from Ceke to Linhe, an industrial city in China s eastern Inner Mongolia, is expected to be operational later this year. This line is expected to have an initial transportation capacity of approximately 15 million tonnes per year, later increasing to 25 million tonnes per year. The route will enable coal to be shipped to active coal markets to the east, such as the region around Baotou and Hebei Province, and further east to ports on China s Bohai Gulf.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

During June 2010, SouthGobi commenced the construction of a basic coal-handling facility. The new facility will allow SouthGobi to remove ash (waste rock) and enable the blending of coal from different seams to create higher-value products. Expected to be operational in early 2011, the coal-handling facility will include a 300-tonne-capacity dump hopper, which will receive run-of-mine coal from the Ovoot Tolgoi Mine and feed a rotary breaker that will size coal to a maximum of 50 millimetres and reject oversize ash. A radial stacker will facilitate loading of the sized coal into customers trucks. The coal-handling facility will be located between Ovoot Tolgoi s Sunset and Sunrise open-pits and is expected to initially operate on one 12-hour shift per day, six days per week. Annual capacity on that basis will be up to six million tonnes of coal and can be adjusted upwards as mining capacity increases.

In June 2010, SouthGobi completed the commissioning of a second fleet of coal-mining equipment consisting of a Liebherr 996 hydraulic excavator with a 34-cubic-metre bucket and four Terex MT4400 218-tonne-capacity trucks. The new fleet supplements the existing mine fleet, which consists of a Liebherr 994 hydraulic excavator with a 13.5-cubic-metre bucket and seven Terex TR100 91-tonne-capacity trucks.

Additional equipment will be required as production at the mine expands. SouthGobi has entered into an agreement with a Mongolian supplier for a third mining fleet including an additional Liebherr 996 hydraulic excavator with a 34-cubic-metre bucket, five Terex MT4400 218-tonne-capacity trucks and auxiliary equipment. Trucks for the third fleet already have begun to arrive on site and are being assembled. The hydraulic excavator has been shipped from Europe and is expected to be delivered in late-2010, along with ancillary equipment.

An additional fourth fleet was ordered in April 2010 for delivery in 2011. The fourth fleet includes one Liebherr 996 shovel, trucks and other support equipment. The additional larger equipment fleets are expected to increase productive capacity. However, SouthGobi will continue to employ the smaller initial fleet in areas of thinner seams and to supplement the larger equipment.

SouthGobi continues to assess fleet requirements for the Ovoot Tolgoi Mine, including the consideration of adding equipment to expand capacity beyond current plans.

In Q4 09, SouthGobi commenced realigning the open-pit for a north-south entry. Waste removal at Ovoot Tolgoi originally was along the seam s strike-length (east-west). This allowed for better utilization of capital cost controls when financing was more constrained. Strip ratio and waste movements were lower and customer s trucks were allowed to enter directly in the shallow pit for loading. However, such an alignment is not beneficial over the longer-term because it becomes less efficient as the pit depth increases.

Realigning for a north-south entry is expected to provide the following long-term benefits:

- allow for longer mining faces to be exposed for larger shovels to access;
- enable mining of the thinner 8, 9 and 10 seams face-on as opposed to along strike, enabling cleaner mining and a lower-ash higher-value product; and
- allow more efficient access for haul trucks as the pit deepens.

Realigning the pit has impacted operations because the process requires substantial above-trend waste removal. The open-pit realignment was the primary cause of the increase in direct cash costs of production and a constrained availability of coal in Q1 10. The open-pit realignment has been completed but continues to impact cost per tonne sold in Q2 10. Higher cost inventory from Q1 10 was sold in Q2 10 and the direct cash cost per tonne produced started decreasing toward the end of the second quarter.

In addition to the impact of the pit-realignment, costs were adversely impacted by fleet issues. Delayed commissioning of the final two Terex MT4400 218-tonne-capacity haul trucks from the second mining fleet meant the Liebherr 996 shovel was not operating efficiently. Furthermore, SouthGobi s Terex TR100 91-tonne-capacity haul trucks from the first mining fleet have been experiencing poor equipment availability ratios (approximately 72% availability for Q2 10), leading to lower productivity and increased maintenance costs.

In Q2 10, SouthGobi shipped approximately 449,000 tonnes of coal at an average realized selling price of approximately $43 per tonne. This compares to 384,000 tonnes of coal shipped in Q2 09 at an average realized selling price of $30 per tonne. The increases in tonnes of coal shipped and average realized selling price resulted in $17.7 million of revenue being recognized in Q2 10, compared to $10.7 million in Q2 09.

From an operating perspective, SouthGobi is encountering two issues that will impact its short-term outlook. Firstly, there will be proportionately less of the better quality coal coming from the #5 seam in the near-term mine plan. Secondly, SouthGobi is currently experiencing areas of higher sulphur content than originally anticipated in mine plans and studies. Some of the higher sulphur coal will not be attractive to customers in its current form and may need to be stockpiled until appropriate processing is in place or blending opportunities arise. As a result, SouthGobi does not expect the rate of coal sales volumes to be substantially different for the remainder of 2010 than for the six months ended June 30, 2010.

Cost of sales was $13.2 million in Q2 10, compared to $9.1 million for Q2 09. The increase in cost of sales relates to the higher sales volume and higher costs in Q2 10. During Q2 10, SouthGobi incurred higher operating costs associated with the continuing realignment of the open-pit and fleet utilization issues. Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs, equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs.

Regional coal exploration

A number of SouthGobi s exploration licenses are associated with the broader Ovoot Tolgoi Complex and Soumber Deposit. The 2010 exploration program includes drilling, trenching and geological reconnaissance on a number of licence areas identified as having good potential for coking and thermal coal deposits.

The 2010 exploration program began in March. Year-to-date exploration activities include 62,270 cubic metres of trenching and more than 64,000 metres of drilling (core and reverse circulation). Key targets so far have been the Soumber Deposit, fields surrounding the Soumber Deposit and also the SW target, which is approximately six kilometres southwest of the Ovoot Tolgoi Complex.

IVANHOE MINES LTD.

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

(Stated in U.S. dollars, except where noted)

The drilling program will focus on further definition of known coal occurrences to bring them to a NI 43-101-compliant definition stage and to allow for registration with the Mongolian Government as the next step toward expanding SouthGobi s mining licence holdings.

AUSTRALIA

IVANHOE AUSTRALIA (81% owned)

Ivanhoe Australia incurred exploration expenses of $14.9 million in Q2 10, compared to $8.8 million in Q2 09. The increase was largely due to the commencement of the Merlin prefeasibility study.

Ivanhoe Australia s key projects, all situated on granted Mining Leases, are Merlin, Mount Dore and Mount Elliott. During Q2 10, work focused on the acquisition of the Osborne Copper and Gold Operation (Osborne), integration planning to join the Osborne and Cloncurry sites, infill drilling on the inferred resource zone at Merlin and the commencement of the Merlin prefeasibility study.

Ivanhoe Australia completes A$251 million institutional equity raising

On August 12, 2010, Ivanhoe Australia announced that it had completed a A$251 million equity raising, comprising the institutional component of its accelerated, non-renounceable, pro rata entitlement offer and an institutional placement.

The equity raising, which (with the exception of the already completed placement) is fully underwritten by UBS AG, Australia Branch, and Morgan Stanley Australia Securities Limited, provides Ivanhoe Australia with a very strong platform to move forward on the funding of its large development project program and extensive exploration portfolio.

The funds raised under the institutional entitlement offer and placement support the following initiatives and commitments:

- funding the acquisition of the Osborne Copper and Gold Operation;
- development of the Merlin Project at Cloncurry;
- partial repayment of approximately A$53 million of debt owed to Ivanhoe Mines; and
- ongoing exploration, development studies and associated corporate costs.

In addition to the approximately A$251 million raised under the institutional entitlement offer and placement, Ivanhoe Australia is expected to raise approximately A$18 million in equity through an underwritten retail entitlement offer and potentially up to a further approximately A$158 million through the future exercise of t