IVANHOE MINES LTD
Form 6-K
May 16, 2011

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: May 13, 2011
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:
Q1-2011 Financial Statement
Q1-2011 MD&A
CEO Certification
CFO Certification

FIRST QUARTER REPORT

MARCH 31, 2011

TABLE OF CONTENTS

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

(Unaudited)	March 31, 2011	December 31, 2010
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	$ 1,867,812	$ 1,264,031
Short-term investments (Note 5)	38,146	98,373
Accounts receivable	59,975	65,741
Inventories (Note 6)	67,727	40,564
Prepaid expenses	27,746	23,338
TOTAL CURRENT ASSETS	2,061,406	1,492,047
LONG-TERM INVESTMENTS (Note 7)	202,915	151,191
OTHER LONG-TERM INVESTMENTS (Note 8)	210,651	191,816
PROPERTY, PLANT AND EQUIPMENT (Note 9)	1,890,781	1,332,648
DEFERRED INCOME TAXES	25,184	16,889
OTHER ASSETS	40,780	33,883
TOTAL ASSETS	$ 4,431,717	$ 3,218,474
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 266,169	$ 260,528
Amounts due under credit facilities (Note 10)	19,566	14,615
Interest payable on long-term debt (Note 11)	7,233	6,312
Rights offering derivative liability (Note 12 (c))		766,238
TOTAL CURRENT LIABILITIES	292,968	1,047,693
CONVERTIBLE CREDIT FACILITY (Note 11)	285,078	248,284
AMOUNTS DUE UNDER CREDIT FACILITIES (Note 10)	41,212	40,080
PAYABLES TO RELATED PARTY	20,506	14,013
DEFERRED INCOME TAXES	11,084	11,123
ASSET RETIREMENT OBLIGATIONS	41,658	40,838
TOTAL LIABILITIES	692,506	1,402,031
COMMITMENTS AND CONTINGENCIES (Note 19)		
EQUITY		

SHARE CAPITAL (Note 12)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
653,746,447 (2010 - 568,560,669) common shares	**5,729,438**	3,378,921
SHARE PURCHASE WARRANTS (Note 12 (b))	**11,832**	11,832
ADDITIONAL PAID-IN CAPITAL	**1,346,958**	1,303,581
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 13)	**60,257**	33,075
DEFICIT	**(3,406,076)**	(2,913,576)
TOTAL IVANHOE MINES LTD. SHAREHOLDERS EQUITY	**3,742,409**	1,813,833
NONCONTROLLING INTERESTS (Note 14)	**(3,198)**	2,610
TOTAL EQUITY	**3,739,211**	1,816,443
TOTAL LIABILITIES AND EQUITY	**$ 4,431,717**	$ 3,218,474

APPROVED BY THE BOARD:

/s/ D. Korbin /s/ L. Mahler

D. Korbin, Director L. Mahler, 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 March 31,	
(Unaudited)	**2011**	2010
REVENUE	**$ 20,158**	$ 13,917
COST OF SALES		
Production and delivery	**(12,158)**	(11,197)
Depreciation and depletion	**(2,799)**	(2,523)
Write-down of carrying value of inventory	**(5,318)**	(6,535)
COST OF SALES	**(20,275)**	(20,255)
EXPENSES		
Exploration (Note 2 and 12 (a))	**(46,223)**	(71,423)
General and administrative (Note 12 (a))	**(25,278)**	(8,317)
Depreciation	**(512)**	(916)
Accretion of asset retirement obligations	**(162)**	(43)
TOTAL EXPENSES	**(92,450)**	(100,954)
OPERATING LOSS	**(72,292)**	(87,037)
OTHER INCOME (EXPENSES)		
Interest income	**5,138**	4,629
Interest expense	**(4,347)**	(13,399)
Accretion of convertible credit facilities (Note 11)	**(14)**	(4,127)
Foreign exchange gains	**3,149**	1,670
Unrealized losses on long-term investments (Note 7 (d))	**(3,762)**	(703)
Unrealized gains on other long-term investments	**388**	720
Realized gain on redemption of other long-term investments (Note 8 (a))	**33**	61
Change in fair value of derivative (Note 12 (c))	**(432,536)**	
Change in fair value of embedded derivatives (Note 11)	**(36,781)**	(1,372)
Loss on conversion of convertible credit facility (Note 11)		(154,316)
Write-down of carrying value of long-term investments		(256)
Gain on sale of long-term investment (Note 7 (e))	**10,628**	
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	**(530,396)**	(254,130)
Recovery of income taxes	**12,898**	3,482
Share of loss of significantly influenced investees (Note 7)	**(3,714)**	(10,059)
NET LOSS FROM CONTINUING OPERATIONS	**(521,212)**	(260,707)
INCOME FROM DISCONTINUED OPERATIONS (Note 3)		6,585
NET LOSS	**(521,212)**	(254,122)
	28,712	60,257

NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS (Note 14)				
NET LOSS ATTRIBUTABLE TO IVANHOE MINES LTD.	**$**	**(492,500)**	$	(193,865)
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO IVANHOE MINES LTD. FROM				
CONTINUING OPERATIONS	**$**	**(0.79)**	$	(0.44)
DISCONTINUED OPERATIONS				0.01
	$	**(0.79)**	$	(0.43)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000 s)		**620,542**		451,681

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

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

	Share Capital			Additional	Accumulated Other			
	Number of Shares	Amount	Share Purchase Warrants	Paid-In Capital	Comprehensive Income	Deficit	Noncontrolling Interests	Total
Balances, December 31, 2010	568,560,669	$ 3,378,921	$ 11,832	$ 1,303,581	$ 33,075	$ (2,913,576)	$ 2,610	$ 1,816,443
Net loss						(492,500)	(28,712)	(521,212)
Other comprehensive income (Note 13)					27,182		22,682	49,864
Comprehensive loss								(471,348)
Shares issued for:								
Exercise of stock options	308,710	4,009		(1,256)				2,753
Rights Offering (Note 12 (c)), net of issue costs of $27,311	84,867,671	2,346,277		5,711				2,351,988
Bonus shares	3,027	80		2,034				2,114
Share purchase plan	6,370	151						151
Other increase in noncontrolling interests (Note 14)							222	222
Dilution gains				(1,017)				(1,017)
Stock-based compensation				37,905				37,905
Balances, March 31, 2011	653,746,447	$ 5,729,438	$ 11,832	$ 1,346,958	$ 60,257	$ (3,406,076)	$ (3,198)	$ 3,739,211

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

5

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

(Unaudited)	Three Months Ended March 31, **2011**	2010
OPERATING ACTIVITIES		
Cash used in operating activities (Note 15)	**$ (66,689)**	$ (60,083)
INVESTING ACTIVITIES		
Purchase of short-term investments	**(20,657)**	
Purchase of long-term investments	**(8,537)**	(5,703)
Purchase of other long-term investments	**(45,000)**	(30,000)
Proceeds from redemption of short-term investments	**80,843**	15,000
Proceeds from sale of long-term investments	**14,000**	1,800
Proceeds from redemption of other long-term investments	**30,060**	102
Expenditures on property, plant and equipment	**(528,704)**	(39,448)
Purchase of other assets	**(11,243)**	(85)
Cash used in investing activities	**(489,238)**	(58,334)
FINANCING ACTIVITIES		
Issue of share capital	**1,156,118**	51,539
Proceeds from credit facilities	**4,608**	
Repayment of credit facilities		(82)
Noncontrolling interests reduction of investment in subsidiaries	**(8,784)**	
Noncontrolling interests investment in subsidiaries	**3,980**	420,212
Cash provided by financing activities	**1,155,922**	471,669
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**3,786**	4,570
NET CASH INFLOW	**603,781**	357,822
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**1,264,031**	965,823
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 1,867,812**	$ 1,323,645
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash on hand and demand deposits	**$ 668,433**	$ 791,313
Short-term money market instruments	**1,199,379**	532,332
	$ 1,867,812	$ 1,323,645

Supplementary cash flow information (Note 15)
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 accounting principles generally accepted in the United States of America (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, 2010.

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, 2010.

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 March 31, 2011 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, 2011, or future operating periods. For further information, see the Company s annual consolidated financial statements, including the accounting policies and notes thereto.

The Company has three operating segments, its development division located in Mongolia, its coal division located in Mongolia, and its exploration division with projects located primarily in Australia and Mongolia.

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) Comparative figures

In February 2011, the Company completed a rights offering which was open to all shareholders on a dilution free, equal participation bases at a subscription price less than the fair value of a common share of the Company (Note 12 (c)). In accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) guidance for earnings per share, basic and diluted loss per share for all periods prior to the rights offering have been adjusted retroactively for a bonus element contained in the rights offering. Specifically, the weighted average number of common shares outstanding used to compute basic and diluted loss per share for the three months ended March 31, 2010 has been multiplied by a factor of 1.06.

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)

(d) Accounting changes

In January 2010, the 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 to 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.

In December 2010, the ASC guidance for business combinations was updated to clarify existing guidance requiring a public entity to disclose pro forma revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual period only. The update also expands the supplemental pro forma disclosures required to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The updated guidance was 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)

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.

Summary of exploration expenditures by location:

	Three Months Ended March 31,	
	2011	2010
Mongolia		
Oyu Tolgoi [(1)]	**$ 5,088**	$ 52,123
Coal Division	**8,484**	6,564
Other Mongolia Exploration	**(122)**	552
	13,450	59,239
Australia	**30,363**	10,818
Indonesia	**1,108**	547
Other	**1,302**	819
	$ 46,223	$ 71,423

(1) Until March 31, 2010, exploration costs charged to operations included development costs associated with the Oyu Tolgoi Project 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 March 31, 2011, additions to property, plant and equipment for the Oyu Tolgoi Project totalled $525.6 million, which included development costs.

3. DISCONTINUED OPERATIONS

In February 2005, Ivanhoe Mines sold the Savage River Iron Ore 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.

In 2010, Ivanhoe Mines received two payments totalling $6.4 million in relation to the fifth annual contingent payment. The original purchaser of the Savage River Project has disputed the estimated $22.1 million remaining balance of the fifth annual contingent payment. Ivanhoe Mines is committed to collecting this amount in full and has included the $22.1 million in accounts receivable as at March 31, 2011. In 2010, Ivanhoe Mines initiated arbitration proceedings by filing a Request for Arbitration with the ICC International Court of Arbitration (ICC). In January 2011, the ICC determined that the location of arbitration is Sydney, Australia and that the matter will be submitted to a sole arbitrator. The procedural timetable is currently being finalized by the parties and the sole arbitrator.

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

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2011 included SouthGobi Resources Ltd. s (Canada) (57.0% owned) (SouthGobi) balance of $420.7 million (December 31, 2010 $492.0 million) and Ivanhoe Australia Ltd. s (Australia) (62.0% owned) (Ivanhoe Australia) balance of $97.9 million (December 31, 2010 $59.3 million), which were not available for Ivanhoe Mines general corporate purposes.

5. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2011 included SouthGobi s balance of $17.5 million (December 31, 2010 $17.5 million) and Ivanhoe Australia s balance of $20.7 million (December 31, 2010 $80.8 million), which were not available for Ivanhoe Mines general corporate purposes.

6. INVENTORIES

	March 31, 2011	December 31, 2010
Stockpiles	**$ 20,080**	$ 3,637
Materials and supplies	**47,647**	36,927
	$ 67,727	$ 40,564

7. LONG-TERM INVESTMENTS

	March 31, 2011	December 31, 2010
Investments in companies subject to significant influence:		
Altynalmas Gold Ltd. (a)	**$**	$
Exco Resources N.L. (b)	**22,349**	16,991
Available-for-sale equity securities (c)	**156,931**	103,431
Held-for-trading equity securities (d)	**6,473**	10,235
Other equity securities, cost method (e)	**17,162**	20,534
	$ 202,915	$ 151,191

(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.

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

7. LONG-TERM INVESTMENTS (Continued)

(a) Continued

The corresponding amendments made to the original agreement resulted in Ivanhoe Mines interest in Altynalmas increasing from 49% to 50%.

	March 31, 2011	December 31, 2010
Amount due from Altynalmas	**$ 109,459**	$ 100,545
Carrying amount of equity method investment	**(109,459)**	(100,545)
Net investment in Altynalmas	**$**	$

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 three month period ended March 31, 2011, Ivanhoe Mines recorded a $8.9 million equity loss (2010 $9.7 million equity loss) on this investment.

(b) During the three month period ended March 31, 2011, Ivanhoe Mines recorded a $5.2 million equity gain (2010 $0.4 million equity loss) on its investment in Exco Resources N.L. (Exco).

At March 31, 2011, the market value of Ivanhoe Mines 22.9% investment in Exco was $46.7 million (Aud$45.2 million).

(c) Available-for-sale equity securities

	March 31, 2011				December 31, 2010			
	Equity Interest	**Cost Basis**	**Unrealized Gain (Loss)**	**Fair Value**	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value
Entrée Gold Inc.	**12.1%**	**$ 19,957**	**$ 23,121**	**$ 43,078**	12.1%	$ 19,957	$ 27,746	$ 47,703
Aspire Mining Limited (i)	**19.9%**	**20,741**	**89,725**	**110,466**	19.8%	20,280	31,727	52,007
Emmerson Resources Limited	**10.0%**	**3,667**	**(704)**	**2,963**	10.0%	3,636	(304)	3,332
Intec Ltd.	**1.9%**	**36**	**83**	**119**	1.9%	36	91	127
Other		**60**	**245**	**305**		60	202	262
		$ 44,461	**$ 112,470**	**$ 156,931**		$ 43,969	$ 59,462	$ 103,431

(i) During the three month period ended March 31, 2011, Ivanhoe Mines acquired 798,139 common shares of Aspire Mining Limited at a cost of $461,000.

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

7. LONG-TERM INVESTMENTS (Continued)

(d) Held-for-trading equity securities

As at March 31, 2011, the market value of Ivanhoe Mines 4.4% investment in Kangaroo Resources Limited was $6.5 million, resulting in an unrealized loss of $3.8 million during the three month period ended March 31, 2011.

(e) Other equity securities, cost method

	March 31, 2011		December 31, 2010	
	Equity Interest	**Cost Basis**	Equity Interest	Cost Basis
Ivanhoe Nickel & Platinum Ltd. (i)	**8.9%**	**$ 16,119**	7.9%	$ 19,491
GoviEx Gold Inc.	**1.5%**	**1,043**	1.5%	1,043
		$ 17,162		$ 20,534

(i) During the three month period ended March 31, 2011, Ivanhoe Mines sold 1.4 million shares of Ivanhoe Nickel and Platinum Ltd. (Ivanplats), a private company, for $14.0 million. This transaction resulted in a gain on sale of $10.6 million.

Also during the three month period ended March 31, 2011, Ivanhoe Mines converted the remaining Ivanplats special warrants into 2.5 million common shares of Ivanplats for no additional proceeds.

8. OTHER LONG-TERM INVESTMENTS

	March 31, 2011	December 31, 2010
Long-Term Notes (a)	**$ 31,157**	$ 29,763
Government of Mongolia Treasury Bills (b)	**82,318**	80,394
Government of Mongolia Tax Prepayment (b)	**37,316**	36,486
Money Market investments (c)	**59,860**	45,173
	$ 210,651	$ 191,816

(a) Long-Term Notes

As at March 31, 2011, the Company held $65.3 million (December 31, 2010 $65.0 million) principal amount of Long-Term Notes (received in 2009 upon completion of the Asset-Backed Commercial Paper restructuring) which was recorded at a fair value of $31.2 million. The increase from December 2010 in principal of $0.3 million was due to the strengthening of the Canadian dollar ($1.5 million), offset by principal redemptions ($1.2 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.

12

IVANHOE MINES LTD.
Notes to the Consolidated Financial Statements
(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)
8. OTHER LONG-TERM INVESTMENTS (Continued)

(a) Long-Term Notes (Continued)

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 March 31, 2011, 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 notes.

The Company has used a discounted cash flow approach to value the Long-Term Notes at March 31, 2011 incorporating the following assumptions:

Bankers Acceptance Rate:	1.12%
Discount Rates:	9% to 25%
Maturity Dates:	5.7 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 March 31, 2011, the fair value of the Long-Term Notes was estimated at $31.2 million. As a result of this valuation, the Company recorded an unrealized trading gain of $0.7 million for the three month period ended March 31, 2011.

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 $1.6 million.

(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.

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

8. OTHER LONG-TERM INVESTMENTS (Continued)

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

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 investments because they were not purchased with the intent of selling them in the near term and the Company s intention to hold them to maturity is uncertain. 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. Changes in the fair value of available-for-sale investments are recognized in accumulated other comprehensive income.

The Company has used a discounted cash flow approach to value the T-Bill at March 31, 2011 incorporating the following assumptions:

	T-Bill
Face Value:	$ 115,000,000
Discount Rates:	9.9%
Term to Maturity	3.6 years

Based on the discounted cash flow model as at March 31, 2011, the fair value of the T-Bill was estimated at $82.3 million. As a result of this valuation, Ivanhoe Mines recorded an unrealized gain of $1.2 million in accumulated other comprehensive income for the three month period ended March 31, 2011.

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

8. 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 March 31, 2011 incorporating the following assumptions:

	First Tax Prepayment
Face Value:	$ 50,000,000
Discount Rates:	9.9%
Term to Maturity	4.0 years

Based on the discounted cash flow model as at March 31, 2011, the fair value of the first tax prepayment was estimated at $37.3 million. As a result of this valuation, Ivanhoe Mines recorded an unrealized gain of $0.6 million in accumulated other comprehensive income for the three month period ended March 31, 2011.

(c) Money Market Investments

As at March 31, 2011, Ivanhoe Mines held $59.9 million of money market investments with remaining maturities in excess of one year.

9. PROPERTY, PLANT AND EQUIPMENT

		March 31, 2011			December 31, 2010	
	Cost	**Accumulated Depletion and Depreciation, Including Write-downs**	**Net Book Value**	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value
Mining plant and equipment						
Ovoot Tolgoi, Mongolia	**$ 10,655**	**$ (1,716)**	**$ 8,939**	$ 10,647	$ (1,428)	$ 9,219
Other mineral property interests						
Oyu Tolgoi, Mongolia	**$ 48,120**	**$ (6,359)**	**$ 41,761**	$ 48,120	$ (6,316)	$ 41,804
Ovoot Tolgoi, Mongolia	**31,559**	**(986)**	**30,573**	26,831	(766)	26,065
Australia	**25,552**	**(126)**	**25,426**	25,470	(126)	25,344
Other exploration projects	**1,252**	**(1,244)**	**8**	1,252	(1,244)	8
	$ 106,483	**$ (8,715)**	**$ 97,768**	$ 101,673	$ (8,452)	$ 93,221
Other capital assets						
Oyu Tolgoi, Mongolia	**$ 27,335**	**$ (15,267)**	**$ 12,068**	$ 24,203	$ (14,471)	$ 9,732
Ovoot Tolgoi, Mongolia	**251,073**	**(33,175)**	**217,898**	228,241	(24,154)	204,087
Australia	**49,096**	**(3,008)**	**46,088**	46,785	(2,723)	44,062
Other exploration projects	**3,564**	**(2,781)**	**783**	3,351	(2,573)	778

	$ 331,068	**$ (54,231)**	**$ 276,837**	$ 302,580	$ (43,921)	$ 258,659
Capital works in progress						
Oyu Tolgoi, Mongolia	**$ 1,476,014**	**$**	**$ 1,476,014**	$ 953,581	$	$ 953,581
Ovoot Tolgoi, Mongolia	**29,515**		**29,515**	16,364		16,364
Australia	**1,708**		**1,708**	1,604		1,604
	$ 1,507,237	**$**	**$ 1,507,237**	$ 971,549	$	$ 971,549
	$ 1,955,443	**$ (64,662)**	**$ 1,890,781**	$ 1,386,449	$ (53,801)	$ 1,332,648

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

10. AMOUNTS DUE UNDER CREDIT FACILITIES

	March 31, 2011	December 31, 2010
Current		
Non-revolving bank loans (a)	**$ 14,726**	$ 14,615
Revolving line of credit facility (b)	**4,840**	
	$ 19,566	$ 14,615
Non-Current		
Two-year extendible loan facility (c)	**$ 41,212**	$ 40,080

(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. In January 2011, Ivanhoe Mines obtained a new 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.

11. CONVERTIBLE CREDIT FACILITY

	March 31, 2011	December 31, 2010
Principal amount of convertible debenture	**$ 500,000**	$ 500,000
(Deduct) add:		
Bifurcation of embedded derivative liability	**(313,292)**	(313,292)
Accretion of discount	**82**	69
Reduction of carrying amount upon partial conversion	**(93,370)**	(93,370)
Carrying amount of debt host contract	**93,420**	93,407
Embedded derivative liability	**191,658**	154,877
Convertible credit facility	**285,078**	248,284
Accrued interest	**7,233**	6,312
Transaction costs allocated to deferred charges	**(2,799)**	(2,800)
Net carrying amount of convertible debenture	**$ 289,512**	$ 251,796

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

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.

As at March 31, 2011, the fair value of the embedded derivative liability associated with the remaining $250.0 million principal outstanding was determined to be $191.7 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.

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

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

	March 31, 2011	December 31, 2010
Floor conversion price	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Expected volatility	**72%**	73%
Risk-free rate of return	**3.70%**	3.48%
Spot Cdn$ exchange rate	**1.03**	1.01
Forward Cdn$ exchange rate curve	**1.00 - 1.12**	0.97 - 1.14

12. 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 March 31, **2011**	2010
Exploration (i)	**$ 9,322**	$ 6,788
General and administrative	**14,097**	2,240
	$ 23,419	$ 9,028

(i) During the three months ended March 31, 2011, stock-based compensation of $16.5 million (2010 $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)
12. SHARE CAPITAL (Continued)

(a) Equity Incentive Plan (Continued)

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

	Three Months Ended March 31,	
	2011	2010
Ivanhoe Mines Ltd. (i)	**$ 16,644**	$ 4,106
SouthGobi Resources Ltd.	**3,087**	2,349
Ivanhoe Australia Ltd.	**3,688**	2,573
	$ 23,419	$ 9,028

(i) During the three months ended March 31, 2011, 308,710 options were exercised, 128,141 options were cancelled and 4,925,923 options were granted. These granted options have a weighted average exercise price of Cdn$18.52, lives of seven years, and vest over periods ranging from grant date to four years. The weighted average grant-date fair value of stock options granted during the three months ended March 31, 2011 was Cdn$17.62. 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 2.9 years, risk-free interest rate of 2.09%, expected volatility of 66%, and dividend yield of nil%. During the three months ended March 31, 2011, stock-based compensation of $16.5 million (2010 $nil), relating to the development of the Oyu Tolgoi Project was capitalized as property, plant and equipment (Note 2).

(b) Rio Tinto Placements

(i) Common Shares

In 2006, the Company and Rio Tinto formed a strategic partnership and entered into a private placement agreement whereby Rio Tinto would invest in Ivanhoe Mines. Since 2006 the parties have entered into a series of agreements pursuant to which Rio Tinto has provided equity and debt financing to Ivanhoe Mines. As a result of these transactions, Rio Tinto holds a significant investment interest in Ivanhoe Mines. These transactions are set out below:

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

(b) Rio Tinto Placements (Continued)

(i) Common Shares (Continued)

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

Nature of Investment by Rio Tinto	Year	Number of Shares Acquired [1]	Proceeds/ Transaction Value
Private Placement Tranche 1	2006	37,089,883	$ 303,395
Anti Dilution Shares	2008	243,772	612
Private Placement Tranche 2	2009	46,304,473	388,031
March 2010 Private Placement	2010	15,000,000	240,916
Exercise of Series A Warrants	2010	46,026,522	393,066
Conversion of Convertible Credity Facility	2010	40,083,206	400,832
Exercise of Anti Dilution Warrants	2010	720,203	2,229
Partial Exercise of Series B Warrants	2010	33,783,784	300,000
Balance at December 31, 2010		219,251,843	$ 2,029,081
Rights Offering		34,387,776	477,302
Balance at March 31, 2011		253,639,619	$ 2,506,383

[1] Shares acquired excludes other purchases made by Rio Tinto from third parties.

As at March 31, 2011, Rio Tinto s equity ownership in the Company was 42.1% (December 31, 2010 40.3%).

(ii) Warrants

As at March 31, 2011 the following warrants remain outstanding:

Warrants	Expiry Date	Exercise Prices	Number of Warrants
Series B Warrants (1)	October 2011	$8.37 to $8.51	14,070,182
Series C Warrants (2)	October 2012	$9.43	40,224,365
Anti Dilution Warrants (3)	October 2011	Cdn$2.97	827,706
Balance at March 31, 2011			55,122,253

(1) Under the 2006 private placement agreement, Rio Tinto was granted 92.1 million warrants, divided into two series (Series A and Series B). In 2010, the Series A warrants and part of the Series B warrants were exercised.