IVANHOE AUSTRALIA LIMITED

Management's Discussion and Analysis of Financial Condition and Results of Operations
December 31, 2012

February 22, 2013

Level 13, 484 St Kilda Road, MELBOURNE, VIC, AUSTRALIA, 3004 #
Tel: (03) 9090 8800, Fax: (03) 9090 8899, Web: http://www.ivanhoeaustralia.com

The following Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") was prepared as of February 22, 2013. They should be read in conjunction with the consolidated annual financial statements and notes thereto of Ivanhoe Australia Limited ("Ivanhoe Australia", "IAL" or the "Company") for the year ended December 31, 2012. Unless the context otherwise provides, references in this MD&A to Ivanhoe Australia, IAL, the Group or the Company refer to Ivanhoe Australia and each of its subsidiaries on a consolidated basis.

Unless otherwise noted, references in this MD&A to "$" are to Australian dollars and "US$" to United States dollars.

The following discussion contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of our Company please refer to the section entitled "Forward Looking Statements" and "Risk Factors" and to discussions elsewhere in this MD&A.

COMPANY OVERVIEW

The Company is focused on the exploration for, development of, and production of minerals in northwest Queensland near Cloncurry, Australia. In March 2012 the Osborne Copper/Gold operations ("Osborne Copper/Gold operation") commenced copper and gold production at the Osborne Facility. The Company also has two key projects being:

- the Merlin Molybdenum and Rhenium Project ("Merlin Project"); and
- the Mount Elliott Copper Gold Project ("Mount Elliott Project").

In 2003, Ivanhoe Cloncurry Mines Pty Limited ("Ivanhoe Cloncurry Mines"), a wholly owned subsidiary of Ivanhoe Australia, acquired a series of mining and exploration tenements in Australia from the receivers of Selwyn Mines Limited. These tenements constituted the Cloncurry Tenements, consisting of former mining operations, mining leases and exploration permits situated approximately 160 km southeast of Mount Isa in northwestern Queensland. The Cloncurry Tenements host the Merlin Project, Mount Dore Cathode Copper Project and the Mount Elliott Project and have been the focus of the majority of the Company's mineral exploration and development activities since inception. The outcomes achieved on the Mount Dore Cathode Copper Pre-Feasibility Study (PFS) have identified that this project requires further analysis before progressing with further studies and is therefore no longer considered a material property.

In September 2010, the Company completed its acquisition of certain mining tenements which form a portion of the Osborne Copper/Gold operation and mining and processing facilities and infrastructure (the "Osborne Facility") from a prior copper and gold mining operation of Barrick (PD) Australia Limited which are located approximately 50 km from the Merlin Project.

The Company was initially a wholly-owned subsidiary of Turquoise Hill Resources Ltd ("Turquoise Hill"), (previously Ivanhoe Mines Ltd) operating as the Australian exploration arm of that company. On August 2, 2012, Ivanhoe Mines Ltd company's name changed to Turquoise Hill Resources Ltd. In 2008, IAL completed an initial public offering of ordinary shares in its capital ("Ordinary Shares") on the Australian Securities Exchange ("ASX"). In connection, Turquoise Hill reduced its interest in the Company to approximately 80%, and Ivanhoe Australia established its own management and business operations. Ivanhoe Australia has undertaken three subsequent equity raisings, the first in August 2010, the second in October 2011 and the third in November 2012. Turquoise Hill still maintains a controlling interest in the Company, presently holding approximately 57% of IAL's outstanding Ordinary Shares. Ivanhoe Cloncurry Mines remains 100% owned by IAL.

During 2012, Ivanhoe Australia sold its entire 22.3% equity holding in Exco Resources Limited ("Exco") however the Company continues to maintain an exploration joint venture with Exco. Ivanhoe Australia also maintains an 8.7% equity holding in Emmerson Resources Limited ("Emmerson") which is listed on the ASX. The Company maintains an exploration joint venture with Emmerson .

HIGHLIGHTS

The Osborne Copper/Gold operation commenced operation in March 2012 and has performed well during the year producing in excess of 50,000 tonnes of concentrate, completing four shipments and with a closing concentrate inventory at year end sufficient for an additional shipment. The processing plant has performed in line with plan during 2012 due to a combination of consistent ore feed and uniform blending. Ore milled for the year totalled 788,820 tonnes which was within the guidance range of 700,000 to 900,000 tonnes. Recovery rates during 2012 averaged 93.9% for copper and 78.1% for gold. The plant produced 51,619 dry metric tonnes of concentrate for the year containing 12,220 tonnes of copper. Gold production in both concentrate and doré totalled 17,269 ounces for the year.

A total of 773,928 tonnes of ore was mined from both the Kulthor and Osborne underground mines at the Osborne Copper/Gold operations. The operation also continued to develop the Starra mine with first production expected during Q1 2013. The haul road linking the Starra mine to the Osborne processing facility was largely finalised with final completion planned for early 2013 to enable transport of Starra ore to the processing plant. In 2013, the Osborne Copper/Gold operation expects to mine between 1,400,000 and 1,600,000 tonnes from its three mines.

Consolidation of the underground mining and maintenance activities of Kulthor, Osborne and Starra progressed during Q4 2012, with award and finalisation of one mining contract for all mines during the period.

During the year Ivanhoe Australia continued to study its two key projects. The phase-one decline development at the Merlin Project was completed in January 2012. In April 2012 the Merlin Feasibility study was completed. The study identified a potential mine life of 15 years with ore throughput estimated at 500,000 tonnes per year with annual production of molybdenum of 5,100 tonnes and rhenium of 7,300 kilograms for the first seven years following ramp up. Initial capital expenditure to first production was estimated to be A$345 million. An independent technical review of the Merlin project was conducted as part of the Group's strategic and business review that was completed in August 2012. The review reaffirmed the outcomes of the feasibility study and the technical and commercial viability of the project. It also identified that there are potential opportunities to further enhance the technical and commercial aspects of the project by conducting further metallurgical testwork which has the potential to reduce the capital cost and improve returns

A scoping study to evaluate all mining options for the Mount Elliott ore body was released in April 2012. The study focussed on two elements of the mineralised system being:

1. The Mount Elliott open pit, incorporating the original Mount Elliott underground mine; and
2. The SWAN high-Grade Zone.

Drilling to further define the high-grade portions of the SWAN zone within the Mount Elliott Project commenced in early October 2012. The additional drilling combined with further geological analysis is expected to enable an update of the Mount Elliott Mineral Resource model.

Exploration during 2012 focused on extending mineralisation at Kulthor and discovering additional copper/gold deposits within the Osborne tenements and the Mount Elliott region. Several large scale 3DIP surveys were completed within these areas and targets from these surveys are being defined for follow up in 2013. Top of basement geochemical surveys were conducted over both the Company's wholly owned and joint venture tenements targeting copper/gold and Cannington style deposits under up to 60 metres of Mesozoic cover. These surveys have provided the geological and geochemical context needed for focused drill targeting in 2013.

In November the Group completed the sale of its holding in Exco Resources Limited (Exco) which realized $19,192,000. A profit of $7,298,000 was recognized from this sale.

Also during November, the Group announced the launch of a 3 for 10 accelerated non-renounceable rights issue (Entitlement Offer) which raised proceeds of approximately A$75.5 million. The Group intended to use these proceeds as follows:

	Intended use of proceeds	Year to date use of proceeds
Repayment and termination of the Group's working capital facility	A$30 million	A$30.2 million
Infrastructure and completion of the Starra 276 mine ramp-up	A$17 million	A$4 million
Special exploration and development reserve	A$10 million	-
Working capital and provide funds for general corporate purposes	A$17-23 million	-
Total	**A$74-80 million**	**A$34.2 million**
Cash on hand available for use		**A$41.3 million**

As at 31 December 2012, Turquoise Hill Resources Limited owned 57% of the Group, a reduction from the previous year's holding of 59%.

Ivanhoe Australia is a reporting issuer in Ontario, Canada, and the Ordinary Shares trade under the symbol IVA on each of the Toronto Stock Exchange ("TSX") and the ASX. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

OUTLOOK

On 16 August 2012, Ivanhoe Australia released the results of its business review. The review confirmed Ivanhoe Australia's objective to build a profitable multi-mine, mid-tier mining company based initially on our tenements in the Cloncurry region. The review identified $69 - $74 million of capital expenditure savings over the next two years and $44 - $46 million of annual operating and overhead costs savings.

Key outcomes of the review include:

- Osborne Copper/Gold Operation - the Osborne operation would provide the best return by operating for at least the initial planned four year mine life to 2015. The Osborne open pit has been deferred from the mine plan pending further resource and economic definition work;
- Exploration – two clear priorities have been established. The first is to discover a new standalone economic copper project with potential for greater than 30 million tonnes and copper grades of over 2%. The second priority is to identify economic deposits close to the Osborne operation which would provide low cost mill feed to extend the economic life of the operation;
- Mount Elliott/SWAN – six drill holes planned into the high-grade zone (drilling has commenced); and
- Merlin Molybdenum-Rhenium Project – further technical and commercial work has commenced, with the aim of reducing the capital costs.

Additional capital and operating cost reductions have been identified and these along with increased production following the ramp up of production from the Starra mine during the second quarter of 2013 are expected to result in a decrease in operating unit costs.

Active strategic partnering discussions have been suspended pending the outcomes of the drilling and studies associated with the Mount Elliott/SWAN and Merlin projects.

As a producer of copper and gold in concentrate, Ivanhoe Australia's ability to generate positive operating results depends heavily on the prevailing prices for copper and gold. The concentrate produced contains predominantly copper by value.

The price for copper during the year has been relatively volatile, ranging between US$3.29 and US$3.93 per pound. The price for gold during the year varied between US$1,537 and US$1,790 per ounce. There is a risk that the volatility in commodity pricing will continue, potentially causing declines in copper and gold prices, which can affect the profitability of companies such as Ivanhoe Australia.

In addition, the Australian dollar: US dollar (AUD:USD) exchange rate impacts on Ivanhoe Australia's profitability. The company's sales of copper/gold concentrates are denominated in US dollars while the majority of its operating expenses are denominated in Australian dollars. Consequently, fluctuations in the AUD:USD exchange rate can affect operating results significantly.

FORWARD LOOKING STATEMENTS

Certain of the statements made and information contained herein are “forward-looking information” within the meaning of applicable Canadian securities legislation. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “propose”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. In particular, this MD&A contains forward-looking statements, pertaining to the following:

- the potential for the economic development of the Merlin Project, the Mount Elliott Project and the Company's other projects and production from same, including an update to the Merlin Project in Q2 2013;
- the potential for integration of the Osborne Facility into the development of other projects, including, in particular, the Merlin Project;
- first production from the Starra 276 mine during Q1 2013;
- the estimates of ore production from the mines and their delivery to the Osborne facility;
- the estimates of production throughput at the Osborne Facility;
- the potential copper and gold production and the schedule relating to the extraction of the same, from the Osborne Copper/Gold operation and potential integration of the Mount Elliott open pit deposit;
- the potential to achieve planned cost savings;
- market prices for molybdenum, rhenium, copper, gold and other commodities;
- foreign exchange rates;
- anticipated results of exploration and development activities; and
- availability of funding sources including those required for project financing.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and the following factors: (i) volatility in the market price for commodities; (ii) the inability to obtain the projected production rates at the Osborne Facilities (iii) uncertainties associated with estimating resources; (iv) geological, technical, or drilling problems; (v) liabilities and risks, including environmental liabilities and risks, inherent in mineral extraction operations; (vi) fluctuations in currency exchange and interest rates; (vii) unanticipated results of exploration activities; (viii) competition for, amongst other things, capital, undeveloped lands and skilled personnel; and (ix) lack of availability of additional financing and/or joint venture partners.

Forward-looking information contained herein is based on the opinions, estimates and assumptions of management. There are a number of important risks, uncertainties and other factors that could cause actual actions, events or results to differ materially from those described as forward-looking information. In particular, important factors that could cause actual results to differ from this forward-looking information include those described under the heading “Risk Factors” in this MD&A. IAL disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates, opinions or assumptions, future events or results or otherwise except to the extent required by law. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking information in this MD&A is expressly qualified by this cautionary statement. The reader is cautioned not to place undue reliance on forward-looking information.

PROJECTS

Ivanhoe Australia's key projects and operations are all situated on granted mining leases ("Mining Leases" or "MLs").

Osborne Copper/Gold operation

The Osborne Copper/Gold operation commenced operation in March 2012 and has performed well during the year producing in excess of 50,000 tonnes of concentrate, completing four shipments and with a closing concentrate inventory at year end sufficient for an additional shipment. The processing plant has performed in line with plan during 2012 due to a combination of consistent ore feed and uniform blending. Ore milled for the year totalled 788,820 tonnes which was within the initial guidance range of 700,000 to 900,000 tonnes. Recovery rates during 2012 averaged 93.9% for copper and 78.1% for gold. The plant produced 51,619 dry metric tonnes of concentrate for the year containing 12,220 tonnes of copper. Gold production in both concentrate and doré totalled 17,269 ounces for the year.

A total of 773,928 tonnes of ore was mined from both the Kulthor and Osborne underground mines. The operation also continued to develop the Starra mine with first production expected during Q1 2013. The haul road linking the Starra mine to the Osborne processing facility was largely finalised with final completion planned for early 2013 to enable transport of Starra ore to the processing plant. In 2013, the Osborne Copper/Gold operation expects to mine between 1,400,000 and 1,600,000 tonnes from its three mines.

The table below summarises production for the year

Osborne Copper/Gold Production Statistics - 2012

		Annual 2012
ORE MINED	TONNES	773,928
ORE MILLED	TONNES	788,820
MILLED GRADE	COPPER (%)	1.67
	GOLD (G/T)	0.88
RECOVERY	COPPER (%)	93.9
	GOLD (%)	78.1
COPPER CON. PRODUCED	DRY TONNES	51,619
CONCENTRATE GRADE	COPPER (%)	23.6
	GOLD (G/T)	9.3
CONTAINED METAL IN CON. PRODUCED	COPPER (TONNES)	12,220
	GOLD (OZ)	15,479
GOLD DORÉ PRODUCED	OUNCES	1,790
TOTAL CONCENTRATE SOLD	DRY METRIC TONNES	38,539
CONCENTRATE INVENTORY ON HAND*	DRY METRIC TONNES	13,080

Consolidation of the underground mining and maintenance activities of Kulthor, Osborne and Starra progressed during Q4 2012, with award and finalisation of the contract during the period.

On 16 August 2012, Ivanhoe Australia released the revised Osborne operating plan for the 2012-2015 periods; part of the Business Review. The current operating plan for the Osborne operation is detailed in the following table:

Year	Description	Tonnes & Grade
2012	Continue mining Osborne and Kulthor	0.7-0.8Mt @ 1.5-1.7% Cu and 0.7-0.9 g/t Au
2013 & 2014	Mining Kulthor and Starra 276	1.4-1.6Mt @ 1.3-1.5% Cu and 0.8-1.0 g/t Au
2015	Mining Kulthor and Starra 276	0.7-0.9Mt @ 1.5-1.7% Cu and 0.8-1.0 g/t Au

The development of Starra 276 is on track to provide mill feed in the first quarter of 2013. Two cross-cuts into the orebody are currently being mined as part of the development, being the start of the first two productive levels. Grade control drilling at the first stoping level is confirming the overall resource model.

There has been a solid performance from Kulthor with ore delivered to the Osborne processing facility in line with plan. Initial assessment of the Mineral Resource upgrade announced in September 2012 indicates that Kulthor has the potential to continue production beyond 2015 as currently planned. Studies to confirm any possible extension are expected to be finalised in early 2013.

An initial assessment of recent diamond drilling suggests that production could also be extended from Starra 276 to the end of 2015 at similar grades of copper and gold. A full assessment of any possible extension of the ore body will be undertaken during the coming year.

Merlin Project

The Merlin Project is a molybdenum and rhenium mineralized zone underlying the Mount Dore Cathode Copper Project. The deposit dips east at between 45 and 55 degrees. To date, drilling has defined mineralization to vertical depths ranging from 60 to 580 metres and over a strike length of 1,000 metres. The overall mineralized zone comprising the Merlin Project has an average true width of 3.9 metres and ranges between two and 20 metres. The mineralization zone consists of high-grade breccias and a lower-grade, generally thicker disseminated zone. Mineralization thins to the north, where the copper, zinc and gold content increases, while to the south it flattens and pinches out. The Little Wizard Deposit represents the southern-most extent of the Merlin Project found to date.

The technical review of the Merlin project has identified that there are some opportunities to further enhance the technical and commercial aspects of the project. These include metallurgical testwork which has the potential to significantly reduce the capital cost and thereby improve returns. A program of testwork has commenced at the Ian Wark Research Centre in Adelaide. This testwork will examine the fundamental surface characteristics of the ore with the aim of improving the flotation performance of the molybdenite. The findings from this work will be used to examine ways of increasing the molybdenum-rhenium concentrate grade.

A sales and marketing study has also been commissioned through a molybdenum and rhenium consultancy company.

This technical and commercial work is expected to enable an update of the project during the second quarter in 2013.

Mount Elliott Project

Mount Elliott is a large copper/gold mineralised system located in north western Queensland, Australia with the potential to provide Ivanhoe Australia with a long life production base. The Mount Elliott Project hosts three principal zones of copper/gold mineralization: Mount Elliott, SWAN and SWELL.

The geology of the higher grade SWAN zone of the Mount Elliott project requires further definition to provide confidence in grade continuity. Three diamond drill holes were completed late in 2012 to test the higher grade (>0.8% copper equivalent) zone continuity within the SWAN deposit. Additional drilling combined with further geological analysis is planned to enable an update of the SWAN resource model in the second quarter of 2013.

Exploration

Ivanhoe Australia, in the Cloncurry region, north western Queensland, Australia, has 44 granted Exploration Permits for Minerals (EPMs) with a total area of 5,686 km2 including joint ventures, and 3 EPM applications with a total area of 601 km2. The granted EPMs include 12 EPMs in the Ivanhoe Australia / Exco joint venture (423 km2), and two EPMs in the Goldminco / Ivanhoe (Osborne) joint venture (70 km2).

Exploration during 2012 focused on extending mineralisation at Kulthor and discovering additional copper/gold deposits within the Osborne tenements and the Mount Elliott region. Several large scale 3DIP surveys were completed within these areas and targets from these surveys are being defined for follow up in 2013. Top of basement geochemical surveys were conducted over both the Company's wholly owned and joint venture tenements targeting copper/gold and Cannington style deposits under up to 60 metres of Mesozoic cover. These surveys have provided the geological and geochemical context needed for focused drill targeting in 2013.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and will continue to be, affected by a number of factors, many of which may be beyond our control, including those factors set out in the section entitled "Risk Factors" in this MD&A.

HISTORICAL FINANCIAL INFORMATION

Basis of Presentation

The financial report (also referred to as "financial statements") have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

RESULTS OF OPERATIONS OF OUR COMPANY

Selected Historical Annual and Quarterly Data[(1)(2)]

	2012					2011					2010
Period Ended (*Period*)	31-Dec (*Year*)	31-Dec (Quarter)	30-Sep (Quarter)	30-Jun (Quarter)	31-Mar (Quarter)	31-Dec (*Year*)	31-Dec (Quarter)	30-Sep (Quarter)	30-Jun (Quarter)	31-Mar (Quarter)	31-Dec (*Year*)
Revenue	86,639	43,334	21,766	21,539	-	-	-	-	-	-	-
Interest and other revenue	3,489	353	406	899	1,831	7,344	2,086	1,296	1,748	2,214	3,804
Operating expenses	(75,542)	(32,906)	(17,787)	(19,316)	(5,533)	-	-	-	-	-	-
Evaluation expenses	(48,809)	(5,561)	(11,286)	(13,395)	(18,567)	(74,059)	(19,502)	(24,135)	(18,863)	(11,559)	(39,492)
Exploration expenses	(47,380)	(8,146)	(9,031)	(13,280)	(16,923)	(64,241)	(20,639)	(16,370)	(15,485)	(11,782)	-
Administration expenses	(21,706)	(3,302)	(4,704)	(8,177)	(5,523)	(17,463)	(4,983)	(4,540)	(3,994)	(3,946)	(32,040)
Depreciation expenses	(2,224)	(245)	(685)	(671)	(623)	(1,686)	(491)	(551)	(393)	(251)	(934)
Finance costs	(2,554)	(1,155)	(1,350)	(38)	(11)	(2,537)	(308)	(628)	(1,073)	(528)	(3,789)
Royalty costs	(3,599)	(1,839)	(790)	(970)	-	-	-	-	-	-	-
Rehabilitation expenses	(875)	(875)	-	-	-	484	484	-	-	-	-
Share of profits / (losses) of associates	247	-	551	(1,044)	740	36,640	394	(11,431)	42,642	5,035	(959)
Impairment of associates	(3,022)	-	(1,344)	(542)	(1,136)	(11,017)	(11,017)	-	-	-	-
Change in fair value of financial assets classified through profit or loss	-	-	-	-	-	(203)	-	-	(42)	(161)	(4,320)
Gain on sale of assets held for sale	7,298	6,327	971	-	-	-	-	-	-	-	-
Other expenses	(1,457)	(910)	(272)	(177)	(98)	(133)	24	(59)	(45)	(53)	(72)
Income tax benefit / (expenses)	(733)	(156)	-	(814)	237	475	746	(169)	(34)	(68)	(984)
Net (loss)/income after tax	**(110,228)**	**(4,652)**	**(23,348)**	**(35,982)**	**(45,548)**	**(126,396)**	**(53,187)**	**(56,585)**	**4,468**	**(21,092)**	**(78,786)**
Basic (loss)/earnings per share	($0.19)	($0.01)	($0.04)	($0.06)	($0.08)	($0.28)	($0.11)	($0.13)	$0.011	($0.05)	($0.22)
Diluted (loss)/ earnings per share	($0.19)	($0.01)	($0.04)	($0.06)	($0.08)	($0.28)	($0.11)	($0.13)	$0.011	($0.05)	($0.22)
Total assets		280,339	238,962	242,952	273,663		314,832	291,324	262,860	246,487	262,927
Total non-current liabilities		(39,288)	(31,279)	(30,981)	(30,914)		(30,955)	(62,776)	(62,237)	(68,757)	(69,115)

(1) $ in thousands, except for share information.
(2) No dividend has been paid by the company since inception.

Discussion of the Results of Operations for the three months to December 31, 2012 (Q4) and year-ended December 31, 2012 compared to corresponding prior year periods

Dollar amounts disclosed in this section have been rounded to the nearest $100,000, unless otherwise stated.

Revenue

Sales revenue for the three month period was $43.3 million (2011: nil) and $86.6 million (2011: nil) year-to-date. The sales revenue earned for the three month period is attributable to the third and fourth shipments of copper concentrate for $42.1 million representing payable copper, gold and silver. The Company also sold three parcels of gold doré during the period for $1.2 million representing payable gold and silver.

Year-to-date sales revenue is attributable to the four shipments of copper concentrate for $83.6 million, and seven parcels of gold doré for $3 million.

Interest Revenue

Interest revenue for the three month period was $0.4 million (2011: $2.1 million) and $3.5 million (2011: $7.3 million) year-to-date. The decrease in interest earned is attributable to the decrease in surplus cash on deposit compared to the prior periods. There was a cash balance at the end of the period of $45.8 million and $24.9 million in security deposits (2011: $166.4 million and $23.7 million in security deposits).

Operating expenses

Operating expenses were $32.9 million for the three month period (2011: nil) and $75.5 million (2011:nil) for the year. These costs are attributable to the Osborne Copper - Gold operations and include the treatment, refining and shipping costs of the copper concentrate and the depreciation of property, plant and equipment specifically used in the operations. This also includes adjustments required for ore and concentrate produced, sold and held as inventory at the end of the period.

The Osborne Copper - Gold operation mined ore from the Osborne and Kulthor underground mines totalling 253,211 tonnes in the three month period and 773,928 tonnes year-to-date. The processing plant milled 245,209 tonnes in the three month period at a copper recovery rate of 95% and gold recovery rate of 80%. It should be noted that the processing plant is not in full production but has been running as planned on 8 day campaigns (out of every 14 day shift roster). The processing plant milled 788,820 tonnes during 2012.

Evaluation expenses

Evaluation expenses were $5.5 million (2011: $19.5 million) for the three month period. The expenditure is due to:

- Resource development costs of $3.6 million (2011: $6.5 million). The drilling program for the three month period included diamond drilling of 3,202 metres (2011: 9,168m). Drilling was focused on the Starra 276 and Mt Elliott deposits. There was also underground drilling performed of 4,873m (2011: 3,239m) at Starra 276 and Osborne / Kulthor to delineate resources.

- No site related project development costs were incurred for the quarter (2011: $8.7 million) due to all site related administration and maintenance costs now being absorbed by the Osborne Copper - Gold operation, with only a limited charge for administration being incurred by the site Exploration program. The prior year activities included extensive site preparation for the Osborne Copper - Gold operation prior to its commencement in the first quarter of 2012; and

- Projects costs of $1.9 million were incurred (2011: $4.3 million) associated with follow up work on the Merlin feasibility study, the Mount Dore cathode copper pre-feasibility study and support studies for the Osborne Copper - Gold operation and infrastructure optimisation.

Evaluation expenses (continued)
Evaluation expenses for the year were $48.8 million (2011: $74.1 million). The expenditure is due to:

- Resource development costs of $20.8 million (2011: $17.9 million). The drilling program for the year included diamond and RC drilling of 31,762 metres (2011: 34,101m). Drilling has been largely focused on the Starra 276, Osborne / Kulthor, and Mt Elliott deposits. There was also underground drilling performed of 16,124m (2011: 4,595m) at Merlin, Osborne / Kulthor and at Starra 276 to delineate resources;

- Site associated costs of $16.6 million (2011: $42.9 million) relate to the development activities at the sites. The prior year activities included extensive site preparation for the Osborne Copper - Gold processing facility and also underground works that were expensed to the income statement prior to the release of the Osborne Copper - Gold Preliminary Economic Analysis (PEA) report in the third quarter of 2011; and

- Projects costs of $11.4 million (2011: $13.2 million) associated with the preparation and follow up work on the studies under review during the year (Merlin feasibility study, Mount Dore cathode copper pre-feasibility study, the Mount Elliott scoping study, support studies for the Osborne Copper - Gold operation and infrastructure optimisation studies).

Exploration expenses
Exploration expenses were $8.1 million (2011: $20.6 million) for the three month period. The reduction in expenditure compared with the prior year is a result of the planned reduction in exploration expenditure as a consequence of the strategic review announced on 16 August 2012. Exploration expenditure is planned to reduce further in line with announced expenditure plans.

The expenditure is due to:

- Exploration costs in the Cloncurry region, including joint ventures, of $6.8 million (2011: $13.2 million). The drilling program for the three month period included diamond, RC and AC drilling of 15,039 metres (2011: 13,452m);

- The care and maintenance costs associated with the Merlin exploration decline of $0.2 million (2011: $7 million). The 2011 period costs related to the construction progression of the Merlin decline; and

- Emmerson JV expenditure of $1.1 million (2011: $0.4 million).

Exploration expenses for the year were $47.4 million (2011: $64.3 million). The expenditure is due to:

- Exploration costs in the Cloncurry region, including joint ventures, on Ivanhoe Australia's wholly owned tenements of $38 million (2011: $40.6 million). The drilling program for the year included diamond, RC and AC drilling of 68,107 metres (2011: 49,779 metres);

- The progression of the Merlin exploration decline in the first quarter and care and maintenance in subsequent periods, collectively totaling $7.4 million (2011: $22 million); and

- Emmerson JV expenditure of $2 million (2011: $1.7 million).

Administration expenses
Corporate administration expenses for the three month period were $3.3 million (2011: $5.0 million) and $21.7 million (2011: $17.5 million) for the year. Administration expenses continue to reduce in the three month period in comparison to 2011, in line with cost saving measures announced during the year. The expenditure for the year was higher due to one-off establishment costs associated with the commencement of the Osborne operations relating to production, communication and safety systems, legal and contracts management and the introduction of a comprehensive business interruptions insurance policy. Administration expenses also include redundancy costs incurred throughout the year of $1.4 million.

Depreciation expenses
Depreciation expenses for the three month period were $0.2 million (2011: $0.5 million) and $2.2 million (2011: 1.7 million) for the year. This depreciation expense relates to the depreciation of property, plant and equipment related to the Osborne / Mt Dore sites not specifically used in the Osborne Copper - Gold operations. The increase in depreciation for the three month and year-to-date periods is driven by an increase in the underlying carrying value of property, plant and equipment, due to the replacement and acquisition of sustaining capital items.

Finance costs
Finance costs for the three month period were $1.2 million (2011: $0.3 million) and $2.6 million (2011: $2.5 million) for the year. These costs are primarily attributable to fees and interest incurred on funds drawn down from a working capital facility, executed in August 2012, with Turquoise Hill. The comparative finance costs for the prior three month and prior year-to-date periods were largely incurred on a loan from Turquoise Hill which was repaid in full in October 2011.

Royalty costs
Royalty costs for the three month period were $1.8 million (2011: nil) and $3.6 million year-to-date (2011: nil). This cost reflects the royalty payable to taxation authorities and third parties on the sales revenue recognized.

Results of associates & impairment of investment in Exco Resources Limited (Exco)
There was no profit / loss of associate (Exco) for the three month period due to the Exco Investment being transferred to “Assets Held for Sale” in the prior quarter (2011: profit $0.4 million) and a profit of $0.2 million (2011: profit of $36.6 million) for the year. The significant share of profit for the prior year was a result of Exco’s sale of its Cloncurry Copper Project to Xstrata Copper for $175 million which was completed in June 2011. There was no impairment for the three month period (2011: $11 million) and $3.0 million for the year (2011: $11 million) recorded on the Exco investment, recognising that the book value exceeded the market share price valuation.

On 16 August 2012, the investment in Exco was reclassified as “Held for Sale” as a result of management’s intention to sell the shareholding in Exco. Therefore the investment ceased to be accounted for under the equity method at this date.

Gain in assets Held for Sale
There was a gain on sale of assets held for sale of $6.3 million (2011: nil) for the three month period and $7.3 million for the year (2011: nil). This was as a result of the completion of the sale of the Exco Resources Limited shareholding to Washington H. Soul Pattinson (WHSP). The sale occurred in two transactions being:

- On 23 August 2012, 24.3 million shares were sold for $0.19 per share; and
- On 19 November 2012, 55 million shares were sold for $0.265 per share

Change in fair value of financial assets classified through profit or loss
The change in fair value of the financial assets recorded no movement in the income statement for the three month period (2011: nil) and year-to-date (2011: loss of $0.2 million). This is due to the Emmerson share options lapsing and being written off in the prior year.

Gain / (loss) on available-for-sale investments taken to equity
There was a loss on available-for-sale investments of $0.5 million for the three month period (2011: gain of $2.5 million). Year-to-date there was a loss of $2.4 million (2011: gain of $1.6 million). These are a result of the movement in the market value of shares held in Emmerson.

Income tax benefit / (expense)
There was an income tax expense of $0.2 million for the three month period (2011: Benefit of $0.7 million). Year-to-date there was an income tax expense of $0.7 million (2011: Benefit of $0.5 million). These are related to the deferred tax attributable to the movement in the fair value of the Emmerson shares held by the Company.

SELECTED BALANCE SHEET ITEMS
(Statement of Financial Position)

Trade and other receivables

Trade and other receivables primarily represents amounts due from sales of concentrate, recharge invoices to related entities or contractors, accrued interest, goods and services tax (GST) recoverable, and prepayments. A provision for impairment of other receivables has been recognized where there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables

Trade and other receivables decreased by $1.3 million to $7.4 million as at December 31, 2012 (2011: $8.7 million). This movement was primarily due to a decrease in prepayments of $2.6 million offset by a net increase in receivables of $1.3 million.

Prepayments represent insurances, government levies, software licenses and gas credits paid for in advance by the Company. The decrease of $2.6 million for the year is largely due to gas credits under the Osborne gas supply agreements of $2.5 million being expensed during the year.

The following table sets forth an aging analysis of trade and other receivable as of the dates indicated:

	December 31, 2012 $,000	December 31, 2011 $,000
Less than 1 month	**4,883**	3,803
1 to 6 months	**984**	171
Over 6 month	**71**	-
Total accounts receivable	**5,938**	3,974
Provision for impairment of other receivables	**(649)**	-
Net accounts receivable	**5,289**	3,974
Prepayments	**2,154**	4,708
Total Trade and other receivables	**7,443**	8,682

As of February 22, 2013, 42.4% of our net accounts receivables as of December 31, 2012 had been settled.

Inventories

Inventories represent copper ore, copper concentrate, and consumable supplies & spares parts located at the Osborne site. Ore and Concentrate stock sourced from the Osborne Copper - Gold project totaled $23.3 million (2011: $2.8 million). Total supplies and spare parts were $7.5 million (2011: $6.9 million).

Bank security deposits

Bank security deposits of $24.9 million (2011: $23.7 million) represent cash invested in term deposits as security for the bank guarantees provided primarily to the Queensland Department of Mines and Energy. The increase from the prior year relates to an additional security deposit in support of gas supply arrangements.

Trade and other payables (current)

Trade and other payables primarily represent trade payables. Trade and other payables decreased to $22.4 million (2011: $33.7 million). The trade payables are incurred in relation to the operating and investing activities of the Company.

Provisions

Total provisions (current and non–current) represent employee benefits, a take or pay gas supply liability recorded as part of the Osborne acquisition, and Asset Rehabilitation Obligations (ARO) for the Osborne Copper/Gold operations. Total provisions increased by $7.3 million to $42.8 (2011: $35.5 million). The increase was primarily due to an increase to the ARO provision of $9.9 million, offset by a decrease in the liability for scheduled payments under the gas supply contract for the Osborne Facility of $2.8 million.

LIQUIDITY AND CAPITAL RESOURCES

We operate in a capital intensive industry. Our liquidity requirements have arisen principally from the need of funding to finance exploration and development, the acquisition of exploration and mining rights and the costs associated with bringing the Osborne Copper/Gold operation into production in 2012. Our principal sources of funds have been proceeds from an entitlement offer of $75.6 million completed in November 2012, proceeds from an equity placement completed in November 2011 of $180 million and the September 2010 entitlement offering raising $269 million. In addition, the Company from time to time has obtained parent entity short term funding. The Company secured a twelve-month US$50 million working capital facility from Turquoise Hill in the prior quarter which was repaid from the proceeds of the November 2012 entitlement offer. In addition, the Company now generates income from the sale of copper and gold in both concentrate and doré form.

The Company's working capital requirements are dependent on generating positive cashflows from its Osborne Copper/Gold operations. These cashflows may vary from expectations due to changes in production, costs and external market factors. The Company will consider various forms of funding including the sale of project interests, equity issuance and/or debt issuance should operating cashflows be insufficient to meet the liquidity needs of the Company. The Company may also require additional funding to progress its development projects.

At December 31, 2012 the Company had available cash reserves of $45.8 million.

Cash flows

The following table sets out selected cash flow data from the consolidated cash flow statements for the year ended December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
	$,000	$,000
Net cash flows used in operating activities	**(124,159)**	(114,668)
Net cash flows used in investing activities	**(69,632)**	(24,125)
Net cash flows provided by financing activities	**73,181**	146,229
Net increase / (decrease) in cash and cash equivalents	**(120,610)**	7,436
Cash and cash equivalents, beginning of period	**166,419**	158,983
Cash and cash equivalents, end of period	**45,809**	166,419

Operating cash flow

Net cash used in operating activities was $124.2 million (2011: $114.7 million) for the year. Payments to suppliers and employees increased by $88.0 million, which was largely offset by sales revenue received of $83.5 million (2011: nil). The additional payments to suppliers and employees were required for the Osborne Copper - Gold operation which commenced production during the year.

Investing cash flow

Net cash used in investing activities was $69.6 million (2011: $24.1 million). Investing activities consisted of proceeds from the Exco Resources Limited shareholding of $19.2 million (2011: $nil), a bank guarantee of $1.2 million provided (2011: $23.6 million) and capital costs incurred, largely on mine development of the Osborne, Kulthor and Starra 276 underground mines, the haul road linking the Starra 276 mine with the Osborne processing complex, and the Osborne power station upgrade. Total capital costs (payments for property, plant and equipment) were $87.6 million (2011: $30.6 million).

Financing cash flow

Net cash provided by financing activities was $73.2 million (2011: $146.2 million) which was made up of funds from an entitlement offer of $75.6 million completed in November 2012, less share issue costs of $2.4 million. Cash provided from financing activities in the prior year period were from the equity placement in September 2011, which was offset by the repayment of an outstanding loan to the Parent Entity.

Commitments and contingencies

The company has operating leases, exploration, capital and operating commitments as at December 31, 2012. The company expects to fund these commitments with cash flows from operations and cash on hand. The Company may also require additional funding to progress its exploration and development projects.

Operating leases

These amounts mainly represent commitments for future operating payments under contracts for rentals and other arrangements. The following table sets forth our future aggregate minimum operating lease payments under these operating leases as of the dates indicated:

	December 31, 2012	December 31, 2011
	$,000	$,000
Within one year	**374**	374
Between two to five years	**811**	1,185
Greater than five years	**-**	-
Total:	**1,185**	1,559

Exploration commitments

In order to maintain current rights of tenure to exploration and mining tenements there is an annual exploration expenditure requirement up until the expiry of such tenements. These obligations, which are subject to renegotiation upon expiry, are not provided for in the financial statements. The following table sets forth the exploration minimum commitments under the exploration permits as of the dates indicated:

	December 31, 2012	December 31, 2011
	$,000	$,000
Within one year	**4,655**	**4,438**
Between two to five years	**28,677**	**23,771**
Greater than five years	**-**	**-**
Total:	**33,332**	**28,209**

Capital commitments

The following table sets forth capital commitments for IAL's operations and associated payments as of the dates indicated:

	December 31, 2012	December 31, 2011
	$,000	$,000
Capital expenditure in respect of construction of the Merlin Project decline (1)	**-**	816
Capital expenditure in relation to the development of the Kulthor, Osborne and Starra 276 declines (1)	**-**	724
Capital expenditure relation to the of conversion of engines to dual fuel and automation upgrade at the Osborne Power Station (2)	**1,488**	5,945
Total:	**1,488**	7,485

(1) The above capital commitment is calculated in accordance with minimum contractual commitment payable to the contractor in the event Ivanhoe Australia terminates the contract prior to completion of agreed scope of works.
(2) The above capital commitment is calculated in accordance with minimum contractual commitment payable to the contractor, and represents the remaining fixed sum contract price payable under the contract payment schedule.

Operating commitments

The following table sets forth operating commitments for IAL's operations and associated payments as of the dates indicated:

	December 31, 2012	December 31, 2011
	$,000	$,000
Supply of services to site operations (1)	**7,250**	4,380
Total:	**7,250**	4,380

(1) The above operating commitment is calculated in accordance with minimum contractual commitment payable to the contractor in the event Ivanhoe Australia terminates the contract prior to completion of agreed scope of works.

Financial instruments and other instruments

Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. As the Company has only recently begun producing, it has limited third party exposure. Cash and term deposits are only made with selected counterparties with a strong credit rating. Maximum exposure to credit risk is as follows:

	December 31, 2012 $,000	December 31, 2011 $,000
Cash and term deposits	45,809	166,419
Security deposits (non-current)	24,881	23,659
Net accounts receivable	5,289	3,974
Total:	75,979	194,052

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Liquidity risk is managed through the management of our capital structure, financial leverage and expenditure plans.

During the year to December 31, 2012, the Company has:

- Raised proceeds from an entitlement offer of $75.6 million;
- Drawn down and fully repaid a $30.2 million working capital facility provided by Turquoise Hill Resources; and
- Generated income of $86.6 million from the sale of copper concentrate and gold doré.

At December 31, 2012, the Company did not have any debt funding and had a net current asset position of $58.1 million that consisted of:

- $45.8 million in cash;
- $7.4 million in trade and other receivables;
- $30.8 million of inventory on hand;
- ($22.5) million of trade and other payables; and

($3.4) million of current provisions. The Company's ability to develop its projects, including the Merlin and Mount Elliott projects is dependent on future production and sale of copper and gold and raising additional funds.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that we will realize a loss as a result of a decline in the interest rates relates to our variable rate bank balances, and the risk is limited because these future cash flows are not material.

Our historical outstanding loans had variable interest rates and therefore were subject to interest rate fluctuations. The Company repaid the historical loans in October 2011.

On 10 August, 2012, the Company entered into a secured US$50 million working capital facility. The facility had variable interest rates and was therefore subject to interest rate fluctuations. The Company had exposure to movements in the LIBOR rate. As at 31 December 2012, the working capital facility has been fully repaid.

As at 31 December 2012, the Group held a cash balance of $45.8 million and $24.9 million in security deposits (2011: $166.4 million and $23.7 million in security deposits) with interest revenue of $3.5 million (2011: $7.3 million) for the year then ended. As at 31 December 2012, the Group has $nil outstanding borrowings (2011: $nil).

An increase of 15 basis points in the interest rate receivable on our cash and cash equivalents would have resulted in an increase in our total amounts receivable of approximately $0.1 million for the year ended December, 2012. We monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Metals Prices and Foreign Exchange

Our operating results and financial condition depend upon the market prices of metals, which are cyclical and which can fluctuate widely with demand for our metals. Demand is affected by numerous factors beyond our control, including the overall state of the economy, general level of industrial production, interest rates, rate of inflation, foreign exchange rates and investment demand for commodities. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments.

Future price declines may, depending on hedging practices, materially reduce our profitability and could cause us to reduce output at our operations (including, possibly, closing one or more of our mines), all of which could reduce our cash flow from operations resulting in liquidity pressure.

In addition, since our core operations are located in Australia, our costs are incurred primarily in Australian dollars. However, our revenue is tied to market prices for copper, gold and other metals we produce, which are typically denominated in United States dollars. If the Australian dollar appreciates in value against the United States dollar, our results of operations and financial condition could be materially adversely affected. Although we may use hedging strategies to limit our exposure to currency fluctuations, there can be no assurance that such hedging strategies, if implemented, will be successful or that they will mitigate the risk of such fluctuations.

CONTINGENT LIABILITIES

	December 31, 2012 $,000	December 31, 2011 $,000
Details and estimates of maximum amounts of contingent liabilities are as follows:		
Office leases (i)	**514**	514
Gas supply arrangements (iii)	**1,222**	-
Total:	**1,736**	514

(i) The Company provided a bank guarantee for the lease of premises in Melbourne and Townsville. A deposit is held with the bank as the underlying security.

(ii) The Company provided a bank guarantee in support of its gas supply arrangements. A deposit is held with the bank as the underlying security.

In addition to the above, The Company provided a bank guarantee to the Queensland Department of Mines and Energy in satisfaction of financial assurances required to be held to ensure compliance with relevant provisions of the Mineral Resources Act 1989, the Environmental Protection Act 1994 and Environmental Protection and Other Legislation Amendment Act 2000. The company has recognized a rehabilitation liability in respect of this guarantee provided. A deposit is held with the bank as the underlying security for the bank guarantee.

RELATED PARTY TRANSACTIONS

Transactions between Ivanhoe Australia and its related parties

All amounts advanced to or payable to related parties are unsecured (with the exception of Turquoise Hill Graduated Working Capital Facility) and are subordinate to other liabilities and will be settled in cash. Transactions between the Company and its subsidiaries were eliminated in the preparation of consolidated statements. Except as has been detailed elsewhere in this MD&A, no guarantees have been given to, or received from, related parties. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by other related parties. Transactions between the Company and an associate (if any) were eliminated in the preparation of consolidated statements.

During the year, the following transactions occurred between the Company and its related parties:

<u>Parent entity (i)</u>

(i) Ivanhoe Australia's parent entity changed its named to Turquoise Hill Resources Limited ("Turquoise Hill") from Ivanhoe Mines Ltd. on August 2, 2012.

During the year the company held a US$50 million graduated working capital facility (2011: nil) from Turquoise Hill, repayable no later than 12 months from signing the formal agreement (10 August 2012). Interest accrued at a rate of LIBOR plus 5% per annum.

On 27 November 2012, the funds drawn down on the working capital facility were fully repaid by repayment of $30,298,111 to Turquoise Hill Resources Limited.

During the year ended 31 December 2012, the company paid $2,452,952 in interest and fees on the working capital facility (2011: $nil).

As at 31 December, loans totalling $nil are repayable to Turquoise Hill Resources Limited (2011: $nil).

<u>Parent entity – Turquoise Hill Resources Limited</u>

- Turquoise Hill charged Ivanhoe Cloncurry Mines $0.5 million (2011: $0.5 million) for reimbursement of costs incurred.
- Ivanhoe Cloncurry Mines charged Turquoise Hill $0.5 million (2011: $0.9 million) for consultancy fees and reimbursement of costs incurred.

<u>Other related parties</u>

- I2MS Pte Ltd. ("I2MS") provided IT services (including the cost and installation of new software systems) which were charged to the Company at a cost of $1.2 million (2011: $1.8 million). I2MS is a private company 100% owned by Turquoise Hill. I2MS provides information technology and other related services to the Company on a cost-recovery basis.
- Global Mining Management Corp. ("Global Mining") charged Ivanhoe Australia for reimbursement of costs incurred of $0.1 million (2011: $0.1 million). Global Mining is a private company based in Vancouver owned equally by seven companies, one of which is Turquoise Hill. Global Mining has a director in common with Turquoise Hill. Global provides administration, accounting and other services to the Company on a cost-recovery basis.
- Ivanhoe Australia charged African Minerals Barbados Ltd ("African Minerals") for geophysics services at cost for $0.1 million (2011: $0.1 million). African Minerals is a subsidiary of Ivanplats Limited. Mr Robert Freidland is the Executive Chairman and Founder of Ivanplats Limited, and also holds a 10% shareholding in Turquoise Hill.

- Ivanhoe Australia charged I – Pulse Inc (“I-Pulse”) for geophysics services at cost for $0.3 million (2011: $0.1 million). Mr Robert Freidland is a Director and substantial shareholder of I-Pulse, and also holds a 10% shareholding in Turquoise Hill.
- Ivanhoe Australia charged Platreef Resources Pty Ltd (“Platreef Resources”) for geophysics services at cost for $0.1 million (2011: $0.1 million). Platreef Resources is a subsidiary of Ivanplats Limited. Mr Robert Freidland is the Executive Chairman and Founder of Ivanplats Limited, and also holds a 10% shareholding in Turquoise Hill.
- Ivanhoe Capital Services Limited (“ICS”) charged Ivanhoe Cloncurry Mines Pty Limited consultancy fees of $nil (2011: $0.1 million). ICS is a private company 100% owned by Mr Robert Freidland, who also holds a 10% shareholding in Turquoise Hill. ICS provides management services out of Singapore on a cost-recovery basis.
- Ivanhoe Capital Corp. Singapore (“ICC Singapore”) charged Ivanhoe Australia Limited $nil (2011: $0.1 million) for reimbursement of costs incurred. ICC Singapore is a private company 100% owned by Mr Robert Freidland, who also holds a 10% shareholding in Turquoise Hill.
- Ivanhoe Capital Corp. (“ICC Vancouver”) charged Ivanhoe Australia Limited $nil (2011: $0.1 million) for reimbursement of costs incurred. ICC Vancouver is a private company 100% owned by Mr Robert Freidland, who also holds a 10% shareholding in Turquoise Hill.
- Ivanhoe Philippines, Inc. charged Ivanhoe Cloncurry Mines Pty Limited for consultancy fees and reimbursement of costs incurred of $0.1 million (2011: $0.1 million). Ivanhoe Philippines changes its name to Turquoise Hill Resources Philippines Inc in August 2012. This is a 100% owned subsidiary of Turquoise Hill and is engaged in exploration activities in the Philippines.
- Ivanhoe Capital Aviation Ltd (“Aviation”) charged Ivanhoe Australia Ltd for management and investor related services and the reimbursement of travel costs incurred of $0.2 million (2011: $0.9 million). Aviation is a private company 100% owned by Mr Robert Freidland, who also holds a 10% shareholding in Turquoise Hill. ICS provides management services out of Singapore on a cost-recovery basis.

The following balances arising from transactions between the Company and its related parties are outstanding as of December 31, 2012:

- Net payables totaling $0.1 million are payable to Turquoise Hill (2011: $0.1 million net receivable).
- Net payables totaling $0.1 million are payable to I2MS (2011:$0.2 million).
- Net payables totaling nil are payable to Global Mining (2011:$0.1 million).
- Net payables totaling nil are payable to Ivanhoe Capital Aviation Ltd (2011:$0.1 million).
- Net payables totaling nil are payable to Ivanhoe Philippines Inc. (2011:$0.1 million).
- Net receivables totaling $0.1 million are due from African Minerals (2011:$0.1 million).
- Net receivables totaling $0.1 million are due from I-Pulse (2011:$0.1 million).
- Net receivables totaling $0.1 million are due from Platreef Resources (2011:$0.1 million).

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2012 the company had not entered into any off-balance sheet arrangements.

DIVIDEND AND DIVIDEND POLICY

Ivanhoe Australia has not, since the date of its incorporation, declared or paid any dividends on its Ordinary Shares, and does not currently have a policy with respect to the payment of dividends. For the foreseeable future, Ivanhoe Australia anticipates that it will retain future earnings and other cash resources for the operation and development of business. The payment of dividends in the future will depend on the earnings, if any, and the financial condition of the Company and such other factors as the directors of Ivanhoe Australia consider appropriate.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Ivanhoe Australia's financial statements (also referred to as "financial report") have been prepared in accordance with the Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards include the Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Company comply with International Financial Reporting Standards ("IFRS").

The Company files its financial statements with Australian and Canadian regulators in accordance with IFRS.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A summary of all of the Company's significant accounting policies and the estimates derived there from is included in Note 2 to the Annual Financial Report for the year ended December 31, 2012. While all of the significant accounting policies are important to the Company's financial statements, the following accounting policies and the estimates derived there from have been identified as being critical:

- Impairment of tangible and intangible assets;
- Income taxes;
- Inventories;
- Provisions;
- Revenue; and
- Share-based payments.

Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Income taxes

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The Company and its wholly-owned Australian resident subsidiary are part of a tax consolidated group under Australian tax law, effective from 1 January 2007. Ivanhoe Australia Limited is the head entity in the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are determined using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and other members of the tax consolidated group in accordance with the arrangements.

Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Inventories

Inventories including ore, work in progress, finished goods and consumables are stated at the lower of cost and net realisable value. Cost is determined primarily on the basis of weighted average cost. For processed inventories, cost is derived on an absorption costing basis. Cost comprises costs of purchasing raw materials and costs of production, including attributable mining and processing overheads. Net realisable value is the estimated selling price for inventories less estimated costs of completion and estimated selling costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Rehabilitation and dismantling provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the development or ongoing production of an area of interest. Costs arising from the installation of plant and other site preparation work, discounted to their net present values, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged against profits over the life of the mine, through the depreciation of the asset and the unwinding of the discount on the provision

Such costs arising from exploration activities not associated with development projects are expensed in the period incurred.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in the statement of comprehensive income. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy above.

The Group has changed its estimate of the discount rate used to calculate the present value of the rehabilitation and dismantling provisions in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets. The discount rate was estimated using a risk free discount rate based on the Federal Government Bond yields. The change in the discount rate resulted in an increase in the rehabilitation and dismantling provisions, and a corresponding increase in the related assets. No other provisions were materially impacted by a change in the estimate of discount rates

Revenue

Sales revenue comprises sales to third parties. Amounts billed to customers in respect of shipping and handling are classed as sales revenue where the Group is responsible for carriage, insurance and freight. All shipping and handling costs incurred by the Group are recognised as operating costs.

Sales revenue excludes any applicable sales taxes. Mining royalties are presented on the statement of comprehensive income. Royalties are paid to the Queensland State Government based on percentage of sales revenue less allowable deductions, calculated and paid on a quarterly basis

Sales revenue is only recognised on individual sales when all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the buyer;
- neither managerial involvement to the degree usually associated with ownership, or effective control over the goods has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

These conditions are generally satisfied when the title passes to the customer. In most instances, this typically occurs when a vessel is loaded at port.

Sales revenue is commonly subject to adjustment based on inspection of the product by the customer. In such cases, sales revenue is initially recognised on a provisional basis using the Group's best estimate of the contained metal, and subsequently adjusted.

Certain products are "provisionally priced", where the selling price is subject to a final adjustment at the end of a period, normally ranging from 30 to 180 days after delivery to the customer. The final price is based on the market price at the relevant quotation point stipulated in the contract. Revenue from provisionally priced sales is recognised based on estimates of the fair value of the consideration receivable, based on relevant market prices. At each reporting date, provisionally priced metal is marked to market based on the prevailing market price. The marking to market of provisionally priced sales contracts is recorded as an adjustment to sales revenue.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures (“DC&P”) and the design of internal control over financial reporting (“ICFR”) to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company’s certifying officers. The Company’s Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company’s DC&P and ICFR as of December 31, 2012 and, in accordance with the requirements established under National Instrument 52-109 – *Certification of Disclosure in Issuer’s Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company’s Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company’s ICFR as of December 31, 2012 and have concluded that these controls and procedures have been designed to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the year ended December 31, 2012, there were no changes in the Company’s DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

RISK FACTORS

Material risks affecting Ivanhoe Australia, their potential impact, and the Company’s principle risk management strategies are disclosed in its Annual Information Form, for the year ended December 31, 2012, a copy of which was filed on SEDAR and is available at www.sedar.com.

OUTSTANDING SHARE DATA

Under the Corporations Act 2001 and the Company’s constitution, the Company is authorized to issue an unlimited number of Ordinary Shares. However, under the ASX listing rules, in order for a corporation listed on the ASX to issue in any 12 month period an amount of shares (or other equity securities) greater than 15% of the total number of existing shares issued and outstanding at the beginning of the 12 month period, the corporation must seek separate shareholder approval. At the date of this MD&A, Ivanhoe Australia has an aggregate of 714,483,151fully paid Ordinary Shares issued. No other shares in the capital of Ivanhoe Australia of any other classes are issued and outstanding.

SCIENTIFIC AND TECHNICAL INFORMATION

Michael Spreadborough has reviewed and approved the scientific and technical information in this MD&A in respect of the Osborne Copper/Gold operation, Merlin Project and Mt Elliot Project. Mr. Spreadborough is the Chief Operating Officer of the Company and is considered, by virtue of his education, experience and professional association, a Qualified Person as defined by NI 43-101. He has verified the relevant data disclosed herein during his in the course of his duties with the Company.

A copy of the current technical reports in respect of these projects is available on the Company’s website at www.ivanhoeaustralia.com and on SEDAR at www.sedar.com.