IVANHOE AUSTRALIA LIMITED

Management's Discussion and Analysis of Financial Condition and Results of Operations
March 31, 2013

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The following Management's Discussion and Analysis of the financial condition and results of operations ("MD&A") was prepared as of May 15, 2013. They should be read in conjunction with the consolidated interim financial statements and notes thereto of Ivanhoe Australia Limited ("Ivanhoe Australia", "IVA" or the "Company") for the three months ended March 31, 2013. Unless the context otherwise provides, references in this MD&A to Ivanhoe Australia 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.

OVERVIEW

The Company is focused on the exploration for, development of, and production of minerals in northwest Queensland near Cloncurry, Australia. In late March 2012 the Osborne Copper-Gold Project ("Osborne Copper-Gold Project") commenced copper and gold production at the Osborne Facility. The Company's projects being studied are:

- 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 Project 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

Ivanhoe Australia commenced copper and gold production in 2012 at the Osborne processing complex in north-western Queensland. Two other projects, the Merlin molybdenum-rhenium project and the Mount Elliott copper-gold project are in various stages of study. These projects are on granted mining leases.

During the quarter Ivanhoe Australia continued development of the Starra 276 underground mine, which it completed in February 2013 and successfully commenced stope blasting and production at Starra 276. Mining at Starra 276 will continue to ramp up until the full production rate of approximately 650,000 tonnes per year is reached – expected during Q2'13. The haul road linking the Starra 276 mine to the Osborne processing facility was completed in early 2013 to enable transport of Starra 276 ore to the processing plant.

Production at the Osborne Copper-Gold operation declined following the introduction of Starra 276 ore due to the processing blend which adversely affected recoveries. Recovery rates and production levels are expected to improve over the coming quarters as process improvements are implemented for the new blend.

During the three months ended March 31, 2012, Ivanhoe Australia mined 260,439 tonnes of ore from the Kulthor, Osborne and Starra 276 underground mines. Ore milled for the period totalled approximately 255,000 tonnes. Recovery rates during the period averaged 88.1% for copper and 69.5% for gold.

The plant produced 14,709 dry metric tonnes of concentrate for the period containing 3,461 tonnes of copper. Gold production in both concentrate and doré totalled 4,817 ounces for the period. Ivanhoe Australia recognized product sales revenue of $44.1 million for the three months ended March 31, 2013 (March 31, 2013: $nil) from two shipments of concentrate and one sale of doré.

In 2013, Ivanhoe Australia expects to mine between 1,400,000 and 1,600,000 tonnes from the Osborne operation's three mines.

Phase I of the Value Engineering Program (VEP) for the Merlin project was completed in Q1 2013. Results indicate significant improvements in concentrate grade and mining production rates can be achieved while reducing capital costs. The next phase of the VEP is scheduled for completion in Q2, leading to a revised feasibility.

During the period, Ivanhoe Australia has identified five high-priority targets in the Mount Elliott project area. Assay results from initial drilling conducted in Q1 are expected in Q2 and additional drilling is planned for Q2 and subsequent quarters.

In February 2013, Ivanhoe Australia successfully placed the shortfall from the 2012 Entitlement Offer. The shortfall shares from the placement were issued at the Entitlement Offer price of A$0.48 per share. Ivanhoe Australia issued approximately 9.3 million shares and received proceeds of approximately A$4.5 million, to complete the total A$80 million (gross) capital raising. The Group intended to use these proceeds as follows:

	Intended use of proceeds	2012 use of proceeds	Q1'2013 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	A$8.5 million
Special exploration and development reserve	A$10 million	-	-
Working capital and provide funds for general corporate purposes	A$17-23 million	-	$23 million
Total	**A$74-80 million**	**A$34.2 million**	**A$31.5 million**
Cash on hand available for use			**A$14.3 million**

As a result of the shortfall placement, Turquoise Hill’s ownership in Ivanhoe Australia was reduced from 57.3% to 56.5%.

Bob Vassie was appointed as Managing Director and CEO on January 14, 2013. Mr Vassie replaced Ines Scotland who stepped into the role in June 2012 on an interim basis.

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

Ivanhoe Australia continues to focus on reducing its production costs and other costs. The Starra 276 mine is expected to continue ramping up during Q2 with increased ore volumes to be processed through the Osborne facility which are expected to produce higher volumes of copper-gold concentrate. Increased production, together with further cost reductions are expected to reduce the unit cost of production.

A recovery plan for mining and processing has been implemented and is on track to ensure annual concentrate shipments meet target. The second quarter target is for the sale of three shipments of concentrate on the back of planned improved mining rates for Kulthor, increased volumes from Starra 276 and improved copper and gold recovery levels as the processing plant is optimised for the new ore blend. A total of ten shipments of concentrate remains planned for 2013

In April 2013 Ivanhoe Australia reduced a further 32 positions from its planned staffing levels across all areas of the business.

The Company is continuing the Value Engineering Program for Merlin during Q2 with expectation that capital and operating costs for the molybdenum – rhenium can be further reduced.

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 three month period to March 31, 2013 has been volatile, ranging between US$3.42 and US$3.74 per pound. At April 30, 2013 the copper price declined to US$3.18 per pound. The price for gold during the period varied between US$1,569 and US$1,694 per ounce. At April 30, 2013 the gold price declined to US$1,475 per ounce. There is a risk that the volatility in commodity pricing will continue, potentially causing further 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;
- the estimates of ore production from the mines and their delivery to the Osborne facility;
- the estimates of production throughput at the Osborne Facility and planned concentrate shipments;
- 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 produced over 14,700 dry metric tonnes of concentrate during the quarter and dispatched two shipments of concentrate.

Ore milled for the three month period to March 31, 2013 totalled approximately 255,000 tonnes. Recovery rates during the period averaged 88.1% for copper and 69.5% for gold. The plant produced 14,709 dry metric tonnes of concentrate for the period containing 3,461 tonnes of copper. Gold production in both concentrate and doré totalled 4,817 ounces for the period.

Ivanhoe Australia recognized product sales revenue of $44.1 million for the three months ended March 31, 2013 (March 31, 2013: $nil) from two shipments of concentrate and one sale of doré.

During the three months ended March 31, 2012, Ivanhoe Australia mined 260,439 tonnes of ore from the Kulthor, Osborne and Starra 276 underground mines. In 2013, Ivanhoe Australia expects to mine between 1,400,000 and 1,600,000 tonnes from the Osborne operation’s three mines.

The table below summarises production for the period:

Osborne Copper/Gold Production Statistics – Q1 2013

		Mar ’13 QTR	Dec ’12 QTR
ORE MINED	TONNES	**260,439**	253,211
ORE MILLED	TONNES	**254,639**	245,209
MILLED GRADE	COPPER (%)	**1.56**	1.86
	GOLD (G/T)	**0.84**	0.95
RECOVERY	COPPER (%)	**88.1**	95.0
	GOLD (%)	**69.5**	80.5
COPPER CON. PRODUCED	DRY TONNES	**14,709**	18,099
CONCENTRATE GRADE	COPPER (%)	**23.5**	23.9
	GOLD (G/T)	**9.2**	9.1
CONTAINED METAL IN CON. PRODUCED	COPPER (TONNES)	**3,461**	4,322
	GOLD (OZ)	**4,350**	5,292
GOLD DORÉ PRODUCED	OUNCES	**467**	721
TOTAL CONCENTRATE SOLD	DRY METRIC TONNES	**20,429**	19,216
CONCENTRATE INVENTORY ON HAND[1]	DRY METRIC TONNES	**7,360**	13,080

[1] Dec ’12 includes an additional 1,075 tonnes arising from the year-end concentrate inventory physical stocktake.

Merlin Molybdenum-Rhenium Project

Work continued during the quarter on the Value Engineering program with the expectation that this will be finalised during the second quarter. The Value Engineering program is aiming to enhance the Project’s economics.

Metallurgical testwork aimed at increasing the molybdenum concentrate grade has been completed with the work demonstrating that the grade can be lifted from 30% (as detailed in the 2012 Feasibility Study) to over 40%. This allows consideration of reducing capital costs associated with the roaster.

Mining optimisation studies have shown that the production rate can be lifted to 550,000 tonnes per annum (+10%) with a corresponding increase in metal production and reduction in operating costs.

Initial indications are that the project will have a positive net present value (NPV) under forecast long term molybdenum and rhenium prices.

Phase 1 of the Value Engineering exercise supports continuation of further optimisation work planned to lead ultimately to the output of a revised Feasibility Study.

Mount Elliott Project

During the quarter, two holes were completed to test the higher grade (>0.8% copper equivalent) zones of the SWAN zone at Mount Elliott. This drilling completes a programme of five holes that was commenced in the fourth quarter 2012. Preparation of an update of the mineral resource model based on this new data, and a review of the geology at SWAN, has commenced and is expected to be completed during the second quarter 2013. A revision of the scoping study is on track for completion in the third quarter 2013.

Work has commenced on delineating identified mineralisation at the surface of the SWAN orebody suitable for open pit mining and leach processing. The results of this work will be reported in the revised scoping study.

Exploration

In north-western Queensland, Ivanhoe Australia has a 100% interest in 30 granted Mining Leases (MLs) with a total area of 109 square kilometres and one ML application (6 square kilometres). It has 44 granted Exploration Permits for Minerals (EPMs) with a total area of 5,686 square kilometres, including joint ventures, and three EPM applications (601 square kilometres). The granted EPMs include 12 EPMs in the Ivanhoe / Exco joint venture (423 square kilometres) and two EPMs in the Ivanhoe / Goldminco joint venture (70 square kilometres).

Exploration activities for the first quarter of 2013 were based on a comprehensive review of previous exploration data. From this review, new targets are being assessed and previously worked projects re-evaluated and advanced.

Following the acquisition of a 51% interest in some of Emmerson Resources Limited’s tenements, in the Tennant Creek Region in the Northern Territory of Australia, Ivanhoe Australia has a 51% interest in 30 granted Exploration Licences (ELs) with a total area of 2,270 square kilometres, three EL applications (129 square kilometres), 121 granted Mineral Claims (23 square kilometres), 224 granted Mineral Leases (61 square kilometres), six Mineral Lease applications (1.5 square kilometres) and two Mineral Authorities (19 square kilometres). No drilling was undertaken during the quarter, however targets are being developed for consideration later this year.

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)]

	2013	2012					2011				
Period Ended	31-Mar	31-Dec	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	31-Dec	30-Sep	30-Jun	31-Mar
(*Period*)	(Quarter)	(*Year*)	(Quarter)	(Quarter)	(Quarter)	(Quarter)	(*Year*)	(Quarter)	(Quarter)	(Quarter)	(Quarter)
Revenue	44,068	86,639	43,334	21,766	21,539	-	-	-	-	-	-
Interest and other revenue	445	3,489	353	406	899	1,831	7,344	2,086	1,296	1,748	2,214
Operating expenses	(48,656)	(75,542)	(32,906)	(17,787)	(19,316)	(5,533)	-	-	-	-	-
Evaluation expenses	(3,390)	(48,809)	(5,561)	(11,286)	(13,395)	(18,567)	(74,059)	(19,502)	(24,135)	(18,863)	(11,559)
Exploration expenses	(4,195)	(47,380)	(8,146)	(9,031)	(13,280)	(16,865)	(64,241)	(20,639)	(16,370)	(15,485)	(11,782)
Administration expenses	(2,766)	(21,706)	(3,302)	(4,704)	(8,177)	(5,523)	(17,463)	(4,983)	(4,540)	(3,994)	(3,946)
Depreciation expenses (non-operating)	(572)	(2,224)	(245)	(685)	(671)	(623)	(1,686)	(491)	(551)	(393)	(251)
Finance costs	(10)	(2,554)	(1,155)	(1,350)	(38)	(11)	(2,537)	(308)	(628)	(1,073)	(528)
Royalty costs	(1,898)	(3,599)	(1,839)	(790)	(970)	-	-	-	-	-	-
Rehabilitation expenses	(289)	(875)	(875)	-	-	-	484	484	-	-	-
Share of profits / (losses) of associates	-	247	-	551	(1,044)	740	36,640	394	(11,431)	42,642	5,035
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)
Gain on sale of assets held for sale	-	7,298	6,327	971	-	-	-	-	-	-	-
Other expenses	(322)	(1,457)	(910)	(272)	(177)	(98)	(133)	24	(59)	(45)	(53)
Income tax benefit / (expenses)	(129)	(733)	(156)	-	(814)	237	475	746	(169)	(34)	(68)
Net (loss)/income after tax	**(17,714)**	**(110,228)**	**(4,652)**	**(23,348)**	**(35,982)**	**(45,548)**	**(126,396)**	**(53,187)**	**(56,585)**	**4,468**	**(21,092)**
Basic (loss)/earnings per share	($0.02)	($0.19)	($0.01)	($0.04)	($0.06)	($0.08)	($0.28)	($0.11)	($0.13)	$0.011	($0.05)
Diluted (loss)/ earnings per share	($0.02)	($0.19)	($0.01)	($0.04)	($0.06)	($0.08)	($0.28)	($0.11)	($0.13)	$0.011	($0.05)
Total assets	266,370		280,339	238,962	242,952	273,663		314,832	291,324	262,860	246,487
Total non-current liabilities	(39,336)		(39,288)	(31,279)	(30,981)	(30,914)		(30,955)	(62,776)	(62,237)	(68,757)

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

Discussion of the Results and Operations for the three months to March 31, 2013 compared to the three months to March 31, 2012

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 $44.1 million (2011: nil). The sales revenue earned for the three month period is attributable to two shipments of copper concentrate for $43.8 million representing payable copper, gold and silver. The Company also sold one parcel of gold doré during the period for $0.3 million representing payable gold and silver.

Interest Revenue

Ivanhoe Australia recorded $0.45 million (2012: $1.8 million) in interest revenue during the three month period. The decrease in interest is attributable to the decrease in cash on hand compared to prior periods. There was a cash balance at the end of the period of $37.6 million and $24.9 million in security deposits (2012: $99.5 million and $23.8 million in security deposits).

Operating expenses

Ivanhoe Australia incurred operating expenses of $48.7 million for the three month period (2012: $5.5 million). 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. Depreciation for the quarter has increased due to the commencement of depreciation of the Starra assets, haul road and the power station.

Operating expenses also include adjustments required for ore and concentrate produced, sold and held as inventory at the end of the period. During the period, there was a $6.7 million write down of inventory to net realizable value (2012: $nil).

The Osborne Copper - Gold operation mined ore from the Osborne, Kulthor and Starra 276 underground mines totalling 260,439 tonnes in the three month period to March 31, 2013. The processing plant milled 254,639 tonnes in the three month period at a copper recovery rate of 88.1% and gold recovery rate of 69.5%. Total concentrate production for the three months ended March 31, 2013 was 14,709 dry metric tonnes.

Evaluation expenses

Ivanhoe Australia incurred evaluations expenses of $3.4 million (2012: $18.6 million) for the three month period. The decrease is due to:

- Site associated costs of nil (2012: $7.7 million). The prior period costs were pre-production expenses related to preparing the Osborne Facility for production, which commenced in March 2012;
- Resource development costs of $3.0 (2012: $6.1 million). The current and prior year period costs relate to resource development drilling programs to delineate resources associated with development projects; and
- Projects costs of $0.4 million (2012: $4.8 million) incurred on follow up studies work largely related to the Merlin Project. The prior period costs were incurred on the preparation of the studies under review at the time (Merlin feasibility study, the Mount Elliott scoping study and support studies for the Osborne Copper / Gold project).

Exploration expenses

Ivanhoe Australia incurred exploration expenses of $4.2 million (2012: $16.9 million) for the three month period.

The decrease is due to:

- The cessation of the Merlin exploration decline with expenditure during the period of nil (2012: $4.8 million);
- Other exploration costs incurred on Ivanhoe Australia's wholly owned tenements of $4.1 million (2012: $11.7 million). The reduction in costs were in line with the reduction in the exploration drilling program carried out during the period; and
- Emmerson JV expenditure of $0.1 million (2012: $0.4 million).

Corporate administration expenses

Ivanhoe Australia incurred corporate administration expenses of $2.8 million (2012: $5.5 million). Administration expenses continued to reduce in the three month period in comparison to 2012, in line with cost saving measures announced during August 2012.

Depreciation expenses (non-operating)

Depreciation expense for the three month period was $0.6 million (2012: $0.6 million). 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.

Finance costs

Total finance costs of $0.01 million (2012: $0.01 million) consisted of bank fees for the three month period.

Royalty costs

Royalty costs for the three month period were $1.9 million (2012: nil). This cost reflects the royalty payable following the commencement of sales.

Results of associates & impairment of investment in Exco Resources Limited (Exco)

There was no profit / loss of associate (Exco) for the three month period (2012: $0.7 million profit) due to the Exco Investment being transferred to "Assets Held for Sale" in the September 2012 quarter and subsequently being sold in the December 2012 quarter.

There was no impairment for the three month period (2012: $1.1 million) recorded on the Exco investment, as the investment was not held in the March 2013 quarter.

Income tax benefit / (expense)

There was an income tax expense for the three month period of $0.1 million (2012: $0.2 million benefit). 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 $3.3 million to $4.1 million as at March 31, 2013 (December, 31 2012: $7.4 million). This movement was primarily due to a decrease in insurance and workcover prepayments of $1.1 million and a net decrease in receivables of $2.2 million.

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

	March 31, 2013	December 31, 2012
	$,000	$,000
Less than 1 month	**2,447**	4,883
1 to 6 months	**754**	984
Over 6 months	**546**	71
Total accounts receivable	**3,747**	5,938
Provision for impairment of other receivables	**(649)**	(649)
Net accounts receivable	**3,098**	5,289
Prepayments	**1,051**	2,154
Total Trade and other receivables	**4,149**	7,443

As of May 15, 2013, 46% of our net accounts receivables as of March 31, 2013 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 $18.7 million (December 31, 2012: $23.3 million). Total supplies and spare parts were $7.1 million (December 31, 2012: $7.5 million).

Bank security deposits

Bank security deposits of $24.9 million (December 31, 2012: $24.9 million) represent cash invested in term deposits as security for the bank guarantees provided primarily to the Queensland Department of Mines and Energy.

Trade and other payables (current)

Trade and other payables primarily represent trade payables. Trade and other payables decreased to $21.0 million (December 31, 2012: $22.5 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 $0.2 million to $43.0 million (December 31, 2012: $42.8 million). The increase was primarily due to an increase in the short term employee benefits provision.

LIQUIDITY AND CAPITAL RESOURCES

We operate in a capital intensive industry. Our liquidity requirements have arisen principally from the need for funding to finance exploration and evaluation, 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 February 2013, The Company successfully placed the shortfall from the pro-rata entitlement offer raising an additional $4.5 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 September 2012 quarter which was repaid from the proceeds of the November 2012 entitlement offer. In addition, the Company 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 will also require additional funding to progress its development projects.

At March 31, 2013 the Company had available cash reserves of $37.6 million.

Cash flows

The following table sets out selected cash flow data from the consolidated cash flow statements for the three months ended March 31, 2013 and 2012:

	March 31, 2013 $,000	March 31, 2012 $,000
Net cash flows used in operating activities	**(438)**	(45,686)
Net cash flows used in investing activities	**(12,089)**	(21,074)
Net cash flows used in financing activities	**4,338**	**-**
Net increase / (decrease) in cash and cash equivalents	**(8,189)**	(66,760)
Cash and cash equivalents, beginning of period	**45,809**	166,419
Cash and cash equivalents, end of period	**37,620**	99,659

Operating cash flow

Net cash used in operating activities was $0.4 million (2012: $45.7 million). The decrease reflects the cost saving measures announced during August 2012 and the ability of the Osborne Copper / Gold operations to generate funds from sale of mineral products after incurring operating expenses. The prior period operating cash outflow represented the extensive activity of the company at that time on exploration, evaluation, and the commencement of operations at the Osborne Copper / Gold project.

Investing cash flow

Net cash used in investing activities was $12.1 million (2012: $21.1 million). Investing activities consisted mainly of the capital costs incurred on the Osborne Copper / Gold operation including mine development at Osborne / Kulthor and Starra 276 underground mines, the power station upgrade and the completion of the haul road from the Starra 276 underground mine to the Osborne processing facility.

Financing cash flow

Net cash provided by financing activities was $4.3 million (2012: nil) which was made up of funds from an entitlement offer of $4.5 million completed in February 2013, less share issue costs of $0.2 million.

Commitments and contingencies

The company has operating leases, exploration, capital and operating commitments as at March 31, 2013. 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:

	March 31, 2013	December 31, 2012
	$,000	$,000
Within one year	**374**	374
Between two to five years	**717**	811
Greater than five years	**-**	-
Total:	**1,091**	1,185

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:

	March 31, 2013	December 31, 2012
	$,000	$,000
Within one year	**4,023**	4,655
Between two to five years	**38,419**	28,677
Greater than five years	**-**	-
Total:	**42,442**	33,332

Capital commitments

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

	March 31, 2013	December 31, 2012
	$,000	$,000
Capital expenditure relation to the of conversion of engines to dual fuel and automation upgrade at the Osborne Power Station (1)	**1,488**	1,488
Total:	**1,488**	1,488

(1) 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:

	March 31, 2013	December 31, 2012
	$,000	$,000
Supply of services to site operations (1)	**6,250**	7,250
Total:	**6,250**	7,250

(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. Cash and term deposits are only made with selected counterparties with a strong credit rating. Maximum exposure to credit risk is as follows:

	March 31, 2013	December 31, 2012
	$,000	$,000
Cash and term deposits	**37,620**	45,809
Security deposits (non-current)	**24,881**	24,881
Net accounts receivable	**3,098**	5,289
Total:	**65,599**	75,979

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. Liquidity risk is managed through the management of our capital structure, financial leverage and expenditure plans. During the three months to March 31, 2013, the Company has:

- Raised proceeds from an entitlement offer of $4.3 million;
- Generated revenue of $44.1 million from the sale of copper concentrate and gold doré.

At March 31, 2012, the Company did not have any debt funding and had a net current asset position of $42.1 million that consisted of:

- $37.6 million in cash;
- $4.1 million in trade and other receivables;
- $25.8 million of inventory on hand;
- ($21.8) million of trade and other payables; and
- ($3.6) million of current provisions.

The Company's ability to maintain a positive net current asset position is dependent upon the Company's ability to generate positive cashflows from the future production and sale of copper and gold sufficient to also meet the corporate, exploration and other costs of the business. The Company's ability to develop its projects, including the Merlin and Mount Elliott projects is dependent on the generation of positive cashflows 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. The working capital facility was fully repaid in the three months ended 31 December 2012.

As at March 31, 2013, the Group held a cash balance of $37.6 million and $24.9 million in security deposits (March 31, 2012: $99.5 million and $23.8 million in security deposits) with interest revenue of $0.4 million (March 31, 2012: $1.8 million) for the three months then ended. As at 31 March 2013, the Group has $nil outstanding borrowings (2012: $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 $0.01 million for the three months ended March 31, 2013. 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 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

	March 31, 2013 $,000	December 31, 2012 $,000
Details and estimates of maximum amounts of contingent liabilities are as follows:		
Office leases (i)	514	514
Gas supply arrangements (ii)	1,222	1,222
Total:	**1,736**	**1,736**

(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 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 recognized 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.

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 three month period, the following transactions occurred between the Company and its related parties:

<u>Ultimate parent entity</u>

- Turquoise Hill charged Ivanhoe Cloncurry Mines $0.008 million (three months to March 31, 2012: $0.061 million) for reimbursement of costs incurred.
- Ivanhoe Cloncurry Mines charged Turquoise Hill nil (three months to March 31, 2012: $0.248 million) for consultancy fees and reimbursement of costs incurred.

<u>Other related parties</u>

- Ivanhoe Australia charged African Minerals Barbados Ltd ("African Minerals") for geophysics services at cost for $0.002 million (three months to March 31, 2012: $0.001 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 $0.026 million (three months to March 31, 2012: $0.011 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 of nil (three months to March 31, 2012:$0.009 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.
- I2MS Pte Ltd. ("I2MS") provided IT services (including the cost and installation of a new software system) which were charged to the Company at a cost of $0.237 million (three months to March 31, 2012: $0.260 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.
- Ivanhoe Philippines, Inc. ("Ivanhoe Philippines") charged Ivanhoe Cloncurry Mines for consultancy fees and reimbursement of costs incurred of nil (three months to March 31, 2012: $0.016 million). Ivanhoe Philippines changed 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.
- Global Mining Management Corp. ("Global Mining") charged Ivanhoe Australia for reimbursement of costs incurred of $0.001 million (three months to March 31, 2012: $0.017 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 Mining provides administration, accounting and other services to the Company on a cost-recovery basis.

Other related parties (cont'd)

- Ivanhoe Capital Aviation Ltd ("Aviation") charged Ivanhoe Australia for management and investor relation services and reimbursement of travel costs incurred of nil (three months to March 31, 2012: $0.291 million). Aviation is a private company 100% owned by Mr Robert Freidland, who also holds a 10% shareholding in Turquoise Hill.

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

- Net payables totaling $0.1 million are payable to Turquoise Hill (December 31, 2012: $0.1 million net receivable).
- Net payables totaling $0.2 million are payable to I2MS (December 31, 2012: $0.1 million).
- Net receivables totaling nil are due from African Minerals (December 31, 2012: $0.1 million).
- Net receivables totaling nil are due from I-Pulse (December 31, 2012: $0.1 million).
- Net receivables totaling $0.1 million are due from Platreef Resources (December 31, 2012: $0.1 million).

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2013 we had not entered into any material 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 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.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the company's 2012 annual financial report for the financial year ended 31 December 2012, except for those described below:

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.

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 parties 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 March 31, 2013 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 March 31, 2013 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 period ended March 31, 2013, 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 ACA and its 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 725,494,382 fully 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

The scientific and technical information in this MD&A regarding the Osborne Copper–Gold operation, Merlin Project and Mount Elliott Project is based on the:

- Osborne Copper-Gold Technical Report (effective date 2 November 2012), which was prepared by the following Qualified Persons: (i) Anne-Marie Ebbels, MAusIMM (CP), who is a Principal Consultant with SRK Consulting (Australasia) Pty Ltd; (ii) Peter Fairfield, FAusIMM (CP) MAIG, who is a Principal Consultant with SRK Consulting (Australasia) Pty Ltd; (iii) Richard Lewis, FAusIMM, with Lewis Mineral Resource Consulting Pty Ltd; and (iv) Peter Munro, FAusIMM, who is a Principal Consultant Engineer with Mineralurgy Pty Ltd;
- Starra 276 Technical Report (effective date 13 July 2012), which was prepared by the following Qualified Persons: (i) Annie-Marie Ebbels, MAusIMM (CP), who is a Principal Consultant with SRK Consulting (Australasia) Pty Ltd; (ii) Peter Fairfield, FAusIMM (CP) MAIG, who is a Principal Consultant with SRK Consulting (Australasia) Pty Ltd; (iii) John Horton, FAusIMM (CP) MAIG, who is a Principal Geologist with Golder Associates Pty Ltd; and (iv) Peter Munro, FAusIMM, who is a Principal Consultant Engineer with Mineralurgy Pty Ltd;
- Merlin Feasibility Study (effective date 16 April 2012), which was prepared by the following Qualified Persons: (i) Neil Lincoln, P.Eng, Study Manager with Lycopodium Minerals Pty Ltd; (ii) Mehmet Yumlu, MAusIMM (CP), Principal Mining Engineer with AMC Consultants Pty Ltd; (iii) John Horton, FAusIMM (CP) MAIG, who is a Principal Geologist with Golder Associates Pty Ltd; (iv) Gordon McPhail, FSAIMM, Technical Discipline Executive with SLR Consulting Australia Pty Ltd; and (v) Art Ibrado, Ph.D, Project Manager & Metallurgist with M3 Engineering & Technology Corp; and
- Mount Elliott Preliminary Economic Assessment (effective date 17 April 2012), which was prepared by the following Qualified Persons: (i) Edward Gleeson, MAusIMM (CP), Principal Mining Engineer with AMC Consultants Pty Ltd; (ii) Rodney L Webster, MAusIMM (CP), Principal Geologist with AMC Consultants Pty Ltd; and (iii) Raymond Alfred Cantrell, FAusIMM (CP), Consultant Metallurgist with Alphrai Pty Ltd.

Michael Spreadborough has reviewed and approved the scientific and technical information in this MD&A in respect of the Osborne Copper-Gold Project, including Starra 276, the Merlin Project and the Mount Elliott Project. Mr. Spreadborough 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 the course of his duties with the Company.