

IVANHOE MINES LTD  
Form 6-K  
May 16, 2012

# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

## **FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**From: May 15, 2012**

## **IVANHOE MINES LTD.**

**(Translation of Registrant's Name into English)**

**Suite 654 999 CANADA PLACE, VANCOUVER,**

**BRITISH COLUMBIA V6C 3E1**

**(Address of Principal Executive Offices)**

## Edgar Filing: IVANHOE MINES LTD - Form 6-K

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

Form 20-F  Form 40-F

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

Yes:  No:

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

Enclosed:

First quarter Financial Statements and Notes

First quarter MD&A

CEO Certification

CFO Certification

**FIRST QUARTER REPORT**

**MARCH 31, 2012**

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**IVANHOE MINES LTD.****Consolidated Balance Sheets**

(Stated in thousands of U.S. dollars)

	March 31, 2012	December 31, 2011
<b>(Unaudited)</b>		
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 3)	\$ 895,132	\$ 998,054
Accounts receivable	81,097	102,460
Inventories (Note 4)	156,972	108,483
Prepaid expenses	51,510	56,327
<b>TOTAL CURRENT ASSETS</b>	<b>1,184,711</b>	<b>1,265,324</b>
LONG-TERM INVESTMENTS (Note 5)	99,236	107,277
OTHER LONG-TERM INVESTMENTS (Note 6)	337,740	317,325
PROPERTY, PLANT AND EQUIPMENT (Note 7)	4,991,476	4,363,501
DEFERRED INCOME TAXES	36,579	33,062
OTHER ASSETS	52,904	50,339
<b>TOTAL ASSETS</b>	<b>\$ 6,702,646</b>	<b>\$ 6,136,828</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 553,509	\$ 681,185
Amounts due under credit facilities (Note 8)	45,799	44,884
Interest payable on long-term debt (Note 9 and 10)	14,911	10,808
<b>TOTAL CURRENT LIABILITIES</b>	<b>614,219</b>	<b>736,877</b>
CONVERTIBLE CREDIT FACILITY (Note 9)	142,659	141,853
INTERIM FUNDING FACILITY (Note 10)	1,104,366	400,655
PAYABLE TO RELATED PARTY	66,140	56,783
DEFERRED INCOME TAXES	7,960	15,282
ASSET RETIREMENT OBLIGATIONS	61,101	45,553
<b>TOTAL LIABILITIES</b>	<b>1,996,445</b>	<b>1,397,003</b>
CONTINGENCIES (Note 17)		
<b>EQUITY</b>		
SHARE CAPITAL (Note 11)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
741,347,768 (2011 739,382,976) common shares	6,848,403	6,819,367
ADDITIONAL PAID-IN CAPITAL	1,401,727	1,389,721
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	17,645	(2,300)
DEFICIT	(3,564,548)	(3,483,948)
<b>TOTAL IVANHOE MINES LTD. SHAREHOLDERS EQUITY</b>	<b>4,703,227</b>	<b>4,722,840</b>

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NONCONTROLLING INTERESTS (Note 12)	2,974	16,985
<b>TOTAL EQUITY</b>	<b>4,706,201</b>	<b>4,739,825</b>
TOTAL LIABILITIES AND EQUITY	\$ 6,702,646	\$ 6,136,828

APPROVED BY THE BOARD:

/s/ J. Gardiner

/s/ L. Mahler

J. Gardiner, Director

L. Mahler, Director

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

**IVANHOE MINES LTD.****Consolidated Statements of Operations**

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

	Three Months Ended March 31,	
	2012	2011
<b>(Unaudited)</b>		
<b>REVENUE</b>	<b>\$ 40,153</b>	<b>\$ 20,158</b>
<b>COST OF SALES</b>		
Production and delivery	(19,579)	(12,158)
Depreciation and depletion	(6,337)	(2,799)
Write-down of carrying value of inventory	(4,472)	(5,318)
<b>COST OF SALES</b>	<b>(30,388)</b>	<b>(20,275)</b>
<b>EXPENSES</b>		
Exploration (Note 11 (a))	(76,757)	(46,223)
General and administrative (Note 11 (a))	(31,518)	(25,278)
Depreciation	(1,717)	(512)
Accretion of asset retirement obligations	(953)	(162)
<b>TOTAL EXPENSES</b>	<b>(141,333)</b>	<b>(92,450)</b>
<b>OPERATING LOSS</b>	<b>(101,180)</b>	<b>(72,292)</b>
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	5,889	5,138
Interest expense	(735)	(4,347)
Accretion of convertible credit facility (Note 9)	(31)	(14)
Foreign exchange gains	9,911	3,149
Unrealized losses on long-term investments (Note 5 (d))	(372)	(3,762)
Realized gain on sale of long-term investments (Note 5 (d))	85	
Unrealized gains on other long-term investments	8,873	388
Realized gain on redemption of other long-term investments (Note 6 (a))	8	33
Change in fair value of derivative (Note 11 (c))		(432,536)
Change in fair value of embedded derivatives (Note 9)	(776)	(36,781)
Write-down of carrying value of long-term investments (Note 5)	(3,860)	
Gain on sale of long-term investment		10,628
<b>LOSS BEFORE INCOME TAXES AND OTHER ITEMS</b>	<b>(82,188)</b>	<b>(530,396)</b>
(Provision) recovery of income taxes	(4,388)	12,898
Share of loss of significantly influenced investees (Note 5)	(18,287)	(3,714)
<b>NET LOSS</b>	<b>(104,863)</b>	<b>(521,212)</b>
<b>NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS (Note 12)</b>	<b>24,263</b>	<b>28,712</b>
<b>NET LOSS ATTRIBUTABLE TO IVANHOE MINES LTD.</b>	<b>\$ (80,600)</b>	<b>\$ (492,500)</b>
<b>BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO IVANHOE MINES LTD.</b>	<b>\$ (0.11)</b>	<b>\$ (0.79)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000 s)</b>	<b>740,596</b>	<b>620,542</b>

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





**IVANHOE MINES LTD.****Consolidated Statements of Comprehensive Loss**

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

	Three Months Ended March 31,	
	2012	2011
<b>(Unaudited)</b>		
<b>NET LOSS</b>	<b>\$ (104,863)</b>	<b>\$ (521,212)</b>
<b>OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES</b>		
Unrealized (losses) gains on available-for-sale equity securities, net of tax recovery (provision) of \$2,075, (\$6,458)	(4,402)	46,550
Unrealized gains on available-for-sale debt securities, net of tax of \$nil, \$nil	24,548	1,820
Currency translation adjustments, net of tax of \$nil, \$nil	4,912	1,494
Less: reclassification adjustments for losses recorded in earnings:		
Long-term investments		
Other-than-temporary impairment charges	2,685	
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>27,743</b>	<b>49,864</b>
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>\$ (77,120)</b>	<b>\$ (471,348)</b>
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>		
Ivanhoe Mines Ltd.	\$ (60,655)	\$ (465,318)
Noncontrolling interests	(16,465)	(6,030)
	<b>\$ (77,120)</b>	<b>\$ (471,348)</b>

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

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

	Share Capital		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Deficit	Noncontrolling		Total
	Number of Common Shares	Amount				Interests		
Balances, December 31, 2011	739,382,976	\$ 6,819,367	\$ 1,389,721	\$ (2,300)	\$ (3,483,948)	\$ 16,985		\$ 4,739,825
Net loss					(80,600)	(24,263)		(104,863)
Other comprehensive income				19,945		7,798		27,743
Shares issued for:								
Exercise of stock options	1,517,987	20,379	(9,672)					10,707
Exercise of subscription right (Note 11 (b))	439,216	8,489						8,489
Bonus shares	(1,250)							
Share purchase plan	8,839	168						168
Other increase in noncontrolling interests (Note 12)						2,454		2,454
Dilution gains			691					691
Stock-based compensation			20,987					20,987
Balances, March 31, 2012	741,347,768	\$ 6,848,403	\$ 1,401,727	\$ 17,645	\$ (3,564,548)	\$ 2,974		\$ 4,706,201

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

**IVANHOE MINES LTD.****Consolidated Statements of Cash Flows**

(Stated in thousands of U.S. dollars)

	Three Months Ended March 31,	
	2012	2011
<b>(Unaudited)</b>		
<b>OPERATING ACTIVITIES</b>		
Cash used in operating activities (Note 13)	\$ (113,250)	\$ (66,689)
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of discontinued operations (Note 2)	13,000	
Purchase of short-term investments		(20,657)
Purchase of long-term investments	(18,000)	(8,537)
Purchase of other long-term investments		(45,000)
Proceeds from redemption of short-term investments		80,843
Proceeds from sale of long-term investments	1,141	14,000
Proceeds from redemption of other long-term investments	15,017	30,060
Expenditures on property, plant and equipment	(733,688)	(528,704)
Expenditures on other assets	(2,179)	(11,243)
Cash used in investing activities	(724,709)	(489,238)
<b>FINANCING ACTIVITIES</b>		
Issue of share capital	19,364	1,156,118
Proceeds from interim funding facility (Note 10)	703,711	
(Repayment of) proceeds from credit facilities	(303)	4,608
Noncontrolling interests' reduction of investment in subsidiaries	(960)	(8,784)
Noncontrolling interests' investment in subsidiaries	104	3,980
Cash provided by financing activities	721,916	1,155,922
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>13,121</b>	<b>3,786</b>
<b>NET CASH (OUTFLOW) INFLOW</b>	<b>(102,922)</b>	<b>603,781</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>998,054</b>	<b>1,264,031</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 895,132</b>	<b>\$ 1,867,812</b>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>		
Cash on hand and demand deposits	\$ 605,783	\$ 668,433
Short-term money market instruments	289,349	1,199,379
	<b>\$ 895,132</b>	<b>\$ 1,867,812</b>

Supplementary cash flow information (Note 13)

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

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**IVANHOE MINES LTD.**

**Notes to the Consolidated Financial Statements**

**(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

*(a) Basis of preparation*

These unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The accounting policies followed in preparing these consolidated financial statements are those used by Ivanhoe Mines Ltd. (the Company ) as set out in the audited consolidated financial statements for the year ended December 31, 2011.

Certain information and note disclosures normally included for annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. These interim consolidated financial statements should be read together with the audited consolidated financial statements of the Company for the year ended December 31, 2011.

In the opinion of management, all adjustments considered necessary (including reclassifications and normal recurring adjustments) to present fairly the financial position, results of operations and cash flows at March 31, 2012 and for all periods presented, have been included in these financial statements. The interim results are not necessarily indicative of results for the full year ending December 31, 2012, or future operating periods. For further information, see the Company s annual consolidated financial statements, including the accounting policies and notes thereto.

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

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

*(b) Basis of presentation*

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

*(c) Accounting changes*

In May 2011, the Financial Accounting Standards Board Accounting Standards Codification ( ASC ) guidance for fair value measurement and disclosure was updated to clarify the Financial Accounting Standards Board s intent on current guidance, modify and change certain guidance and principles, and expand disclosures concerning Level 3 fair value measurements in the fair value hierarchy (including quantitative information about significant unobservable inputs within Level 3 of the fair value hierarchy). In addition, the updated guidance requires disclosure of the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position, but whose fair value is required to be disclosed. The updated guidance was effective for the Company s fiscal year beginning January 1, 2012. The adoption of the updated guidance had no impact on the Company s consolidated financial position or results of operations.

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**IVANHOE MINES LTD.**

**Notes to the Consolidated Financial Statements**

**(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)**

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(c) Accounting changes (continued)*

In June 2011, the ASC guidance on presentation of comprehensive income was updated to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The updated guidance requires an entity to present the components of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of equity, but does not change the items that must be reported in other comprehensive income. The updated guidance was effective for the Company's fiscal year beginning January 1, 2012, except for changes as they relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The adoption of the updated guidance had no impact on the Company's consolidated financial position or results of operations.

**2. DISCONTINUED OPERATIONS**

In February 2005, Ivanhoe Mines sold the Savage River Iron Ore Project in Tasmania, Australia, for two initial cash payments totalling \$21.5 million, plus a series of five contingent, annual payments that began on March 31, 2006. From 2006 to 2009, these contingent payments totalled \$116.4 million.

During 2010, Ivanhoe Mines received two payments totalling \$6.4 million in relation to the fifth annual contingent payment. The original purchaser of the Savage River Project disputed the estimated \$22.1 million remaining balance of the fifth annual contingent payment. In 2010, Ivanhoe Mines initiated arbitration proceedings by filing a Request for Arbitration with the ICC International Court of Arbitration. The arbitration hearing was scheduled to occur in December 2011. In November 2011, the parties reached an out-of-court settlement whereby the original purchaser agreed to pay Ivanhoe Mines a reduced balance of \$13.0 million by March 31, 2012. Ivanhoe Mines received the final payment on March 28, 2012.

Ivanhoe Mines has received a total of \$157.4 million in proceeds from the sale of the Savage River Project.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at March 31, 2012 included SouthGobi Resources Ltd.'s (Canada) (57.7% owned) (SouthGobi) balance of \$125.1 million (December 31, 2011 \$123.6 million) and Ivanhoe Australia Limited's (Australia) (58.9% owned) (Ivanhoe Australia) balance of \$103.1 million (December 31, 2011 \$170.3 million), which were not available for the Company's general corporate purposes.

## IVANHOE MINES LTD.

## Notes to the Consolidated Financial Statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

## 4. INVENTORIES

	March 31, 2012	December 31, 2011
Coal stockpiles	\$ 15,475	\$ 9,390
Ore stockpiles	2,282	2,875
Concentrate	5,718	
Materials and supplies	133,497	96,218
	<b>\$ 156,972</b>	<b>\$ 108,483</b>

## 5. LONG-TERM INVESTMENTS

	March 31, 2012	December 31, 2011
Investments in companies subject to significant influence:		
Altynalmas Gold Ltd. (a)	\$	\$
Exco Resources N.L. (b)	14,766	14,975
Available-for-sale equity securities (c)	62,233	68,637
Held-for-trading equity securities (d)	6,003	7,431
Other equity securities, cost method (e)	16,234	16,234
	<b>\$ 99,236</b>	<b>\$ 107,277</b>

(a) The Company holds a 50.0% interest in Altynalmas Gold Ltd. ( Altynalmas ), which owns the Kyzyl Gold Project that hosts the Bakyrchik and Bolshevik gold deposits in Kazakhstan.

	March 31, 2012	December 31, 2011
Amount due from Altynalmas	\$ 142,669	\$ 123,617
Share of equity method losses in excess of common share investment	(142,669)	(123,617)
Net investment in Altynalmas	\$	\$

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

During the three month period ended March 31, 2012, Ivanhoe Mines recorded a \$19.1 million (2011 \$8.9 million) share of loss on this investment.



## IVANHOE MINES LTD.

## Notes to the Consolidated Financial Statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

## 5. LONG-TERM INVESTMENTS (Continued)

(b) During the three month period ended March 31, 2012, Ivanhoe Mines recorded a \$0.8 million (2011 \$5.2 million) share of income on its investment in Exco Resources N.L. ( Exco ).

At March 31, 2012, Ivanhoe Mines recorded an other-than-temporary impairment of \$1.2 million against its investment in Exco based on an assessment of the fair value of Exco.

At March 31, 2012, the market value of Ivanhoe Mines 22.3% investment in Exco was \$14.8 million (Aud\$14.3 million).

(c) Available-for-sale equity securities

	March 31, 2012				December 31, 2011			
	Equity Interest	Cost Basis	Unrealized Gain	Fair Value	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value
Aspire Mining Limited	19.9%	\$ 27,911	\$ 11,138	\$ 39,049	19.9%	\$ 27,911	\$ 18,925	\$ 46,836
Entrée Gold Inc. (i)	10.8%	17,272		17,272	10.9%	19,957	(3,202)	16,755
Emmerson Resources Limited	8.7%	3,032	2,582	5,614	8.8%	2,957	1,775	4,732
Other		96	202	298		96	218	314
		\$ 48,311	\$ 13,922	\$ 62,233		\$ 50,921	\$ 17,716	\$ 68,637

(i) At March 31, 2012, Ivanhoe Mines recorded an other-than-temporary impairment of \$2.7 million against its investment in Entrée Gold Inc. ( Entrée ) based on an assessment of the fair value of Entree.

(d) Held-for-trading equity securities

During the three month period ended March 31, 2012, Ivanhoe Mines sold 7.1 million shares of Kangaroo Resources Limited ( Kangaroo ) for \$1.1 million. This transaction resulted in a realized gain on sale of \$0.1 million.

As at March 31, 2012, the market value of Ivanhoe Mines 1.3% investment in Kangaroo was \$6.0 million.

(e) Other equity securities, cost method

	March 31, 2012		December 31, 2011	
	Equity Interest	Cost Basis	Equity Interest	Cost Basis
Ivanplats Limited	8.1%	\$ 16,119	8.8%	\$ 16,119
Ibex Resources Inc.	1.5%	115	1.6%	115



**\$ 16,234**

\$ 16,234

**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**6. OTHER LONG-TERM INVESTMENTS**

	March 31, 2012	December 31, 2011
Long-Term Notes (a)	\$ 40,585	\$ 32,277
Treasury Bill (b)	100,031	88,348
Prepayments (b)	150,378	136,103
Convertible Bonds (c)	16,746	15,627
Money Market investments (d)	30,000	44,970
	<b>\$ 337,740</b>	<b>\$ 317,325</b>

*(a) Long-Term Notes*

As at March 31, 2012, the Company held \$63.6 million (December 31, 2011 \$62.5 million) principal amount of Long-Term Notes (received in 2009 upon completion of the Asset-Backed Commercial Paper restructuring) which was recorded at a fair value of \$40.6 million. The increase from December 2011 in principal of \$1.1 million was due to the strengthening of the Canadian dollar. The Company has designated the Long-Term Notes as held-for-trading. Accordingly, the Long-Term Notes are recorded at fair value with unrealized gains and losses included in earnings.

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

The Company is aware of a limited number of trades in the Long-Term Notes that occurred prior to March 31, 2012, but does not consider them to be of sufficient volume or value to constitute an active market. Accordingly, the Company has not used these trades to determine the fair value of its notes.

The Company has used a discounted cash flow approach to value the Long-Term Notes at March 31, 2012 incorporating the following assumptions:

Bankers Acceptance Rate:	1.13%
Discount Rates:	8% to 60%
Maturity Dates:	4.7 years

Based on the discounted cash flow model as at March 31, 2012, the fair value of the Long-Term Notes was estimated at \$40.6 million. As a result of this valuation, the Company recorded an unrealized gain of \$7.7 million for the three month period ended March 31, 2012.

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

**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**6. OTHER LONG-TERM INVESTMENTS (Continued)***(b) Treasury Bill and Prepayments*

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

However, on March 31, 2010 Ivanhoe Mines agreed to an alternative arrangement for the advancement of funds that would not involve the purchase of the remaining two T-Bills. Specifically, rather than purchasing the second and third remaining T-Bills, with face values of \$57.5 million and \$115.0 million respectively, Ivanhoe Mines agreed to make two tax prepayments. Tax prepayments of \$50.0 million and \$100.0 million were made on April 7, 2010 and June 7, 2011 respectively.

The after-tax rate of interest on the tax prepayments is 1.59% compounding annually. Unless already off-set fully against Mongolian taxes, the Mongolian Government must repay any remaining tax prepayment balance, including accrued interest, on the fifth anniversary of the date the tax prepayment was made.

The Company has designated the T-Bill and tax prepayments as available-for-sale investments because they were not purchased with the intent of selling them in the near term and the Company's intention to hold them to maturity is uncertain. The fair values of the T-Bill and tax prepayments are estimated based on available public information regarding what market participants would consider for such investments. Changes in the fair value of available-for-sale investments are recognized in accumulated other comprehensive income.

The Company has used a discounted cash flow approach to value the T-Bill and tax prepayments incorporating the following weighted average assumptions:

	T-Bill		Tax Prepayments	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Purchased Amount	\$ 100,000,000	\$ 100,000,000	\$ 150,000,000	\$ 150,000,000
Discount Rate	5.6%	9.9%	5.6%	9.9%
Term	2.6 years	2.8 years	0.5 years	1.5 years

Based on the discounted cash flow models as at March 31, 2012, the fair values of the T-Bill and tax prepayments were estimated at \$100.0 million and \$150.4 million respectively. As a result of these valuations, Ivanhoe Mines recorded an unrealized gain of \$10.9 million on the T-Bill and an unrealized gain of \$13.6 million on the tax prepayments in accumulated other comprehensive income for the three month period ended March 31, 2012.

**IVANHOE MINES LTD.**

**Notes to the Consolidated Financial Statements**

**(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)**

**6. OTHER LONG-TERM INVESTMENTS (Continued)**

*(c) Convertible Bonds*

On November 10, 2011, Ivanhoe Mines participated in Ivanplats convertible bond offering by purchasing 15,000 bonds at \$1,000 each. Upon and subsequent to Ivanplats completing a qualifying initial public offering, Ivanhoe Mines and Ivanplats shall both have the right to convert the bonds into Ivanplats common shares at a conversion price equal to the qualifying initial public offering price. The bonds bear interest at rates ranging from 8.0% to 25.51% per annum, compounded annually, depending on the timing of certain events, including the timing of a qualifying initial public offering. Upon redemption or conversion, Ivanhoe Mines is also entitled to a bonus payment equal to 11.11% of the sum of the principal and interest then outstanding. The bonds mature on November 10, 2014.

The bonds are inherently complex financial instruments. In order to reduce accounting complexity Ivanhoe Mines has elected to apply the fair value option to account for its entire holding of Ivanplats bonds. Accordingly, each reporting period the bonds shall be remeasured at fair value with changes in fair value being recognized in earnings. As at March 31, 2012, the \$16.7 million (December 31, 2011 \$15.6 million) aggregate fair value of the bonds was determined using an effective interest rate of 30.0%. As a result of this valuation, the Company recorded an unrealized gain of \$1.1 million for the three month period ended March 31, 2012.

*(d) Money Market Investments*

As at March 31, 2012, Ivanhoe Mines held \$30.0 million of money market investments with remaining maturities in excess of one year.

## IVANHOE MINES LTD.

## Notes to the Consolidated Financial Statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

## 7. PROPERTY, PLANT AND EQUIPMENT

	Cost	March 31, 2012 Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value	Cost	December 31, 2011 Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value
<b>Mining plant and equipment</b>						
Ovoot Tolgoi, Mongolia	\$ 29,011	\$ (3,512)	\$ 25,499	\$ 27,553	\$ (2,666)	\$ 24,887
Australia	56,502	(1,040)	55,462			
	\$ 85,513	\$ (4,552)	\$ 80,961	\$ 27,553	\$ (2,666)	\$ 24,887
<b>Mineral property interests</b>						
Oyu Tolgoi, Mongolia	\$ 71,985	\$ (6,489)	\$ 65,496	\$ 57,021	\$ (6,489)	\$ 50,532
Ovoot Tolgoi, Mongolia	37,296	(2,143)	35,153	40,572	(1,913)	38,659
Australia	21,702	(126)	21,576	26,604	(126)	26,478
Other exploration projects	1,252	(1,244)	8	1,252	(1,244)	8
	\$ 132,235	\$ (10,002)	\$ 122,233	\$ 125,449	\$ (9,772)	\$ 115,677
<b>Other capital assets</b>						
Oyu Tolgoi, Mongolia	\$ 41,384	\$ (21,653)	\$ 19,731	\$ 41,252	\$ (20,441)	\$ 20,811
Ovoot Tolgoi, Mongolia	390,268	(56,106)	334,162	347,135	(46,927)	300,208
Australia	14,747	(4,542)	10,205	43,730	(3,958)	39,772
Other exploration projects	4,511	(3,978)	533	4,562	(3,851)	711
	\$ 450,910	\$ (86,279)	\$ 364,631	\$ 436,679	\$ (75,177)	\$ 361,502
<b>Capital works in progress</b>						
Oyu Tolgoi, Mongolia	\$ 4,346,764	\$	\$ 4,346,764	\$ 3,753,857	\$	\$ 3,753,857
Ovoot Tolgoi, Mongolia	56,003		56,003	82,760		82,760
Australia	20,884		20,884	24,818		24,818
	\$ 4,423,651	\$	\$ 4,423,651	\$ 3,861,435	\$	\$ 3,861,435
	\$ 5,092,309	\$ (100,833)	\$ 4,991,476	\$ 4,451,116	\$ (87,615)	\$ 4,363,501

## 8. AMOUNTS DUE UNDER CREDIT FACILITIES

	March 31, 2012	December 31, 2011
<i>Current</i>		

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Non-revolving bank loans (a)	\$ 5,747	\$ 5,719
Two-year extendible loan facility (b)	<b>40,052</b>	39,165
	<b>\$ 45,799</b>	\$ 44,884

- (a) In October 2007, Ivanhoe Mines obtained non-revolving bank loans which are due on demand. Certain securities and other investments are pledged as collateral against these bank loans.
- (b) In April 2009, Ivanhoe Mines obtained a non-revolving, two-year extendible loan facility. Upon the loan facility's original maturity in October 2010, Ivanhoe Mines elected to utilize the first one-year extension. Ivanhoe Mines has elected to utilize the second one-year extension available to it under the loan facility, extending the loan's maturity to October 2012. Certain securities and other investments are pledged as collateral against the loan facility.

**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**9. CONVERTIBLE CREDIT FACILITY**

	<b>March 31, 2012</b>	December 31, 2011
Principal amount of convertible debenture	<b>\$ 500,000</b>	\$ 500,000
(Deduct) add:		
Bifurcation of embedded derivative liability	<b>(313,292)</b>	(313,292)
Accretion of discount	<b>157</b>	127
Reduction of carrying amount upon partial conversion	<b>(93,370)</b>	(93,370)
Carrying amount of debt host contract	<b>93,495</b>	93,465
Embedded derivative liability	<b>49,164</b>	48,388
Convertible credit facility	<b>142,659</b>	141,853
Accrued interest	<b>7,274</b>	6,301
Transaction costs allocated to deferred charges	<b>(2,798)</b>	(2,799)
Net carrying amount of convertible debenture	<b>\$ 147,135</b>	\$ 145,355

On November 19, 2009, SouthGobi issued a convertible debenture to a wholly owned subsidiary of China Investment Corporation ( CIC ) for \$500.0 million. The convertible debenture bears interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in shares of SouthGobi) and has a term of 30 years. A first charge over SouthGobi's assets, including the shares of its material subsidiaries, is pledged as collateral against the convertible debenture.

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

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

CIC has the right to convert the debenture, in whole or in part, into common shares of SouthGobi from November 19, 2010 onwards. After November 19, 2014, SouthGobi is entitled to convert the debenture, in whole or in part, into its common shares at the conversion price if the conversion price is at least Cdn\$10.66. The conversion price is the lower of Cdn\$11.88 or the 50-day volume-weighted average price at the date of conversion, subject to a floor price of Cdn\$8.88 per share.

**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**9. CONVERTIBLE CREDIT FACILITY (Continued)**

As at March 31, 2012, the fair value of the embedded derivative liability associated with the remaining \$250.0 million principal outstanding was determined to be \$49.2 million (December 31, 2011 \$48.4 million).

During the three month period ended March 31, 2012, Ivanhoe Mines capitalized \$4.6 million (2011 \$1.1 million) of interest expense and \$nil (2011 \$nil) of accretion expense incurred on the convertible credit facility.

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

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

	March 31, 2012	December 31, 2011
Floor conversion price	Cdn\$ 8.88	Cdn\$ 8.88
Ceiling conversion price	Cdn\$ 11.88	Cdn\$ 11.88
Expected volatility	70%	71%
Risk-free rate of return	2.55%	2.41%
Spot Cdn\$ exchange rate	1.01	0.98
Forward Cdn\$ exchange rate curve	1.00 1.04	0.96 1.01

**10. INTERIM FUNDING FACILITY**

In December 2010, Rio Tinto committed to provide the Company with an initial, non-revolving interim funding facility of \$1.8 billion to assist in sustaining Oyu Tolgoi Project development activities. The interim funding facility is on arm's-length terms, with funds to be advanced to the Oyu Tolgoi Project on a month-to-month basis, if and when required. The interim funding facility matures on December 31, 2013, subject to certain early mandatory prepayment terms.

In November 2011, the Company made its first draw on the interim funding facility. As at March 31, 2012, a total of \$1,104.4 million (December 31, 2011 \$400.7 million) had been drawn down on the interim funding facility.

Amounts advanced to the Company under the interim funding facility bear interest at the weighted average rate of return earned by the Company on the aggregate interim funding facility proceeds advanced to Oyu Tolgoi. During the three month period ended March 31, 2012, the interim funding facility's effective annual interest rate equaled 90% of the sum of the three-month LIBOR and 6.5%. During the three month period ended March 31, 2012, interest of \$13.4 million (2011 \$nil) was incurred on the interim funding facility.



**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**10. INTERIM FUNDING FACILITY (Continued)**

As part of the interim funding facility, the Company paid a front end fee of \$18.0 million and is subject to a commitment fee of 0.4% annually, payable on a semi-annual basis in arrears on the daily average of the undrawn amount under the interim funding facility. During the three month period ended March 31, 2012, commitment fees of \$1.1 million (2011 \$nil) were incurred on the interim funding facility.

During the three month period ended March 31, 2012, the interest expense and commitment fees were all capitalized as Oyu Tolgoi Project development costs.

**11. SHARE CAPITAL***(a) Equity Incentive Plan*

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

	Three Months Ended March 31,	
	2012	2011
Exploration (i)	\$ 7,929	\$ 9,322
General and administrative	8,007	14,097
	<b>\$ 15,936</b>	<b>\$ 23,419</b>

- (i) During the three months ended March 31, 2012, stock-based compensation of \$5.1 million (2011 \$16.5 million) relating to the development of the Oyu Tolgoi Project was capitalized as property, plant and equipment.

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

	Three Months Ended March 31,	
	2012	2011
Ivanhoe Mines Ltd. (i)	\$ 9,787	\$ 16,644
SouthGobi Resources Ltd.	3,578	3,087
Ivanhoe Australia Ltd.	2,571	3,688
	<b>\$ 15,936</b>	<b>\$ 23,419</b>

- (i) During the three months ended March 31, 2012, 1,763,926 options were exercised, 79,010 options were cancelled and nil options were granted.

During the three months ended March 31, 2012, stock-based compensation of \$5.1 million (2011 \$16.5 million) relating to the development of the Oyu Tolgoi Project was capitalized as property, plant and equipment.



## IVANHOE MINES LTD.

## Notes to the Consolidated Financial Statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

## 11. SHARE CAPITAL (Continued)

(b) *Rio Tinto Placements*

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

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

Nature of Investment by Rio Tinto	Period	Number of Shares Acquired <sup>(1)</sup>	Proceeds/Transaction Value
Private Placement Tranche 1	2006	37,089,883	\$ 303,395
Anti Dilution Shares	2008	243,772	612
Private Placement Tranche 2	2009	46,304,473	388,031
March 2010 Private Placement	2010	15,000,000	240,916
Exercise of Series A Warrants	2010	46,026,522	393,066
Conversion of Convertible Credit Facility	2010	40,083,206	400,832
Exercise of Anti Dilution Warrants	2010	720,203	2,229
Partial exercise of Series B Warrants	2010	33,783,784	300,000
Rights Offering	2011	34,387,776	477,302
Exercise of remaining Series B Warrants	2011	14,070,182	119,737
Exercise of Anti Dilution Warrants	2011	827,706	2,527
Exercise of Series C Warrants	2011	40,224,365	379,316
Exercise of Subscription Right <sup>(2)</sup>	2011	27,896,570	535,908
Balance at December 31, 2011		336,658,442	\$ 3,543,871
Exercise of Subscription Right <sup>(2)</sup>	January 2012	439,216	8,489
Balance at March 31, 2012		337,097,658	\$ 3,552,360

<sup>(1)</sup> Shares acquired excludes other purchases made by Rio Tinto from third parties.

<sup>(2)</sup> In January 2012, Ivanhoe Mines received \$8.5 million from Rio Tinto following Rio Tinto's decision to exercise the subscription right granted to Rio Tinto as part of the terms of the December 2010 Heads of Agreement between Rio Tinto and Ivanhoe Mines.

On January 24, 2012, Rio Tinto announced that it had increased its stake in the Company to 51.0% from 49.0%, by purchasing an additional 15.1 million common shares of the Company from two sellers in a privately negotiated transaction.

As at March 31, 2012, Rio Tinto's equity ownership in the Company was 50.9% (December 31, 2011 48.9%).



**IVANHOE MINES LTD.**

**Notes to the Consolidated Financial Statements**

**(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)**

**11. SHARE CAPITAL (Continued)**

*(c) Rights Offering*

In December 2010, the Company filed a final short form prospectus for a rights offering open to all shareholders on a dilution-free, equal participation basis. In accordance with the terms of the rights offering, each shareholder of record as at December 31, 2010 received one right for each common share held. Every 100 rights held entitled the holder thereof to purchase 15 common shares of the Company at \$13.88 per share or Cdn\$13.93 per share, at the election of the holder. The rights traded on the TSX, NYSE and NASDAQ and expired on January 26, 2011.

Upon the closing of the rights offering, the Company issued a total of 84,867,671 common shares for gross proceeds of \$1.18 billion. Expenses and fees relating to the rights offering totalled approximately \$27.3 million.

Under the terms of the rights offering, the monetary amount to be received by the Company upon the exercise of rights was not fixed. Each holder of rights could elect either the \$13.88 or Cdn\$13.93 subscription price. Furthermore, the Cdn\$13.93 subscription price was not denominated in the Company's U.S. dollar functional currency. Therefore, the pro rata distribution of rights to the Company's shareholders was accounted for as a derivative financial liability measured at fair value.

On December 23, 2010, rights to be issued under the rights offering began trading on a "when issued" basis. On this date, the Company recognized a derivative financial liability of \$901.9 million associated with the Company's legal obligation to carry out the rights offering. Deficit was adjusted by a corresponding amount. Each reporting period the derivative financial liability was remeasured at fair value with changes being recognized in earnings. During the three month period ended March 31, 2012, Ivanhoe Mines recognized a derivative loss of \$nil (2011 - \$432.5 million).

The derivative financial liability was settled as rights were exercised or expired unexercised. A total of \$1.19 billion was reclassified from the derivative financial liability to share capital, representing the fair value of rights exercised. At expiry, a total of \$5.7 million was reclassified from the derivative financial liability to additional paid-in capital, representing the fair value of rights which expired unexercised.

The fair value of the derivative financial liability was determined by reference to published market quotations for the rights.

**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**12. NONCONTROLLING INTERESTS**

At March 31, 2012 there were noncontrolling interests in SouthGobi, Ivanhoe Australia and Oyu Tolgoi LLC ( Oyu Tolgoi ):

		Noncontrolling Interests		
	SouthGobi	Ivanhoe Australia	Oyu Tolgoi (a)	Total
Balance, December 31, 2011	\$ 283,716	\$ 100,868	\$ (367,599)	\$ 16,985
Noncontrolling interests share of loss	(2,079)	(18,575)	(3,609)	(24,263)
Noncontrolling interests share of other comprehensive (loss) income	(2,304)	1,755	8,347	7,798
Changes in noncontrolling interests arising from changes in ownership interests	2,125	329		2,454
Balance, March 31, 2012	\$ 281,458	\$ 84,377	\$ (362,861)	\$ 2,974

- (a) During 2011, a subsidiary of the Company funded common share investments in Oyu Tolgoi on behalf of Erdenes MGL LLC ( Erdenes ). In accordance with the Amended and Restated Shareholders Agreement, which was signed on June 8, 2011, such funded amounts earn interest at an effective annual rate of LIBOR plus 6.5% and are repayable to a subsidiary of the Company via a pledge over Erdenes share of future Oyu Tolgoi dividends. Erdenes also has the right to reduce the outstanding balance by making payments directly to a subsidiary of the Company.

Common share investments in Oyu Tolgoi funded by a subsidiary of the Company on behalf of Erdenes are recorded as a reduction to the net carrying value of noncontrolling interest. As at March 31, 2012, the cumulative amounts of such funding and associated unrecognized interest were \$110.1 million (December 31, 2011 \$110.1) and \$3.0 million (December 31, 2011 \$1.0 million) respectively.

## IVANHOE MINES LTD.

## Notes to the Consolidated Financial Statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

## 13. CASH FLOW INFORMATION

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

	Three Months Ended March 31,	
	2012	2011
Net loss	\$ (104,863)	\$ (521,212)
Items not involving use of cash		
Stock-based compensation	14,962	22,268
Accretion expense	984	176
Depreciation	8,054	3,311
Accrued interest income	(2,461)	(3,027)
Interest expense		3,845
Unrealized losses on long-term investments	372	3,762
Realized gain on sale of long-term investments	(85)	
Unrealized gains on other long-term investments	(8,873)	(388)
Realized gain on redemption of other long-term investments	(8)	(33)
Change in fair value of derivative		432,536
Change in fair value of embedded derivatives	776	36,781
Unrealized foreign exchange gains	(10,160)	(3,075)
Share of loss of significantly influenced investees	18,287	3,714
Write-down of carrying value of inventory	4,472	5,318
Gain on sale of long-term investments		(10,628)
Write-down of carrying value of long-term investments	3,860	
Deferred income taxes	(525)	(14,792)
Bonus shares	974	1,151
Net change in non-cash operating working capital items:		
Decrease (increase) in:		
Accounts receivable	9,252	7,749
Inventories	(48,306)	(32,411)
Prepaid expenses	4,897	(4,369)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(8,226)	2,635
Interest payable on long-term debt	3,367	
Cash used in operating activities	\$ (113,250)	\$ (66,689)

(b) Supplementary information regarding other non-cash transactions

The non-cash investing and financing activities relating to continuing operations not already disclosed in the consolidated statements of cash flows were as follows:

	Three Months Ended March 31,	
	2012	2011
<b>Financing activities:</b>		

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Rights offering (Note 11 (c))	\$	\$ 1,193,064
Interest settlement on convertible debenture (Note 9)	<b>4,000</b>	4,011
	<b>\$ 4,000</b>	\$ 1,197,075



**IVANHOE MINES LTD.****Notes to the Consolidated Financial Statements**

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands)

**14. SEGMENT DISCLOSURES**

	Three Months Ended March 31, 2012				<b>Consolidated</b>
	Development	Exploration	Coal	Corporate	
<b>REVENUE</b>	\$	\$	\$ 40,153	\$	<b>\$ 40,153</b>
<b>COST OF SALES</b>					
Production and delivery			(19,579)		<b>(19,579)</b>
Depreciation and depletion			(6,337)		<b>(6,337)</b>
Write-down of carrying value of inventory			(4,472)		<b>(4,472)</b>
<b>COST OF SALES</b>			(30,388)		<b>(30,388)</b>
<b>EXPENSES</b>					
Exploration	(13,803)	(52,145)	(10,809)		<b>(76,757)</b>
General and administrative				(31,518)	<b>(31,518)</b>
Depreciation		(1,660)	(55)	(2)	<b>(1,717)</b>
Accretion of asset retirement obligations	(254)	(566)	(133)		<b>(953)</b>
<b>TOTAL EXPENSES</b>	(14,057)	(54,371)	(41,385)	(31,520)	<b>(141,333)</b>
<b>OPERATING LOSS</b>	(14,057)	(54,371)	(1,232)	(31,520)	<b>(101,180)</b>
<b>OTHER INCOME (EXPENSES)</b>					
Interest income	1,607	1,961	151	2,170	<b>5,889</b>
Interest expense			(352)	(383)	<b>(735)</b>