

IVANHOE ENERGY INC  
Form 10-Q  
November 08, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2012**  
**Commission file number: 000-30586**

**Ivanhoe Energy Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

**Yukon, Canada**  
(State or other jurisdiction of

**98-0372413**  
(IRS Employer

incorporation or organization)

**654-999 Canada Place**

Identification No.)

**Vancouver, BC, Canada V6C 3E1**

**(604) 688-8323**

(Address and telephone number of the registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As at October 31, 2012, Ivanhoe Energy Inc. had 344,139,428 Common Shares outstanding with no par value.

**Table of Contents**

**TABLE OF CONTENTS**

<b>PART I</b>	ITEM 1:	<u>Financial Statements</u>	
		<u>Unaudited Condensed Consolidated Statements of Financial Position</u>	3
		<u>Unaudited Condensed Consolidated Statements of Loss and Comprehensive Loss</u>	4
		<u>Unaudited Condensed Consolidated Statements of Changes in Equity</u>	5
		<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	6
		<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	7
	ITEM 2:	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
	ITEM 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
	ITEM 4:	<u>Controls and Procedures</u>	28
<b>PART II</b>	ITEM 1:	<u>Legal Proceedings</u>	29
	ITEM 1A:	<u>Risk Factors</u>	30
	ITEM 6:	<u>Exhibits</u>	30

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****IVANHOE ENERGY INC.****Condensed Consolidated Statements of Financial Position****(Unaudited)**

(US\$000s)	Note	September 30, 2012	December 31, 2011
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	3	16,882	16,890
Restricted cash	4	20,500	20,500
Accounts receivable		3,724	7,859
Note receivable		232	227
Prepaid and other		1,189	1,411
Assets held for sale	5	53,405	41,902
		<b>95,932</b>	<b>88,789</b>
Intangible	6	282,189	273,986
Property, plant and equipment	7	48,023	46,979
Long term receivables		6,419	3,956
		<b>432,563</b>	<b>413,710</b>
<b>Liabilities and Shareholders Equity</b>			
Current Liabilities			
Accounts payable and accrued liabilities	17	21,738	15,548
Short term debt	8	57,980	
Derivative instruments	9		183
Income taxes		397	641
		<b>80,115</b>	<b>16,372</b>
Long term debt	8	65,410	61,892
Long term derivative instruments	9, 10	74	1,617
Long term provisions		3,122	1,919
Deferred income taxes		17,196	17,773
		<b>165,917</b>	<b>99,573</b>
Shareholders Equity			
Share capital	12	586,108	586,108
Contributed surplus	13	28,945	26,524
Accumulated deficit		(348,407)	(298,495)
		<b>266,646</b>	<b>314,137</b>
		<b>432,563</b>	<b>413,710</b>

Nature of operations and going concern

1

Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

(See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements)

**Table of Contents****IVANHOE ENERGY INC.****Condensed Consolidated Statements of Loss and Comprehensive Loss****(Unaudited)**

(US\$000s, except share and per share amounts)	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
<b>Revenue</b>					
Oil		8,797	10,769	27,997	28,277
Interest		11	219	22	429
		<b>8,808</b>	10,988	<b>28,019</b>	28,706
<b>Expenses and other</b>					
Operating	15	4,231	5,489	13,725	15,351
Exploration and evaluation	6	22,648	2,143	22,800	2,143
General and administrative		10,628	12,239	31,515	37,400
Depletion and depreciation	7	2,134	2,131	6,371	5,853
Foreign currency exchange loss (gain)		2,649	(670)	1,855	(1,133)
Derivative instruments loss (gain)	9	11	(5,429)	(1,721)	(12,629)
Finance		1,502	431	2,088	798
Gain on derecognition of long term provision			(1,900)		(1,900)
Other expenses	8			309	
		<b>43,803</b>	14,434	<b>76,942</b>	45,883
Loss before income taxes		<b>(34,995)</b>	(3,446)	<b>(48,923)</b>	(17,177)
<b>Recovery of (provision for) income taxes</b>					
Current		(397)	(682)	(1,566)	(1,481)
Deferred		845	(29)	577	(736)
		<b>448</b>	(711)	<b>(989)</b>	(2,217)
<b>Net loss and comprehensive loss</b>		<b>(34,547)</b>	(4,157)	<b>(49,912)</b>	(19,394)
<b>Net loss per common share, basic and diluted</b>		<b>(0.10)</b>	(0.01)	<b>(0.15)</b>	(0.06)
<b>Weighted average number of common shares</b>					
<b>Basic and diluted (000s)</b>		<b>344,139</b>	338,592	<b>344,139</b>	342,173

(See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements)

**Table of Contents****IVANHOE ENERGY INC.****Condensed Consolidated Statements of Changes in Equity****(Unaudited)**

(US\$000s, except share amounts)	Note	Share Capital		Contributed Surplus	Accumulated Deficit	Total
		Shares (000s)	Amount			
<b>Balance January 1, 2011</b>		<b>334,365</b>	<b>550,562</b>	<b>23,141</b>	<b>(273,219)</b>	<b>300,484</b>
Net loss and comprehensive loss					(19,394)	(19,394)
Shares issued for services		169	335			335
Exercise of stock options		984	4,164	(2,231)		1,933
Exercise of purchase warrants		8,621	31,047			31,047
Share-based compensation expense	13			4,767		4,767
<b>Balance September 30, 2011</b>		<b>344,139</b>	<b>586,108</b>	<b>25,677</b>	<b>(292,613)</b>	<b>319,172</b>

(US\$000s, except share amounts)	Note	Share Capital		Contributed Surplus	Accumulated Deficit	Total
		Shares (000s)	Amount			
<b>Balance January 1, 2012</b>		<b>344,139</b>	<b>586,108</b>	<b>26,524</b>	<b>(298,495)</b>	<b>314,137</b>
Net loss and comprehensive loss					(49,912)	(49,912)
Funding of equity-settled share-based awards				(54)		(54)
Share-based compensation expense	13			2,475		2,475
<b>Balance September 30, 2012</b>		<b>344,139</b>	<b>586,108</b>	<b>28,945</b>	<b>(348,407)</b>	<b>266,646</b>

(See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements)

**Table of Contents****IVANHOE ENERGY INC.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

(US\$000s)	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
<b>Operating Activities</b>					
Net loss		(34,547)	(4,157)	(49,912)	(19,394)
Adjustments to reconcile net loss to cash from operating activities					
Depletion and depreciation	7	2,134	2,131	6,371	5,853
Exploration and evaluation expense	6	22,648	2,143	22,800	2,143
Share-based compensation expense	13	336	1,680	2,575	4,927
Unrealized foreign currency exchange loss (gain)		2,103	636	1,483	(1,144)
Unrealized derivative instruments loss (gain)	9	11	(5,429)	(1,721)	(12,629)
Current income tax expense		397	682	1,566	1,481
Deferred income tax expense		(845)	29	(577)	736
Finance expense		1,502	431	2,088	798
Finance costs					269
Derecognition of long term provision			(1,900)		(1,900)
Other expenses	8			309	
Other		14	25	13	13
Current income tax paid		(946)	(423)	(1,810)	(747)
Interest paid		(785)		(1,087)	
Share-based payments				(166)	
Changes in non-cash working capital items	16	4,889	(1,062)	3,903	916
<b>Net cash used in operating activities</b>		<b>(3,089)</b>	<b>(5,214)</b>	<b>(14,165)</b>	<b>(18,678)</b>
<b>Investing Activities</b>					
Intangible and assets held for sale expenditures		(8,483)	(12,368)	(36,533)	(36,140)
Property, plant and equipment expenditures		(1,344)	(4,475)	(6,838)	(11,938)
Long term receivables		(1,134)	(845)	(2,472)	(1,308)
Interest paid		(556)	(1,039)	(3,109)	(2,042)
Changes in non-cash working capital items	16	(15,269)	(4,254)	6,404	324
<b>Net cash used in investing activities</b>		<b>(26,786)</b>	<b>(22,981)</b>	<b>(42,548)</b>	<b>(51,104)</b>
<b>Financing Activities</b>					
Debt proceeds, net of transaction costs	8	18,694		55,976	72,914
Repayment of convertible note			(41,421)		(41,421)
Proceeds from exercise of options and warrants					29,873
Changes in non-cash working capital items	16	(16)	104	(16)	57
<b>Net cash provided by (used in) financing activities</b>		<b>18,678</b>	<b>(41,317)</b>	<b>55,960</b>	<b>61,423</b>
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency		663	(5,628)	745	(1,790)
<b>Decrease in cash and cash equivalents, for the period</b>		<b>(10,534)</b>	<b>(75,140)</b>	<b>(8)</b>	<b>(10,149)</b>
Cash and cash equivalents, beginning of period		27,416	133,308	16,890	68,317



Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

<b>Cash and cash equivalents, end of period</b>	<b>16,882</b>	58,168	<b>16,882</b>	58,168
---	---------------	--------	---------------	--------

(See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements)

---

## **Table of Contents**

### **IVANHOE ENERGY INC.**

#### **Notes to the Unaudited Condensed Consolidated Financial Statements**

(tabular amounts in US\$000s, except share and per share amounts)

#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Ivanhoe Energy Inc. (the Company or Ivanhoe) is a publicly listed company incorporated in Canada, with limited liability under the legislation of the Yukon. Ivanhoe's common shares are listed on the Toronto Stock Exchange (TSX) and the NASDAQ Stock Market (NASDAQ). The head office and principal address of the Company are located at 999 Canada Place, Suite 654, Vancouver, British Columbia, Canada, V6C 3E1. The registered and records office of the Company is located at 300-204 Black Street, Whitehorse, Yukon, Canada, Y1A 2M9.

Ivanhoe is an independent international heavy oil development and production company focused on pursuing long term growth in its reserves and production. Ivanhoe plans to utilize advanced technologies, such as its HTL technology, that are designed to improve recovery of heavy oil resources. In addition, the Company seeks to expand its reserve base and production through conventional exploration and production of oil and gas.

The September 30, 2012 unaudited condensed consolidated financial statements (Financial Statements) have been prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due and assumes that Ivanhoe will be able to meet its obligations and continue operations for at least its next fiscal year. Realization values may be substantially different from carrying values as shown and these Financial Statements do not give effect to adjustments that may be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

At September 30, 2012, Ivanhoe had an accumulated deficit of \$348.4 million and working capital deficit of \$37.6 million, excluding assets held for sale. In the nine months ended September 30, 2012, cash used in operating activities was \$14.2 million and the Company expects to incur further losses in the development of its business. Continuing as a going concern is dependent upon attaining future profitable operations to repay liabilities arising in the normal course of operations and accessing additional capital to develop the Company's properties. Ivanhoe intends to finance its future funding requirements through a combination of strategic investors and/or public and private debt and equity markets, either at a parent company level or at the project level, and through the sale of interests in existing oil and gas properties. There is no assurance that the Company will be able to obtain such financing, or obtain it on favorable terms. Without access to additional financing or other cash generating activities in 2012, there is material uncertainty that casts substantial doubt that the Company will be able to continue as a going concern.

The September 30, 2012 Financial Statements were approved by the Board of Directors and authorized for issue on October 24, 2012.

The Financial Statements are presented in US dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated.

#### **2. BASIS OF PRESENTATION**

##### **2.1 Statement of Compliance**

The Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34), using accounting policies consistent with IFRS as issued by the IASB. The Financial Statements are not subject to qualification relating to the application of IFRS as issued by the IASB.

The Financial Statements are condensed as they do not include all of the information required for full annual financial statements, and they should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2011 prepared in accordance with IFRS issued by the IASB. The same accounting policies, presentation and methods of computation have been followed in these Financial Statements as were applied in the Company's first annual IFRS consolidated financial statements for the year ended December 31, 2011.



---

## **Table of Contents**

### **2.2 Basis of Presentation**

The Financial Statements have been prepared on an historical cost basis, except derivative instruments, which are measured at fair value.

### **2.3 Standards and Interpretations Issued But Not Yet Adopted**

The Company has reviewed new and revised accounting pronouncements listed below, that have been issued, but are not yet effective. There are no other standards or interpretations issued, but not yet adopted, that are anticipated to have a material effect on the reported loss or net assets of the Company.

#### **i. IFRS 9 Financial Instruments ( IFRS 9 )**

The first phase of IFRS 9 was issued in November 2009 and is intended to replace IAS 39, *Financial Instruments: Recognition and Measurement* ( IAS 39 ). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, as opposed to the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments given its business model and the contractual cash flow characteristics of the financial assets. The standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for reporting periods beginning on or after January 1, 2015. The full impact of this standard will not be known until the phases addressing hedging and impairments have been completed.

#### **ii. IFRS 10 Consolidated Financial Statements ( IFRS 10 )**

IFRS 10 was issued in May 2011 and sets a single basis for consolidation, that being control of an entity. IFRS 10 replaces portions of IAS 27, *Consolidated and Separate Financial Statements* and Standing Interpretations Committee 12, *Special Purpose Entities* that provide a single model on how entities should prepare consolidated financial statements. This standard is effective for reporting periods on or after January 1, 2013, with earlier adoption permitted. The Company does not anticipate any changes to the consolidated financial statements as a result of this standard.

#### **iii. IFRS 11 Joint Arrangements ( IFRS 11 )**

IFRS 11, issued in May 2011, establishes principles for financial reporting by entities involved in a joint arrangement and distinguishes between joint operations and joint ventures. IFRS 11 supersedes the current IAS 31, *Interests in Joint Ventures* and Standing Interpretations Committee 13, *Jointly Controlled Entities-Non Monetary Contributions by Venturers* and is effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company does not anticipate any changes to the consolidated financial statements as a result of this standard.

#### **iv. IFRS 12 Disclosure of Interests in Other Entities ( IFRS 12 )**

IFRS 12, issued in May 2011, establishes a single set of disclosure objectives, and requires minimum disclosures designed to meet those objectives, regarding interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 is intended to combine the disclosure requirements on interests in other entities currently located throughout different standards. This standard is effective for reporting periods on or after January 1, 2013, with earlier adoption permitted. The Company does not anticipate significant changes to its disclosure of interests in other entities as a result of this standard.

#### **v. IFRS 13 Fair Value Measurements ( IFRS 13 )**

IFRS 13, issued in May 2011, defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRS that require or permit fair value measurements or related disclosures, except in specified circumstances. IFRS 13 is to be applied for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company does not anticipate significant changes to its fair value measurements and related disclosures as a result of this standard.

#### **vi. IAS 28 Investments in Associates and Joint Ventures ( IAS 28 )**

IAS 28 was amended in 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for reporting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company does not anticipate any changes to the consolidated financial statements as a

result of this standard.

**Table of Contents****3. CASH AND CASH EQUIVALENTS**

	September 30, 2012	December 31, 2011
Cash at banks and on hand	16,882	16,867
Restricted cash		23
	<b>16,882</b>	<b>16,890</b>

**4. RESTRICTED CASH**

	September 30, 2012	December 31, 2011
Ecuador performance bond	500	500
Zitong performance bond	20,000	20,000
	<b>20,500</b>	<b>20,500</b>

In December 2011, Ivanhoe was required to post a \$20.0 million performance bond as part of the completion and signing of a supplementary agreement to the Contract for Exploration, Development and Production in Zitong Block, Sichaun Basin with China National Petroleum Corporation ( CNPC ) for the Zitong block.

**5. ASSETS HELD FOR SALE**

As at September 30, 2012 Sunwing Zitong Energy ( SZE ), a wholly owned subsidiary of the Company, had signed a binding Memorandum of Understanding to assign 100% of its participating interest in the Zitong Production Sharing Contract ( PSC ) to Shell China Exploration and Production Company Limited ( Shell ). The transaction is subject to government approvals and other prescribed conditions. Subsequent to quarter end, SZE signed the definitive Sale and Purchase Agreement ( SPA ). There is no assurance that this transaction will close, or close on the terms presently contemplated.

In exchange for SZE s interest in the Zitong block, Ivanhoe will receive a cash payment of up to \$85.0 million as reimbursement for past qualified and recoverable costs incurred. In addition, Ivanhoe will receive a further cash payment contingent on the timing of the receipt of full government approvals and third-party consents and waivers for the transaction. If the transaction closes on or before December 31, 2012, the Company will receive an additional \$20.0 million. If final approval of the transaction has not been received after the expiration of twelve months from the date the documents were submitted to the Ministry of Commerce in China, the deal may be terminated.

Should SZE receive government approval for the transaction, Shell will become liable for the performance bond posted in 2011, resulting in a release of restricted cash back to the Company.

The carrying value of the Zitong asset, which is comprised of exploration and evaluation ( E&E ) expenditures, was \$53.4 million at September 30, 2012 (December 31, 2011 \$41.9 million); the property was previously reported in the Asia segment.

**6. INTANGIBLE ASSETS**

	Exploration and Evaluation Assets				HTL Technology	Total Intangible Assets
	Asia	Canada	Latin America	Total		
<b>Cost</b>						
Balance January 1, 2011	38,135	123,755	19,525	181,415	92,153	273,568

Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

Additions	23,094	9,697	12,303	45,094		45,094
Exploration and evaluation expense	(2,124)		(650)	(2,774)		(2,774)
Assets reclassified as held for sale	(41,902)			(41,902)		(41,902)
Balance December 31, 2011	17,203	133,452	31,178	181,833	92,153	273,986
Additions	340	6,569	24,094	31,003		31,003
Exploration and evaluation expense	(2,968)	(152)	(19,680)	(22,800)		(22,800)
<b>Balance September 30, 2012</b>	<b>14,575</b>	<b>139,869</b>	<b>35,592</b>	<b>190,036</b>	<b>92,153</b>	<b>282,189</b>

**Table of Contents**

Exploration and evaluation costs of \$22.8 million, mainly relating to drilling activities, were expensed in the nine months ended September 30, 2012 (September 30, 2011 \$2.8 million). Drilling of the IP-17 exploratory well in the southern part of Block 20 in Ecuador led to the discovery of non-commercial quantities of hydrocarbons and the Company expensed \$19.7 million in related costs in the third quarter of 2012. In addition, the Company also expensed \$2.9 million in capital costs in the third quarter of 2012 relating to the second Mongolian well drilled in 2011. Independent laboratory tests finalized in September 2012 on the drill cuttings from Mongolia indicated that there is a high probability that mobile oil is limited in the well.

In the nine months ended September 30, 2012, \$1.3 million (year ended December 31, 2011 \$2.1 million) of employee benefits directly attributable to E&E assets were capitalized. In addition, in the nine months ended September 30, 2012, nil (year ended December 31, 2011 \$0.3 million) related to share-based compensation costs were capitalized to E&E assets.

Amortization of the HTL technology has not commenced and its carrying value had not been impaired since it was acquired in 2005.

**7. PROPERTY, PLANT AND EQUIPMENT**

	Oil and Gas Property and Equipment				Other Assets	Total PP&E
	Asia	Canada	Latin America	Total		
<b>Cost</b>						
Balance January 1, 2011	35,939			35,939	13,009	48,948
Additions	12,923			12,923	1,471	14,394
Disposals					(3)	(3)
Balance December 31, 2011	48,862			48,862	14,477	63,339
Additions	7,389			7,389	26	7,415
<b>Balance September 30, 2012</b>	<b>56,251</b>			<b>56,251</b>	<b>14,503</b>	<b>70,754</b>
<b>Accumulated Depletion and Depreciation</b>						
Balance January 1, 2011	6,196			6,196	2,134	8,330
Depletion and depreciation	6,899			6,899	1,132	8,031
Disposals					(1)	(1)
Balance December 31, 2011	13,095			13,095	3,265	16,360
Depletion and depreciation	5,548			5,548	823	6,371
<b>Balance September 30, 2012</b>	<b>18,643</b>			<b>18,643</b>	<b>4,088</b>	<b>22,731</b>
<b>Net Book Value</b>						
As at December 31, 2011	35,767			35,767	11,212	46,979
<b>As at September 30, 2012</b>	<b>37,608</b>			<b>37,608</b>	<b>10,415</b>	<b>48,023</b>

**Oil and Gas Property and Equipment**

In the nine months ended September 30, 2012, \$0.1 million (year ended December 31, 2011 \$0.1 million) of employee benefits directly attributable to property, plant and equipment ( PP&E ) were capitalized.

**Other Assets**

Other assets include the Company's Feedstock Test Facility ( FTF ) at the Southwest Research Institute in San Antonio, Texas, and general furniture and fixtures.

**Security**



## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

Should Ivanhoe receive government and other approvals necessary to develop the northern border of one of the Company's oil sands leases in the Athabasca region of Canada ( Tamarack ), the Company will make a cash payment to Talisman Energy Canada ( Talisman ) of up to Cdn\$15.0 million, as a contingent, final payment for the 2008 acquisition of the oil sands leases (Note 11). The contingent payment is secured by a first fixed charge and security interest in favor of Talisman, including over the oil sands leases, and a general security interest in all of the Company's present and after acquired property, other than equity interests in the Company's subsidiaries (through which it holds assets in China, Mongolia and Ecuador and the HTL technology). Talisman has agreed to subordinate its security interest in the Tamarack oil sands leases and related assets to UBS Securities LLC and certain of its affiliates ( UBS ) until the loan provided by UBS to the Company through a credit agreement signed in March 2012 (Note 8) is repaid.

**Table of Contents****8. DEBT**

Interest incurred for all outstanding debt was recorded as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Interest expense	1,488	424	2,060	783
Capitalized to E&E	953	1,140	4,676	2,514
Capitalized to PP&E	(127)		602	
Total interest incurred	2,314	1,564	7,338	3,297

**8.1 Short Term Debt**

In March 2012, the Company signed a credit agreement with UBS providing for a \$50.0 million loan from UBS ( UBS Loan ). The UBS Loan includes an initial draw of \$30.0 million and Ivanhoe may elect to draw an additional \$20.0 million of principal. The Company elected to draw an additional \$20.0 million of principal in July 2012. Borrowed amounts incur interest at a per annum rate equal to one month Libor plus 10% for the first six months of the UBS Loan which escalates by 1% per month thereafter; interest is payable monthly. The UBS Loan matures on March 23, 2013 and is secured by the Tamarack oil sands leases and related assets, and by a charge over the shares of three of the Company's subsidiaries: Sunwing Holding Corporation, Sunwing Energy Ltd. and Sunwing Zitong Energy Ltd.

**8.2 Convertible Short Term Debt**

Ivanhoe entered into an unsecured loan agreement on December 30, 2011 with Ivanhoe Capital Finance Ltd. ( ICFL ), a company wholly owned by Robert Friedland, the Company's Executive Co-Chairman for a \$10.0 million loan ( ICFL Loan ). The funds were advanced to the Company on January 3, 2012. The outstanding balance is subordinate in repayment to all amounts owing under the UBS Loan. Interest on the loan is 10% per annum, calculated monthly and due upon maturity.

On March 14, 2012, the ICFL Loan agreement was amended to provide that, at ICFL's option, the outstanding principal may be converted into 10,484,375 common shares of the Company, at a price of Cdn\$0.96 per common share, and the maturity date was extended to March 31, 2013. The debt component is carried at amortized cost and, on the date of amendment, the equity option was valued at nil using the residual method. The amendment was treated as an extinguishment of the original loan with recognition of the amended loan resulting in the remaining deferred financing costs of \$0.3 million being expensed in the first quarter of 2012.

**8.3 Convertible Debentures**

On June 9, 2011, the Company issued Cdn\$73.3 million in 5.75% convertible unsecured subordinated debentures at a price of Cdn\$1,000 per debenture ( Convertible Debentures ). Cdn\$50.0 million of the Convertible Debentures were issued in a public offering. The remaining Cdn\$23.3 million were issued in a private placement on the same terms as the public offering.

The Convertible Debentures mature on June 30, 2016, pay interest semi-annually on June 30 and December 31 and are convertible at a price of Cdn\$3.36 per share. They are redeemable after June 30, 2014 at Ivanhoe's option with the redemption price being settled using either cash or common shares.

The Canadian dollar denominated debt is considered an embedded derivative since the functional currency of the Company is the US dollar and, as such, the option was bifurcated and recognized at fair value as a long term derivative liability (Note 10) with changes in value recorded each period in the consolidated statement of loss. The carrying amount of the debt component of the Convertible Debentures at September 30, 2012 was \$65.4 million (December 31, 2011 \$61.9 million). The September 30, 2012 carrying value of the unamortized bifurcated derivative and transaction costs was \$9.1 million.



**Table of Contents****9. FINANCIAL INSTRUMENTS****9.1 Fair Value of Financial Instruments Measured at Amortized Cost**

Except as detailed below, the fair value of the Company's financial instruments recognized at amortized cost approximates their carrying value due to the short term maturity of these instruments.

	September 30, 2012	December 31, 2011
<b>Short Term Debt</b>		
Carrying amount	57,980	
Fair value	57,667	
<b>Long Term Debt</b>		
Carrying amount	65,410	61,892
Fair value	46,229	51,901

The fair value of the liability component of the Convertible Debentures was estimated using the closing price of the publicly traded debentures at September 30, 2012.

**9.2 Financial Instruments Measured at Fair Value Through Profit and Loss**

The Company classifies its financial instruments according to the fair value hierarchy as described below:

Level 1 using quoted prices in active markets for identical assets or liabilities.

Level 2 using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 using inputs for the asset or liability that are not based on observable market data, such as prices based on internal models or other valuation methods.

The following table presents the Company's derivative instruments measured at fair value through profit or loss ( FVTPL ):

	Level 1		Level 2 2008	2011	Level 3	Total Fair Value
	2006 Purchase Warrants	2009 & 2010 Purchase Warrants	Convertible Component of Debt	Convertible Component of Debentures	Subsidiary Option	
Balance January 1, 2011	5,615	1,616	1,216			8,447
Issuance of convertible debentures				9,852		9,852
Exercise of options	(2)	(3,107)				(3,109)
Derivative (gains) losses through profit and loss	(3,267)	2,968	(1,216)	(7,810)	183	(9,142)
Expiration of purchase warrants through profit and loss	(2,346)	(1,477)				(3,823)
Foreign exchange gains				(425)		(425)
Balance December 31, 2011				1,617	183	1,800
Derivative gains through profit and loss				(1,538)		(1,538)
Expiration of derivatives through profit or loss					(183)	(183)
Foreign exchange gains				(5)		(5)

<b>Balance September 30, 2012</b>	<b>74</b>	<b>74</b>
-----------------------------------	-----------	-----------

The gain on derivative instruments of \$1.7 million for the nine months ended September 30, 2012 (nine months ended September 30, 2011 \$12.6 million, year ended December 31, 2011 \$13.0 million) originated from the expiration and revaluation of derivative instruments measured at FVTPL.

**Table of Contents****9.3 Risks Arising from Financial Instruments**

Ivanhoe is exposed in varying degrees to normal market risks inherent in the oil and gas industry, including commodity price risk, foreign currency exchange rate risk, credit risk, interest rate risk and liquidity risk. The Company recognizes these risks and manages its operations to minimize the exposure to the extent practicable. There have not been any significant changes to the Company's exposure to risks, or processes to manage these risks as described in the Company's 2011 Form 10-K, except as noted below:

**Interest Rate Risk**

As at September 30, 2012, the Company had borrowed \$50.0 million under the UBS Loan. Borrowed amounts incur interest at a rate of one month Libor plus 10% for the first six months and escalate by 1% per month thereafter. Borrowings issued at variable rates expose Ivanhoe to interest rate risk. The Company's goal is to minimize its interest expense; however, the Company does not anticipate using hedging contracts in 2012 to manage its interest rate risk.

If the interest rate on the UBS Loan were to increase by 1%, the Company's net loss would increase by approximately \$40 thousand per month. Similarly, a 1% decrease in the interest rate on the UBS Loan would decrease Ivanhoe's net loss by approximately \$40 thousand per month.

**10. DERIVATIVE INSTRUMENTS**

The Company issued Cdn\$73.3 million in Convertible Debentures in the second quarter of 2011. The outstanding principal amount is convertible into common shares of the Company. The fair value of the convertible component was \$0.1 million at September 30, 2012, calculated with the Black-Scholes valuation method using a risk-free interest rate of 1.30%, a dividend yield of 0.0%, a weighted average volatility factor of 40% and an expected life of 3.75 years.

If the volatility used to fair value the convertible component decreased by 10%, the fair value would decrease by \$0.1 million. If volatility increased by 10%, the fair value of the convertible option would increase by \$0.2 million.

**11. COMMITMENTS AND CONTINGENCIES****11.1 Operating Lease Arrangements**

In the nine months ended September 30, 2012, the Company expended \$1.3 million (2011 \$1.3 million) on operating leases relating to the rental of office space, which expire between 2012 and 2017.

At September 30, 2012, future net minimum payments for operating leases were:

2012	462
2013	1,381
2014	613
2015	416
After 2015	520
	3,392

**11.2 Other**

Should Ivanhoe receive government and other approvals necessary to develop the northern border of one of the Tamarack leases, the Company will make a cash payment to Talisman of up to Cdn\$15.0 million, as a contingent, final payment for the 2008 purchase of the Tamarack leases.

From time to time, Ivanhoe enters into consulting agreements whereby a success fee may be payable if and when either a definitive agreement is signed or certain other contractual milestones are met. Under the agreements, the consultant may receive cash, common shares, stock options or some combination thereof. Similarly, agreements entered into by the Company may contain cancellation fees or liquidated damages provisions

## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

for early termination. These fees are not considered to be material.

The Company may provide indemnities to third parties, in the ordinary course of business, that are customary in certain commercial transactions, such as purchase and sale agreements. The terms of these indemnities will vary based upon the contract, the nature of which prevents Ivanhoe from making a reasonable estimate of the maximum potential amounts that may be required to be paid. The Company's management is of the opinion that any resulting settlements relating to indemnities are not likely to be material.

**Table of Contents**

In the ordinary course of business, the Company is subject to legal proceedings being brought against it. While the final outcome of these proceedings is uncertain, the Company believes that these proceedings, in the aggregate, are not reasonably likely to have a material effect on its financial position.

**12. SHAREHOLDERS EQUITY****12.1 Share Capital**

Authorized	Unlimited common shares with no par value
	Unlimited preferred shares with no par value
Issued and Outstanding	344,139,428 common shares (December 31, 2011 344,139,428)
	Nil preferred shares (December 31, 2011 nil)

See the Unaudited Condensed Consolidated Statements of Changes in Equity for the change in common shares issued in the nine months ended September 30, 2012 and 2011.

**12.2 Contributed Surplus**

Contributed surplus at September 30, 2012 consisted solely of share-based compensation expense from equity settled awards.

**13. SHARE-BASED PAYMENTS**

Share-based transactions were charged to earnings, as general and administrative or operating expenses, or capitalized to E&E assets as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Share-based expense related to				
Equity settled transactions	254	1,533	2,475	4,767
Cash settled transactions	82	147	100	159
Total share-based expense	336	1,680	2,575	4,926
Share-based payments capitalized as E&E assets				335

**13.1 Stock Option Plan**

Details of transactions under the Company's stock option plan are as follows:

	September 30, 2012		December 31, 2011	
	Number of Stock Options (000s)	Weighted Average Exercise Price (Cdn\$)	Number of Stock Options (000s)	Weighted Average Exercise Price (Cdn\$)
Outstanding, beginning of period	15,748	2.14	16,927	2.24
Granted	2,983	0.94	2,924	2.06
Exercised			(1,687)	2.44
Expired	(493)	2.18	(710)	2.90



Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

Forfeited	<b>(2,342)</b>	<b>2.13</b>	(1,706)	2.46
Outstanding, end of period	<b>15,896</b>	<b>1.91</b>	15,748	2.14
Exercisable, end of period	<b>9,019</b>	<b>2.11</b>	8,231	2.13

Shares authorized for issue under the option plan at September 30, 2012 were 24.1 million (December 31, 2011 24.1 million).

There were no stock options exercised in the nine months ended September 30, 2012. The weighted average share price per option at the date of exercise for stock options exercised in the nine months ended September 30, 2011 was Cdn\$3.15.

**Table of Contents**

The weighted average fair value of stock options granted from the stock option plan during the nine months ended September 30, 2012 was Cdn\$0.67 (2011 Cdn\$1.58) per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

Nine months ended September 30,	2012	2011
Expected life (in years)	6.3	6.3
Volatility <sup>(1)</sup>	73.8%	74.4%
Dividend yield		
Risk-free rate	1.7%	2.7%
Estimated forfeiture rate	8.0%	6.0%

(1) Expected volatility factor based on historical volatility of the Company's publicly traded common shares. The following table summarizes information in respect of stock options outstanding and exercisable at September 30, 2012:

Range of Exercise Prices (Cdn\$)	Outstanding (000s)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (Cdn\$)
0.56 to 1.29	3,398	6.5	0.93
1.30 to 1.89	4,460	0.9	1.65
1.90 to 2.79	7,128	4.0	2.38
2.80 to 3.44	910	4.1	3.26
	15,896	3.7	1.91

**13.2 Restricted Share Unit Plan**

The Company adopted a restricted share unit (RSU) plan in the second quarter of 2011 under which it may issue restricted share units to eligible employees. RSUs vest in equal increments over three years and are settled in shares or cash on the anniversary date. RSUs do not entitle the holder to exercise voting rights until they have vested and the underlying shares have been delivered to the participant.

Details of transactions under the Company's RSU plan are as follows:

	September 30, 2012		December 31, 2011	
	Number of RSUs (000s) <sup>(1)</sup>	Weighted Average Fair Value (Cdn\$)	Number of RSUs (000s) <sup>(1)</sup>	Weighted Average Fair Value (Cdn\$)
Outstanding, beginning of period	937	1.53		
Granted	2,498	0.69	1,115	1.62
Vested	(283)	1.14		
Forfeited	(556)	1.04	(178)	2.08
Outstanding, end of period	2,596	0.73	937	1.53

Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

- (1) Includes RSUs that will be withheld on behalf of employees to satisfy statutory tax withholding requirements.

**Table of Contents**

The weighted average fair value of RSUs granted during the nine months ended September 30, 2012 was Cdn\$0.69 per RSU at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

Nine months ended September 30,	2012	2011
Expected life (in years)	2.0	3.0
Volatility <sup>(1)</sup>	68.9%	62.7%
Dividend yield		
Risk-free rate	1.2%	1.7%
Estimated forfeiture rate	20.0%	6.1%

(1) Expected volatility factor based on historical volatility of the Company's publicly traded common shares. The liabilities arising from the RSUs to be settled by way of cash payments and the intrinsic value of those liabilities are:

	September 30, 2012
Current liabilities related to RSUs	158
Long term liabilities related to RSUs	99
Intrinsic value of vested RSUs	164

**14. SEGMENT INFORMATION**

Ivanhoe's organizational structure reflects its various operating activities and the geographic areas in which it operates. Oil and gas operations are divided into three geographic segments: Asia, Canada and Latin America. Asian operations capture the Company's oil production in Dagang and Daqing and exploration at Zitong in China, as well as exploration in Mongolia. The Canadian segment comprises activities from Ivanhoe's oil sands development project at Tamarack. Latin America consists of exploration and development of Block 20 in Ecuador.

The Technology Development area captures costs incurred to develop, enhance and identify improvements in the application of the Company's HTL technology. The Corporate area consists of costs that are not directly allocable to operating projects, such as executive officers, corporate financings and other general corporate activities.

The accounting policies of the segments are the same as the Company's consolidated accounting policies. Segment results include transactions between business segments. Corporate activities undertaken on behalf of a segment are allocated at cost. Oil revenue is classified according to the geographic location of the production. Segment liabilities include intercompany balances.

**Table of Contents**

The following tables present the Company's segment loss, capital investments and identifiable assets and liabilities.

	Asia	Canada	Latin America	Technology Development	Corporate	Total
<b>Segment revenue <sup>(1)</sup></b>						
For the three months ended September 30, 2012	<b>8,797</b>				<b>11</b>	<b>8,808</b>
For the three months ended September 30, 2011	10,770				218	10,988
For the nine months ended September 30, 2012	<b>27,998</b>				<b>21</b>	<b>28,019</b>
For the nine months ended September 30, 2011	28,281				425	28,706
<b>Segment income (loss)</b>						
For the three months ended September 30, 2012	<b>(3,964)</b>	<b>(772)</b>	<b>(20,587)</b>	<b>(2,217)</b>	<b>(7,007)</b>	<b>(34,547)</b>
For the three months ended September 30, 2011	(3,485)	(625)	(2,070)	(2,839)	4,862	(4,157)
For the nine months ended September 30, 2012	<b>(3,024)</b>	<b>(3,229)</b>	<b>(23,130)</b>	<b>(6,407)</b>	<b>(14,122)</b>	<b>(49,912)</b>
For the nine months ended September 30, 2011	(5,196)	(2,911)	(5,937)	(7,846)	2,496	(19,394)
<b>Segment assets <sup>(2)</sup></b>						
As at September 30, 2012	<b>118,038</b>	<b>140,384</b>	<b>49,006</b>	<b>101,956</b>	<b>23,179</b>	<b>432,563</b>
As at December 31, 2011	107,902	133,880	40,216	102,435	29,277	413,710
<b>Segment liabilities <sup>(3)</sup></b>						
As at September 30, 2012	<b>153,781</b>	<b>154,260</b>	<b>93,781</b>	<b>93,750</b>	<b>(329,655)</b>	<b>165,917</b>
As at December 31, 2011	140,621	144,531	64,362	87,822	(337,763)	99,573
<b>Capital investments Intangible</b>						
For the three months ended September 30, 2012	<b>587</b>	<b>441</b>	<b>7,455</b>			<b>8,483</b>
For the three months ended September 30, 2011	7,649	1,451	3,268			12,368
For the nine months ended September 30, 2012	<b>10,681</b>	<b>3,192</b>	<b>22,660</b>			<b>36,533</b>
For the nine months ended September 30, 2011	21,755	5,298	9,087			36,140
<b>Capital investments Property, plant and equipment</b>						
For the three months ended September 30, 2012	<b>1,376</b>			<b>(32)</b>		<b>1,344</b>
For the three months ended September 30, 2011	4,713		(2)	(236)		4,475
For the nine months ended September 30, 2012	<b>6,795</b>			<b>3</b>	<b>40</b>	<b>6,838</b>
For the nine months ended September 30, 2011	11,014		55	869		11,938

(1) All oil revenues in Asia are generated from the sale of oil production in China to one customer.

(2) Segment assets include investments in subsidiaries that are eliminated for consolidation under Corporate and assets classified as held for sale.

(3) Liabilities for Corporate include intercompany receivables of \$481.8 million at September 30, 2012 (December 31, 2011 \$428.7 million) resulting in a negative balance.

**Table of Contents****15. OPERATING EXPENSES**

Operating expenses for the Company are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Asia				
Field operating	1,326	1,695	4,609	5,010
Windfall levy	1,561	2,584	5,289	6,343
Engineering support	102	126	328	339
	2,989	4,405	10,226	11,692
Technology Development				
FTF operating costs	1,242	1,084	3,499	3,659
Total operating costs	4,231	5,489	13,725	15,351

The windfall levy is imposed by China's Ministry of Finance at the progressive rates from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil lifted in China exceeding US\$55.00 per barrel.

**16. SUPPLEMENTAL CASH FLOW INFORMATION****Changes in Non-Cash Activities**

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>Operating activities</b>				
Accounts receivable	1,647	29	4,122	(2,617)
Note receivable	(6)	10	(5)	43
Prepaid and other current assets	91	54	257	(94)
Accounts payable and accrued liabilities	3,157	(1,155)	(471)	3,584
	4,889	(1,062)	3,903	916
<b>Investing activities</b>				
Accounts receivable	(6)	177	(1)	733
Prepaid and other current assets	2	22	(34)	2,263
Accounts payable and accrued liabilities	(15,265)	(4,453)	6,439	(2,672)
	(15,269)	(4,254)	6,404	324
<b>Financing activities</b>				
Accounts payable and accrued liabilities	(16)	104	(16)	57
	(16)	104	(16)	57
	(10,396)	(5,212)	10,291	1,297

**17. RELATED PARTY TRANSACTIONS**

## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

Ivanhoe is party to cost sharing agreements with other companies which are related or controlled through common directors or shareholders. Through these agreements, the Company shares office space, furnishings, equipment, air travel and communications facilities in various international locations. Ivanhoe also shares the costs of employing administrative and non-executive management personnel at these offices. Finally, Ivanhoe received financing from ICFL in the form of the ICFL Loan (see Note 8.2). These related party transactions are in the normal course of business and the Company believes them to be valued at fair market value.

**Table of Contents**

The breakdown of the related party expenses for the three and nine months ended September 30 is as follows:

Related Party	Nature of Transaction	Three months ended		Nine months ended	
		September 30, 2012	2011	September 30, 2012	2011
Global Mining Management Corp.	Administration	45	117	229	446
Ivanhoe Capital Aviation Ltd.	Aircraft	300	300	900	900
I2MS.Net PTE Ltd.	Information systems	48	51	142	159
Ivanhoe Capital Services Ltd.	Administration	67	125	243	246
SouthGobi Resources Ltd.	Administration	6	38	44	115
1092155 Ontario Inc.	HTL technology	12	12	36	32
Ivanhoe Capital PTE Ltd.	Administration		17		132
Ivanhoe Capital Finance Ltd.	Financing	237		1,230	
		715	660	2,824	2,030

The liabilities of the Company include the following amounts due to related parties which are included in accounts payable and accrued liabilities:

Related Party	Nature of Transaction	September 30,	December 31,
		2012	2011
Global Mining Management Corp.	Administration	15	52
I2MS.Net PTE Ltd.	Information systems	17	18
SouthGobi Resources Ltd.	Administration		13
Ivanhoe Capital Services Ltd.	Administration	54	93
Ivanhoe Capital PTE Ltd.	Administration		7
Ivanhoe Capital Finance Ltd.	Financing	10,730	
		10,816	183



---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Forward-Looking Statements**

With the exception of historical information, certain matters discussed in this Quarterly Report on Form 10-Q ( Form 10-Q ), including those within this Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ), are forward-looking statements that involve risks and uncertainties.

Statements that contain words such as could , should , can , anticipate , estimate , propose , plan , expect , believe , will , may and statements relating to matters that are not historical facts constitute forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. In particular, forward-looking statements contained in this Form 10-Q include, but are not limited to, statements relating to or associated with individual wells, regions or projects. Forward-looking statements include statements as to possible future crude oil prices; future production levels; future royalty and tax levels; future capital expenditures, their timing and their allocation to exploration and development activities; future earnings; future asset acquisitions or dispositions; future sources of funding for the Company's capital programs; future debt levels; availability of future credit facilities; possible commerciality of the Company's projects; development plans or capacity expansions; future ability to execute dispositions of assets or businesses; future business relationships with third parties; future sources of liquidity, cash flows and their uses; future drilling of new wells; ultimate recoverability of current and long-term assets; ultimate recoverability of reserves or resources; expected operating costs; the expectation of successfully negotiating amendments to certain of the Company's petroleum agreements; the expectation of the Company's ability to comply with the newly enacted safety and environmental rules; estimates on a per share basis; future foreign currency exchange rates, future expenditures and future allowances relating to environmental matters and the Company's ability to comply therewith; dates by which certain areas will be developed, come on-stream or reach expected operating capacity; and changes in any of the foregoing.

Statements relating to reserves are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

The forward-looking statements contained in this Form 10-Q are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are relevant in the circumstances. By their nature, forward-looking statements involve inherent risks and uncertainties including the risk that the outcome that they predict will not be achieved. Undue reliance should not be placed on forward-looking statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward-looking statements, including those set out below and those detailed in Item 1A, Risk Factors and Item 7A, Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 ( 2011 Form 10-K ). Such factors include, but are not limited to: the Company's history of limited revenue, losses and negative cash flow from its current exploration and development activities in Canada, Ecuador, China, Mongolia and the United States; the Company's limited cash resources and consequent need for additional financing; the ability to raise capital as and when required, or to raise capital on acceptable terms; the timing and extent of changes in prices for oil and gas; competition for oil and gas exploration properties from larger, better financed oil and gas companies; environmental risks; title matters; drilling and operating risks; uncertainties about the estimates of reserves and the potential success of the Company's Heavy-to-light ( HTL ) technology; the potential success of the Company's oil and gas properties in Canada, Ecuador, China and Mongolia; the prices of goods and services; the availability of drilling rigs and other support services; legislative and government regulations; political and economic factors in countries in which the Company operates; and unanticipated variances in the implementation of the Company's capital investment plans and strategies.

The forward-looking statements contained in this Form 10-Q are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

**Special Note to Canadian Investors**

The Company is a registrant under the Securities Exchange Act of 1934, as amended (the Exchange Act ) and voluntarily files reports with the United States Securities and Exchange Commission ( SEC ) on Form 10-K, Form 10-Q and other forms used by registrants that are US domestic issuers. Therefore, the Company's reserves estimates and securities regulatory disclosures generally follow SEC requirements. *National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities* ( NI 51-101 ), adopted by the Canadian Securities Administrators ( CSA ), prescribes certain standards for the preparation, and disclosure of reserves and related information by Canadian issuers. The Company has been granted certain exemptions from NI 51-101. Please refer to the *Special Note to Canadian Investors* in the 2011 Form 10-K.



**Table of Contents****Advisories**

This Form 10-Q should be read in conjunction with the Company's September 30, 2012 unaudited condensed consolidated financial statements (the Financial Statements) contained herein, and the audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the 2011 Form 10-K. The Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34).

As a foreign private issuer in the US, Ivanhoe is permitted to file with the SEC financial statements prepared under IFRS, as issued by the International Accounting Standards Board, without a reconciliation to US GAAP. It is possible that some of the Company's accounting policies under IFRS could be different from US GAAP.

**Non-IFRS Financial Measures**

Oil revenue per barrel is calculated by dividing the Company's oil revenue by its total production for the respective periods presented. Net operating revenue per barrel is calculated by dividing oil revenue less related operating costs by total production for the respective periods presented. Net revenue (loss) from operations per barrel is calculated by subtracting depletion from net operating revenue and dividing by total production for the respective periods presented. The Company believes oil revenue per barrel, net operating revenue per barrel and net revenue (loss) from operations per barrel are important to investors to evaluate operating results and the Company's ability to generate cash. Each of the components used in these calculations can be reconciled directly to the unaudited condensed consolidated statements of loss and comprehensive loss. The calculations of oil revenue per barrel, net operating revenue per barrel and net revenue (loss) from operations per barrel may differ from similar calculations of other companies in the oil and gas industry, thereby limiting their usefulness as comparative measures.

THE DISCUSSION AND ANALYSIS OF THE COMPANY'S OIL AND GAS ACTIVITIES, WITH RESPECT TO OIL AND GAS VOLUMES, RESERVES AND RELATED PERFORMANCE MEASURES, PRESENT THE COMPANY'S NET WORKING INTEREST AFTER ROYALTIES. ALL TABULAR AMOUNTS ARE EXPRESSED IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AND PRODUCTION DATA INCLUDING REVENUES AND COSTS PER BARREL OF OIL EQUIVALENT (BOE).

As generally used in the oil and gas business and throughout this Form 10-Q, the following terms have the following meanings:

bbl	= barrel	mboe	= thousands of barrels of oil equivalent
bbls/d	= barrels per day	mboe/d	= thousands of barrels of oil equivalent per day
boe	= barrel of oil equivalent	mcf	= thousands of cubic feet
boe/d	= barrels of oil equivalent per day	mmbbls	= million barrels
mbbls	= thousand barrels	mmbbls/d	= million barrels per day
mmbbls/d	= thousand barrels per day		

Oil equivalents compare quantities of oil with quantities of gas or express these different commodities in a common unit. In calculating boe, the generally recognized industry standard is one bbl is equal to six mcf. Boes may be misleading, particularly if used in isolation. The conversion ratio is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Electronic copies of the Company's filings with the SEC and the CSA are available, free of charge, through the Company's website ([www.ivanhoeenergy.com](http://www.ivanhoeenergy.com)) or, upon request, by contacting its investor relations department at (403) 261-1700. Alternatively, the SEC and the CSA each maintains a website ([www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com)) from which the Company's periodic reports and other public filings with the SEC and the CSA can be obtained. Copies of the charters for each of the committees of the Company's board of directors are available through the Company's website at [www.ivanhoeenergy.com/index.php?page=mandate\\_of\\_the\\_boardcommittee\\_overview](http://www.ivanhoeenergy.com/index.php?page=mandate_of_the_boardcommittee_overview).

**Table of Contents****HIGHLIGHTS**

(\$000, except as stated)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Average daily production (bbls/d)	877	1,029	888	992
Realized oil prices (\$/bbl)	109.01	113.74	115.02	104.40
Oil revenue	8,797	10,769	27,997	28,277
Capital expenditures	9,827	16,843	43,371	48,078
Cash flow used in operating activities	(3,089)	(5,214)	(14,165)	(18,678)
Net loss	(34,547)	(4,157)	(49,912)	(19,394)
Net loss per share, basic and diluted	(0.10)	(0.01)	(0.15)	(0.06)

Ivanhoe's oil revenue in the three months ended September 30, 2012 decreased from the third quarter of 2011 due to a combination of lower net volumes and pricing. Oil production from the Dagang field in China was relatively constant. However, the terms of the production sharing contract stipulate that capital expenditures are to be funded 100% by Ivanhoe and China National Petroleum Corporation's (CNPC) portion of the costs will be reimbursed through the receipt of additional oil sales. Due to lower capital activity at Dagang in the current quarter, less oil production was allocated to Ivanhoe in the three months ended September 30, 2012.

The net loss in the three months ended September 30, 2012 was \$34.5 million compared to a \$4.2 million net loss in the third quarter of 2011. The net loss increased in 2012 primarily due to charging \$22.6 million of capitalized exploration and evaluation costs to earnings in the third quarter. Drilling of the IP-17 exploratory well in the southern part of Block 20 in Ecuador led to the discovery of non-commercial quantities of hydrocarbons and the Company expensed \$19.7 million in related costs. In addition, the Company expensed \$2.9 million in capital costs relating to the second Mongolian well drilled in 2011.

Capital expenditures for the Company totaled \$9.8 million in the third quarter of 2012. Expenditures of \$7.4 million were incurred in connection with drilling of the IP-17 exploration well. In China, Ivanhoe incurred capital expenditures of \$2.0 million primarily on the continuation of the fracture stimulation program at Dagang. In Canada, the regulatory approval process for the Tamarack Project continued to advance and expenditures of \$0.4 million were incurred. The Company has been working with regulators to answer technical questions and with local area stakeholders to address their specific areas of interest. The Company received a third round of Supplemental Information Requests on October 15, 2012 and is in the process of responding to these requests.

**RESULTS OF OPERATIONS**

Asia (net bbls)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Dagang	77,585	92,576	232,707	261,105
Daqing	3,107	2,098	10,692	9,749
Total production	80,692	94,674	243,399	270,854
Average daily production (bbls/d)	877	1,029	888	992
<b>Pricing</b>				
Average realized oil price (\$/bbl)	109.01	113.74	115.02	104.40
Average Brent (\$/bbl)	109.57	113.42	111.88	111.90
<b>Oil Revenue</b>				

Ivanhoe's oil revenue in the three and nine months ended September 30, 2012 decreased from the comparable periods in 2011. In the third quarter of 2012, revenue decreased in comparison to the third quarter of 2011 due to a combination of lower net production volumes as well as lower realized prices. Oil production from the Dagang field in China was relatively constant. However, the terms of the Company's production sharing contract at Dagang with CNPC stipulate that capital expenditures are to be funded 100% by Ivanhoe and CNPC's portion of the costs are

## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

reimbursed through the receipt of additional oil sales. Capital activity in the third quarter of 2012 was lower than the same period in 2011 resulting in less oil production allocated to the Company.

**Table of Contents**

Revenue was slightly lower in the nine months ended September 30, 2012 than in the comparable period in 2011, resulting from lower net production volumes. Less oil production was allocated to Ivanhoe in the nine months ended September 30, 2012 than in the comparable period in 2011, due to lower capital activity at Dagang in 2012. The lower net production volumes were mainly offset by the higher prices realized year to date 2012 compared with 2011.

**Net Revenue from Operations**

	Three months ended		Nine months ended	
(\$/bbl)	September 30,		September 30,	
	2012	2011	2012	2011
Oil revenue <sup>(1)</sup>	<b>109.01</b>	113.74	<b>115.02</b>	104.40
Less operating costs				
Field operating	<b>(16.45)</b>	(17.91)	<b>(18.94)</b>	(18.50)
Windfall Levy	<b>(19.35)</b>	(27.30)	<b>(21.73)</b>	(23.42)
Engineering and support costs	<b>(1.24)</b>	(1.34)	<b>(1.35)</b>	(1.25)
Net operating revenue <sup>(1)</sup>	<b>71.97</b>	67.19	<b>73.00</b>	61.23
Depletion	<b>(23.20)</b>	(19.53)	<b>(22.80)</b>	(18.56)
Net revenue from operations <sup>(1)</sup>	<b>48.77</b>	47.66	<b>50.20</b>	42.67

- (1) Oil revenue per barrel, net operating revenue per barrel and net revenue from operations per barrel do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. Please refer to the Non-IFRS Financial Measures under the Advisories section in this MD&A for more details.

**Operating Costs**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Asia				
Field operating	<b>1,326</b>	1,695	<b>4,609</b>	5,010
Windfall Levy	<b>1,561</b>	2,584	<b>5,289</b>	6,343
Engineering support	<b>102</b>	126	<b>328</b>	339
	<b>2,989</b>	4,405	<b>10,226</b>	11,692
Technology Development				
FTF operating costs	<b>1,242</b>	1,084	<b>3,499</b>	3,659
Total operating costs	<b>4,231</b>	5,489	<b>13,725</b>	15,351

Total operating costs in China in the three months ended September 30, 2012 were lower than in the third quarter of 2011 primarily due to a lower Windfall Levy resulting from lower realized prices and from the increase in the Windfall Levy threshold from \$40.00/bbl to \$55.00/bbl on November 1, 2011. Operating costs per barrel were \$9.51/bbl lower in the three months ended September 30, 2012 than in the comparable prior year period, despite lower production volumes in the current quarter, as a result of a lower Windfall Levy.

Similarly, total operating costs in China were lower for the nine months ended September 30, 2012 than in the comparable period in 2011 due to lower Windfall Levy payments. Operating costs per barrel were \$1.15/bbl lower in the nine months ended September 30, 2012 than in the comparable period in the prior year. Field operating costs per barrel were higher in the year to date period in 2012 from less capital activity in the Dagang field while the Windfall Levy per barrel was lower during this period as the Windfall Levy threshold increased to \$55.00/bbl.

## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

Operating costs for technology development were incurred at the Company's Feedstock Test Facility ( FTF ) at the Southwest Research Institute in San Antonio, Texas. FTF operating costs in the three and nine months ended September 30, 2012 were consistent with comparable periods.

---

## **Table of Contents**

### **Exploration and Evaluation**

Exploration and evaluation costs ( E&E costs ) in the three and nine months ended September 30, 2012 were \$22.6 million and \$22.8 million respectively compared to \$2.1 million in the three and nine months ended September 30, 2011. Drilling of the IP-17 exploratory well in the southern part of Block 20 in Ecuador led to the discovery of non-commercial quantities of hydrocarbons and the Company expensed \$19.7 million in related costs in the third quarter of 2012. In addition, the Company also expensed \$2.9 million in capital costs in the third quarter of 2012 relating to the second Mongolian well drilled in 2011. Independent laboratory tests finalized in September 2012 on the drill cuttings from Mongolia indicated that there is a high probability that mobile oil is limited in the well. Other E&E costs of \$0.2 million were expensed in the second quarter of 2012.

### **General and Administrative**

G&A expenses were \$1.6 million lower in the three months ended September 30, 2012 than in the third quarter of 2011. Due to streamlining of operations in Latin America and related to Ivanhoe's HTE<sup>M</sup> technology, contract labor and engineering costs were \$1.6 million lower in the current quarter than in the comparable period.

G&A expenses were \$5.9 million lower in the nine months ended September 30, 2012 than in the nine months ended September 30, 2011. The reduction is primarily attributable to \$2.5 million of staff bonuses that were paid, but not accrued for, in the first quarter of 2011. Non-cash stock based compensation was \$2.8 million lower to date in 2012 compared to the same period in 2011. Due to reduced activity in the Company's Asia segment, as well as streamlined activity in the Company's operations, staff and contractor costs were \$0.6 million lower in the nine months ended September 30, 2012 than in the comparable period.

### **Depletion and Depreciation**

Depletion and depreciation charges in the three months ended September 30, 2012 were consistent with charges incurred in the third quarter of 2011. Lower production volumes offset a higher depletion rate in the third quarter of 2012 compared to the same period in 2011. The depletion rate rose as a result of lower reserves assigned to Dagang at December 31, 2011.

Depletion in the nine months ended September 30, 2012 was also higher than in the comparable period in 2011; the increase was predominantly a result of the higher depletion rate that was partially offset by lower year over year production volumes.

The FTF depreciation expense was consistent with the comparable periods in 2011.

### **Foreign Exchange**

The Company recognized a foreign exchange loss of \$2.6 million in the third quarter of 2012 in comparison to a gain of \$0.7 million in the third quarter of 2011. In the current quarter, the Canadian dollar strengthened in comparison to the US dollar, creating a loss on the translation of the Company's Cdn\$73.3 million convertible debentures ( Convertible Debentures ) into US dollars, which was marginally offset by foreign exchange gains on the Company's Canadian dollar cash and accounts payable balances. In comparison, the Canadian dollar weakened against the US dollar in the third quarter of 2011, resulting in a foreign exchange gain.

In the nine months ended September 30, 2012, the Company recognized a foreign exchange loss of \$1.9 million compared to a gain of \$1.1 million in the nine months ended September 30, 2011. The Canadian dollar strengthened in comparison to the US dollar during 2012, creating a loss on the translation of the Company's Convertible Debentures into US dollars partially offset by the translation of the Company's Canadian dollar cash. In 2011, the Canadian dollar weakened during this period that resulted in gains from the translation of the Convertible Debentures which were partially offset by losses on the translation of Canadian dollar cash.

### **Derivative Instruments**

In the third quarter of 2012, Ivanhoe recognized an unrealized loss of \$11,000 on the revaluation of the convertible component of the Convertible Debentures. In comparison, the Company recognized an unrealized gain of \$5.4 million on its derivative liabilities in the third quarter of 2011. This gain primarily resulted from the revaluation of the convertible component of the Convertible Debentures.

In the nine months ended September 30, 2012, the Company recognized an unrealized gain of \$1.7 million on its derivative liabilities due to a \$1.5 million gain on the revaluation of the convertible component of the Convertible Debentures and a \$0.2 million gain from the expiration of



## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

an option granted to a private investor in January 2010 to acquire an equity interest in one of the Company's subsidiaries (the "Subsidiary Option"). In comparison, the Company sustained an unrealized gain of \$12.6 million in the nine months ended September 30, 2011. A combination of the expiry and revaluation of purchase warrants produced a gain of \$4.1 million, while the revaluation of the convertible components of the convertible note and Convertible Debentures created gains of \$1.2 million and \$7.6 million, respectively. These gains were offset by a \$0.3 million loss on the revaluation of the Subsidiary Option.

**Table of Contents****Provision for Income Taxes**

In the nine months ended September 30, 2012, current income taxes of \$1.6 million were incurred and payable to the Chinese tax authorities as a result of taxable income generated from the oil producing properties in China.

Ivanhoe incurred a deferred tax recovery of \$0.6 million to date in 2012 mainly due to a reduction in the US deferred tax liability partially offset by an increase in the Chinese deferred tax liability.

**LIQUIDITY AND CAPITAL RESOURCES****Contractual Obligations and Commitments**

The following information about our contractual obligations and other commitments summarizes certain liquidity and capital resource requirements. The information presented in the table below does not include planned, but not legally committed, capital expenditures or obligations that are discretionary and/or being performed under contracts which are cancelable on 30 days notice or less.

	Total	2012	2013	2014	2015	After 2015
Short term debt and interest	64,382	1,680	62,702			
Long term debt and interest	91,760	2,198	4,287	4,287	4,287	76,701
Zitong appraisal program	66,510	900	31,680	33,930		
Decommissioning obligations <sup>(1)</sup>	4,232		632			3,600
Leases	3,392	462	1,381	613	416	520
Total	230,276	5,240	100,682	38,830	4,703	80,821

(1) Represents undiscounted asset retirement obligations after inflation. The discounted value of these estimated obligations (\$2.9 million) is provided for in the consolidated financial statements.

**Short Term Debt and Interest**

On December 30, 2011, Ivanhoe entered into a loan agreement with ICFL, a company wholly owned by Robert Friedland, the Company's Executive Co-Chairman, for \$10.0 million ( ICFL Loan ). The funds were advanced on January 3, 2012 and bear interest at a rate of 10.0% per annum. On March 14, 2012, the loan agreement was amended to provide that, at ICFL's option, the outstanding principal may be converted into 10,484,375 common shares of the Company at a price of Cdn\$0.96 per common share. The principal balance matures on March 31, 2013, or earlier upon the occurrence of certain specified events.

In March 2012, the Company entered into a one year credit agreement with UBS Securities LLC for a \$50.0 million loan ( UBS Loan ). At September 30, 2012, the Company had drawn \$50.0 million of principal on the UBS Loan. Borrowed amounts bear interest at one month Libor plus 10% for the first six months of the loan and escalate by 1% per month thereafter. Interest is payable monthly.

**Long Term Debt and Interest**

In June 2011, the Company issued Convertible Debentures, which mature on June 30, 2016. The Convertible Debentures bear interest at an annual rate of 5.75%, payable semi-annually on June 30 and December 31 of each year.

**Zitong Appraisal Program**

The terms of the Supplementary Agreement to the Contract for Exploration, Development and Production in Zitong Block, Sichuan Basin with CNPC call for the completion of an appraisal program by the end of June 2014. The work program consists of a 160 square kilometer seismic acquisition program, as well as drilling and completing three horizontal wells on the Guan and Wen structures.

**Decommissioning Provisions**

The Company is required to remedy the effect of our activities on the environment at our operating sites by dismantling and removing production facilities and remediating any damage caused. At September 30, 2012, Ivanhoe estimated the total undiscounted, inflated cost to settle its asset retirement obligations in Canada, for the FTF in the US and in Ecuador was \$4.2 million. These costs are expected to be incurred in 2013, 2029 and 2038, respectively. Ivanhoe does not make such a provision for decommissioning costs in connection with its oil and gas operations in China as dry holes are abandoned as they occur and productive wells will not be abandoned while the Company has an economic interest in the field.

**Table of Contents****Leases**

The Company has long term leases for office space and vehicles, which expire between 2012 and 2017.

**Other**

Should Ivanhoe receive government and other approvals necessary to develop the northern border of one of the Tamarack Project leases, the Company will be required to make a cash payment to Talisman of up to Cdn\$15.0 million, as a contingent, final payment for the 2008 acquisition of the Tamarack Project leases.

From time to time, Ivanhoe enters into consulting agreements whereby a success fee may be payable if and when either a definitive agreement is signed or certain other contractual milestones are met. Under the agreements, the consultant may receive cash, common shares, stock options or some combination thereof. Similarly, agreements entered into by the Company may contain cancellation fees or liquidated damages provisions for early termination. These fees are not considered to be material.

The Company may provide indemnities to third parties, in the ordinary course of business, that are customary in certain commercial transactions, such as purchase and sale agreements. The terms of these indemnities will vary based upon the contract, the nature of which prevents Ivanhoe from making a reasonable estimate of the maximum potential amounts that may be required to be paid. The Company's management is of the opinion that any resulting settlements relating to indemnities are not likely to be material.

In the ordinary course of business, the Company is subject to legal proceedings being brought against it. While the final outcome of these proceedings is uncertain, the Company believes that these proceedings, in the aggregate, are not reasonably likely to have a material effect on its financial position or earnings.

**Sources and Uses of Cash**

The Company's cash flows from operating, investing and financing activities, as reflected in the unaudited condensed consolidated statements of cash flows, are summarized in the following table:

	Three months		Nine months	
	ended September 30,		ended September 30,	
	2012	2011	2012	2011
Cash used in operating activities	(3,089)	(5,214)	(14,165)	(18,678)
Cash used in investing activities	(26,786)	(22,981)	(42,548)	(51,104)
Cash provided by (used in) financing activities	18,678	(41,317)	55,960	61,423

**Liquidity**

Ivanhoe's existing financial resources and the cash flows from the Company's producing operations are insufficient to fund the future capital expenditures necessary to advance the development of our existing projects and to maintain the Company's business activities at their current level. In the near term, the Company will require other sources of financing in order to continue operating its business as currently constituted. Given that the unfavourable conditions currently prevailing in international financial markets may hinder the Company's ability to raise additional capital from sources that it has historically relied upon to obtain financing, the Company is engaging in other cash generating activities. These activities include the sale of the Company's interest in the Zitong project in China which, when consummated is expected to generate between \$100 million and \$120 million in cash which includes the release of the \$20 million performance bond. Although the Company anticipates that the transaction will close by the end of 2012, it remains subject to regulatory approval in China, the timing of which cannot be predicted with certainty.

The Company is also in discussions with a prominent national oil company for the creation of a joint financial participation arrangement in respect of its Pungarayacu project in Ecuador. Subsequent to September 30, 2012, the Company also entered into discussions with a third party purchaser for the potential sale of its Dagang project. Each of these transactions, if and when consummated, would generate significant amounts of additional cash. The Company is optimistic that the discussions underway in respect of Pungarayacu and Dagang will culminate in definitive agreements but there is no assurance that this will occur in respect of either project. Even if definitive agreements are reached, it may take time to fulfill conditions of closing which could delay the Company's receipt of transaction proceeds. Without timely access to a sufficient source of

## Edgar Filing: IVANHOE ENERGY INC - Form 10-Q

financing to enable the Company to make its planned capital expenditures and otherwise fund the cost of carrying on its business, the Company may have to significantly curtail its existing business activities and may be unable to continue as a going concern.

**Table of Contents****Operating Activities**

In the three and nine months ended September 30, 2012, cash used in operating activities was less than in the comparable periods in 2011 primarily as a result of reduced G&A and operating costs.

**Investing Activities*****Exploration and Evaluation Expenditures***

Exploration and evaluation capital expenditures for the Company in the three months ended September 30, 2012 totaled \$8.5 million. Expenditures of \$7.5 million were incurred in connection with drilling of the IP-17 exploration well in the southern part of Block 20 in Ecuador. These costs, as well as the remaining year to date 2012 IP-17 drilling costs in Ecuador totalling \$19.7 million, were expensed in the third quarter of 2012. In China, expenditures of \$0.3 million were incurred in finalizing the seismic program completed in the second quarter of 2012. Exploration and evaluation costs of \$2.9 million that were capitalized for the 2011 Mongolia drilling program were expensed in the third quarter 2012 as independent laboratory tests completed in September 2012 indicated that there is a high probability that mobile oil is limited in the well. In Canada, the regulatory approval process for the Tamarack Project continued to progress and expenditures of \$0.4 million were incurred to support this process.

In the nine months ended September 30, 2012, exploration and evaluation capital expenditures totaled \$36.5 million. In China, Ivanhoe expended \$10.7 million on the seismic program at Zitong, expenditures to support the regulatory process at Tamarack were approximately \$3.1 million and costs incurred in connection with drilling of the IP-17 exploration well in the southern part of Block 20 in Ecuador totaled \$22.7 million. Capitalized costs of \$19.7 million associated with the IP-17 well were expensed in the third quarter as non-commercial quantities of hydrocarbons were discovered. Certain costs related to IP-17 remain capitalized as the well may be used in future development.

***Property, Plant and Equipment Expenditures***

In the three and nine months ended September 30, 2012, property, plant and equipment additions totaled \$1.3 million and \$6.8 million, respectively. The Company drilled two wells at Dagang in 2012, one of which was completed in the second quarter; the second well was completed in the third quarter of 2012.

**Financing Activities**

In the nine months ended September 30, 2012, Ivanhoe received financing of \$56.0 million, net of transaction costs, to support liquidity. Pursuant to an unsecured loan agreement signed in late 2011, the Company received \$10.0 million from ICFL in January 2012. In March 2012, the Company established a \$50.0 million short-term secured credit facility with UBS Securities LLC. The loan consists of an initial tranche of \$30.0 million and included an accordion feature to increase the total amount by up to an additional \$20.0 million, which was drawn by the Company in July 2012.

**Capital Structure**

As at	September 30, 2012	December 31, 2011
Short term debt	57,980	
Long term debt	65,410	61,892
Shareholders' equity	266,646	314,137

At September 30, 2012, Ivanhoe's market capitalization was less than the carrying value of the Company's assets. Management does not consider this to be determinative that an impairment exists as there are factors which should be considered when interpreting Ivanhoe's recent trading price, such as the Company's low trading volumes, industry influences including commodity price concerns and larger macro-economic factors that have created an overall malaise in the capital and economic markets. Management does not believe the full value of the Company's oil and gas assets or HTL™ technology is reflected in Ivanhoe's current stock price. On May 24, 2012, the Company received a notification from the Listing Qualifications Department of the NASDAQ Stock Market ( Nasdaq ) notifying the Company that the Company did not meet the minimum bid price requirements set forth in the Nasdaq Listing Rules. For additional information, refer to the Form 8-K filed on May 31, 2012.



---

## **Table of Contents**

Ivanhoe intends to use its cash and cash equivalent balance to fulfill its commitments and fund operations in 2012. Cash flow is unlikely to be sufficient to meet operating requirements in the next twelve months and additional sources of funding, either at a parent company level or at a project level, will be required to grow the Company's major projects and fully develop its oil and gas properties. Historically, Ivanhoe has used external sources of funding, such as public and private equity, debt markets and joint venture partners. Ivanhoe intends to finance its future funding requirements through a combination of strategic investors, joint venture partnerships, public and private debt and equity markets, either at a parent company level or at the project level, and through the sale of interests in existing oil and gas properties. There is no assurance that the Company will be able to obtain such financing, or obtain it on favorable terms, and any future equity issuances may be dilutive to current investors. If Ivanhoe cannot secure additional financing, the Company may have to delay its capital programs and forfeit or dilute its rights in existing oil and gas property interests.

### **Outlook**

In China, implementation of the previously announced transaction pursuant to which the Company will assign its interest in the Production Sharing Contract for the Zitong block in China's Sichuan Basin to Shell China Exploration continues to advance. The parties entered into a definitive sale and purchase agreement on October 9, 2012. Closing is expected to occur after the Ministry of Commerce in China approves the transaction.

In Canada, the regulatory approval process for the Tamarack project is continuing to progress. The Company received a third round of Supplemental Information Requests on October 15, 2012 and is in the process of responding to these requests. As a result, the Company continues to believe it can secure a Completeness Determination from Alberta Environment and Sustainable Resource Development by the end of 2012 while the ultimate project approval, the Order in Council, will likely occur in the first quarter of 2013. Project advancement, as currently envisaged, is subject to regulatory approval and financing. As the regulatory process unfolds, the Company continues to engage and consult with numerous local and aboriginal stakeholders to identify potential project impacts and mitigations and economic and employment opportunities for residents of the area communities.

In Ecuador, Management is in discussions with a potential strategic partner to establish a financial participation arrangement for Block 20. The Company's objective is to finalize these arrangements by the end of 2012. While Management is encouraged by the progress made to date, any potential arrangement remains subject to Ecuadorian Government approval and ongoing commercial negotiations such that Management can give no assurance that such arrangements will ultimately be established.

Ivanhoe continues to focus its HTL™ commercialization efforts on establishing Upstream and Midstream partnerships and business development activities for several projects globally.

Management's plans for financing future expenditures include traditional project financing, debt and mezzanine financing, the sale of non-current assets or the sale of equity securities as well as the potential for alliances or other arrangements with strategic partners. However, no assurances can be given that Ivanhoe will be able to enter into one or more strategic business alliances with third parties or that the Company will be able to sell non-core assets on acceptable terms or raise sufficient additional capital. If the Company is unable to enter into such business alliances or obtain adequate additional financing, the Company may be required to curtail its operations, which may include the sale or abandonment of assets.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth in Item 7A, Quantitative and Qualitative Disclosures About Market Risk in the 2011 Form 10-K.

### **ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, including its Executive Chairman and its Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2012. Based upon this evaluation, management concluded that these controls and procedures were (1) designed to ensure that material information relating to the Company is made known to the Company's Executive Chairman and its Chief Financial Officer as appropriate to allow timely decisions regarding disclosure and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.





---

## **Table of Contents**

It should be noted that while the Company's Executive Chairman and its Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in the Company's internal control over financial reporting in the quarter ended September 30, 2012, that have materially affected, or are reasonably likely to have a material effect on the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On July 12, 2012, the United States Court of Appeals for the Tenth Circuit affirmed the dismissal of a lawsuit against the Company and related parties that had been filed on November 20, 2008 in the United States District Court for the District of Colorado. The plaintiffs in the case are Jack J. Grynberg and three affiliated companies. The recent ruling from the Tenth Circuit affirms the district court's judgment dismissing the case without prejudice. The Court of Appeals denied plaintiffs' request for rehearing and issued a mandate, which finally concluded the current appellate proceeding.

The suit alleged bribery and other misconduct and challenged the propriety of a contract awarded to the Company's wholly-owned subsidiary Ivanhoe Energy Ecuador Inc. to develop Ecuador's Pungarayacu heavy oil field. The plaintiffs' claims were for unspecified damages or ownership of the Company's interest in the Pungarayacu field. The Company and related defendants filed motions to dismiss the lawsuit for lack of jurisdiction. The district court granted the motion and dismissed the case without prejudice. The district court also granted Mr. Robert Friedland's request to sanction plaintiffs and plaintiffs' counsel for their conduct related to bringing the suit by awarding Mr. Friedland fees and costs. The Ivanhoe corporate defendants, including the Company, also have been awarded costs and fees as the prevailing parties in the trial court.

The Court of Appeals' July 12, 2012 order affirmed the district court's judgment and related orders. The Court of Appeals also concluded that the Ivanhoe Corporate defendants, including the Company, are entitled to fees and costs they incurred on appeal. The Court of Appeals remanded the case to the district court for the limited purpose of computing a proper award of appellate fees and costs. Following remand, the plaintiffs and the Ivanhoe Corporate defendants engaged in negotiations and reached an agreement to fully dispose of the Ivanhoe Corporate defendants' claim for appellate fees and costs. After the agreement was reached, the district court closed the case in its entirety on September 26, 2012.

On December 30, 2010, the Company received a demand for arbitration from GAR Energy and Associates, Inc. ( "GAR Energy" ) and Gonzalo A. Ruiz and Janis S. Ruiz as successors in interest to, and assignees of, GAR Energy. GAR Energy subsequently abandoned its demand for arbitration and filed suit against the Company and subsidiaries in the Superior Court for Kern County, California on March 11, 2011. The lawsuit alleges breach of contract, fraud and other misconduct arising from a consulting agreement and various other agreements between GAR Energy and the Company relating to the Pungarayacu heavy oil field. The plaintiffs seek actual damages of \$250,000 and a portion of the Company's interest in the Pungarayacu field. The plaintiffs seek other miscellaneous relief, including requests for a declaration of some of the parties' rights and legal relations under a consulting agreement, attorneys' fees and certain litigation costs and expenses, disgorgement of the Company's past, current and/or future profits attributable to the Pungarayacu field and certain other fields in Ecuador, tort damages and exemplary and punitive damages, the imposition of constructive trusts over certain amounts and profits requested by the plaintiffs, and pre-judgment and post-judgment interest. The Company removed the case to the United States District Court for the Eastern District of California and all of the defendants have answered and filed counterclaims for attorneys' fees. Defendants filed a motion to dismiss certain claims and to compel arbitration of others. Plaintiffs filed a motion to remand the case to state court. On December 23, 2011, the Magistrate Judge denied plaintiffs' motion to remand and issued findings and recommendations that would send all of the parties and all of the claims to arbitration should the district court Judge assigned to the case adopt them. On January 19, 2012 the district court Judge adopted the Magistrate Judge's findings and recommendations in full, ordered the parties to arbitration and stayed the district court proceedings to allow for the completion of the arbitration. The arbitration is in the early stages of proceeding and the likelihood of loss or gain resulting from this dispute, and the estimated amount of ultimate loss or gain, are not determinable or reasonably estimable at this time. The Company believes that the plaintiff's claims have no merit.

**Table of Contents**

**ITEM 1A: RISK FACTORS**

Ivanhoe is exposed in varying degrees to normal market risks inherent in the oil and gas industry, including commodity price risk, foreign currency exchange rate risk, credit risk, interest rate risk and liquidity risk. The Company recognizes these risks and manages its operations to minimize the exposure to the extent practicable. There have not been any significant changes to the Company's exposure to risks, or processes to manage these risks as described in the Company's 2011 Form 10-K, except as noted below:

**Interest Rate Risk**

As at September 30, 2012, the Company had borrowed \$50.0 million under the UBS Loan. Borrowed amounts incur interest at a rate of one month Libor plus 10% for the first six months and escalate by 1% per month thereafter. Borrowings issued at variable rates expose Ivanhoe to interest rate risk. If interest rates increase, the Company's debt service obligations on the variable interest rate indebtedness would increase, even though the amount borrowed remained the same, and the Company's net loss would increase. The Company's goal is to minimize its interest expense; however, the Company does not anticipate using hedging contracts in 2012 to manage its interest rate risk.

If the interest rate on the UBS Loan were to increase by 1%, the Company's net loss would increase by approximately \$40,000 per month. Accordingly, an increase in interest rates from current levels could cause the Company's annual debt service obligations to increase significantly.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURE**

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

IVANHOE ENERGY INC.

By: /s/ Gerald D. Schiefelbein  
 Gerald D. Schiefelbein  
 Chief Financial Officer

Date: November 8, 2012