

IVANHOE ENERGY INC  
Form 10-Q  
November 10, 2008

**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, 2008**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 000-30586

**IVANHOE ENERGY INC.**

*(Exact name of registrant as specified in its charter)*

**Yukon, Canada**  
*(State or other jurisdiction of  
incorporation or organization)*

**98-0372413**  
*(I.R.S. Employer  
Identification No.)*

**Suite 654 999 Canada Place  
Vancouver, British Columbia, Canada**  
*(Address of principal executive office)*

**V6C 3E1**  
*(zip code)*

**(604) 688-8323**

*(registrant's telephone number, including area code)*

**No Changes**

*(Former name, former address and former fiscal year, if changed since last report)*

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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

The number of shares of the registrant's capital stock outstanding as of November 3, 2008 was 279,211,916 Common Shares, no par value.



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**Part I Financial Information****Item 1 Financial Statements****IVANHOE ENERGY INC.****Unaudited Condensed Consolidated Balance Sheets**

(stated in thousands of U.S. Dollars, except share amounts)

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 61,649	\$ 11,356
Accounts receivable	13,811	9,376
Advance		825
Prepaid and other current assets	485	602
Future income tax assets	1,161	
	<b>77,106</b>	<b>22,159</b>
Oil and gas properties and development costs, net	<b>179,641</b>	111,853
Intangible assets - technology	<b>102,153</b>	102,153
Long term assets	<b>4,104</b>	751
	<b>\$ 363,004</b>	<b>\$ 236,916</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 13,074	\$ 9,538
Income tax payable	358	
Debt - current portion	18,111	6,729
Derivative instruments	9,310	9,432
	<b>40,853</b>	<b>25,699</b>
Long term debt	<b>45,640</b>	9,812
Asset retirement obligations	<b>3,673</b>	2,218
Long term obligation	<b>1,900</b>	1,900
	<b>92,066</b>	<b>39,629</b>
Commitments and contingencies		
Shareholders' Equity:		
Share capital, issued 279,211,916 common shares; December 31, 2007 244,873,349 common shares	<b>413,918</b>	324,262
Purchase warrants	<b>18,805</b>	23,078
Contributed surplus	<b>16,332</b>	9,937
Convertible note	<b>2,086</b>	

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Accumulated deficit	<b>(180,203)</b>	(159,990)
	<b>270,938</b>	197,287
	<b>\$ 363,004</b>	<b>\$ 236,916</b>

(See accompanying notes)

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**IVANHOE ENERGY INC.****Unaudited Condensed Consolidated Statements of Operations,  
Comprehensive Income (Loss) and Accumulated Deficit**

(stated in thousands of U.S. Dollars, except per share amounts)

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenue</b>				
Oil and gas revenue	\$ 20,437	\$ 10,864	\$ 53,459	\$ 30,249
Gain (loss) on derivative instruments	14,818	(2,153)	(9,915)	(2,928)
Interest income	371	112	479	348
	<b>35,626</b>	<b>8,823</b>	<b>44,023</b>	<b>27,669</b>
<b>Expenses</b>				
Operating costs	8,211	4,266	20,217	12,174
General and administrative	5,255	2,725	13,749	8,981
Business and technology development	1,969	2,831	4,889	7,341
Depletion and depreciation	8,183	6,044	24,678	18,960
Interest expense and financing costs	463	189	1,500	571
	<b>24,081</b>	<b>16,055</b>	<b>65,033</b>	<b>48,027</b>
<b>Income (Loss) before Income Taxes</b>	<b>11,545</b>	<b>(7,232)</b>	<b>(21,010)</b>	<b>(20,358)</b>
<b>(Provision for) recovery of income taxes</b>				
Current	(358)		(364)	
Future	(1,125)		1,161	
	<b>(1,483)</b>		<b>797</b>	
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>	<b>10,062</b>	<b>(7,232)</b>	<b>(20,213)</b>	<b>(20,358)</b>
Accumulated Deficit, beginning of period	(190,265)	(133,909)	(159,990)	(120,783)
<b>Accumulated Deficit, end of period</b>	<b>\$ (180,203)</b>	<b>\$ (141,141)</b>	<b>\$ (180,203)</b>	<b>\$ (141,141)</b>
<b>Net Income (Loss) per share Basic and Diluted</b>	<b>\$ 0.04</b>	<b>\$ (0.03)</b>	<b>\$ (0.08)</b>	<b>\$ (0.08)</b>

**Weighted Average Number of Shares (in thousands)**

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<b>Basic</b>	<b>265,372</b>	242,747	<b>251,907</b>	241,812
<b>Diluted</b>	<b>279,641</b>	242,747	<b>251,907</b>	241,812

(See accompanying notes)

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**IVANHOE ENERGY INC.****Unaudited Condensed Consolidated Statements of Cash Flows**

(stated in thousands of U.S. Dollars)

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>				
Net income (loss) and comprehensive income (loss)	\$ 10,062	\$ (7,232)	\$ (20,213)	\$ (20,358)
Items not requiring use of cash:				
Depletion and depreciation	8,183	6,044	24,678	18,960
Stock based compensation	1,114	758	3,025	2,613
Unrealized (gain) loss on derivative instruments	(18,553)	1,730	(122)	2,682
Unrealized foreign exchange loss	314		397	
Future income tax provision (recovery)	1,125		(1,161)	
Provision for uncollectible accounts	725		725	
Other	238	151	697	481
Changes in non-cash working capital items	(1,535)	315	(627)	188
	<b>1,673</b>	<b>1,766</b>	<b>7,399</b>	<b>4,566</b>
<b>Investing Activities</b>				
Capital investments	(8,956)	(9,100)	(16,872)	(22,557)
Acquisition of oil and gas assets	(22,308)		(22,308)	
Proceeds from sale of assets			100	1,000
Recovery of development costs				9,000
Advance repayments			100	400
Other	(714)	(47)	(817)	28
Changes in non-cash working capital items	2,869	2,189	337	695
	<b>(29,109)</b>	<b>(6,958)</b>	<b>(39,460)</b>	<b>(11,434)</b>
<b>Financing Activities</b>				
Shares issued on private placements, net of share issue costs	82,687		82,687	
Proceeds from exercise of options	518	113	1,204	278
Proceeds from debt obligations, net of financing costs		9,335	5,490	9,335
Payments of debt obligations	(615)	(615)	(1,845)	(1,845)
Payments of deferred financing costs	(542)		(2,606)	
Other		62		
Changes in non-cash working capital items	(711)		(9)	
	<b>81,337</b>	<b>8,895</b>	<b>84,921</b>	<b>7,768</b>
	<b>(2,466)</b>		<b>(2,567)</b>	



**Foreign Exchange Loss on Cash and Cash  
Equivalents Held in a Foreign Currency**

<b>Increase in Cash and Cash Equivalents, for the period</b>	<b>51,435</b>	3,703	<b>50,293</b>	900
Cash and cash equivalents, beginning of period	<b>10,214</b>	11,076	<b>11,356</b>	13,879
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 61,649</b>	\$ 14,779	<b>\$ 61,649</b>	\$ 14,779

(See accompanying notes)

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**Notes to the Condensed Consolidated Financial Statements**  
**September 30, 2008**

(all tabular amounts are expressed in thousands of U.S. dollars except per share amounts)

(Unaudited)

**1. BASIS OF PRESENTATION**

Ivanhoe Energy Inc's (the **Company** or **Ivanhoe Energy**) accounting policies are in accordance with accounting principles generally accepted in Canada. These policies are consistent with accounting principles generally accepted in the U.S., except as outlined in Note 16. The unaudited condensed consolidated financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the December 31, 2007 consolidated financial statements except as discussed in Note 2. These interim condensed consolidated financial statements do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the most recent annual consolidated financial statements. The December 31, 2007 condensed consolidated balance sheet was derived from the audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles (**GAAP**) in Canada and the U.S. In the opinion of management, all adjustments (which included normal recurring adjustments) necessary for the fair presentation for the interim periods have been made. The results of operations and cash flows are not necessarily indicative of the results for a full year.

The Company currently anticipates incurring substantial expenditures to further its capital development programs, particularly those related to the development of two recently acquired oil sands leases in Alberta and the development of a heavy oil field in Ecuador under a recently announced specific services contract with the state oil company of Ecuador. The continued existence of the Company is dependent upon its ability to obtain capital to fund further development and to meet obligations to preserve its interests in these properties and to meet the obligations associated with other potential HTL and GTL projects. The Company intends to finance the future payments required for its capital projects from a combination of strategic investors and/or traditional debt and equity markets, either at a parent company level or at the project level. The Company believes that it has sufficient funds to reach final investment decisions on its projects, however significant amounts of new capital will be required. These interim condensed consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption was not appropriate for these condensed consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

**2. CHANGES IN ACCOUNTING POLICIES**

***2008 Accounting Changes***

On January 1, 2008, the Company adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants (**CICA**): Handbook Section 1535 Capital Disclosures (**S.1535**), Handbook Section 3862 Financial Instruments Disclosures (**S.3862**), and Handbook Section 3863 Financial Instruments Presentation (**S.3863**). S.1535 establishes standards for disclosing information about an entity's capital and how it is managed. The objective of S.3862 is to require entities to provide disclosures in their financial statements that enable users to evaluate both the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The purpose of S.3863 is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. The latter two replaced Handbook Section 3861 Financial Instruments Disclosure and Presentation. The Company adopted the new standards on January 1, 2008 with additional disclosures included in these condensed consolidated financial statements. There was no transitional adjustment to the condensed consolidated financial statements as a result of having adopted these standards.

***Impact of New and Pending Canadian GAAP Accounting Standards***

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible assets, ( **S.3064** ) replacing Handbook Section 3062, Goodwill and Other Intangible Assets ( **S.3062** ) and Handbook Section 3450, Research and Development Costs . S.3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous S.3062. Management has concluded that the requirements of this new Section as they relate to goodwill will not have a material impact on its consolidated financial statements; however, management is still evaluating the impact of the requirements related to

development costs. Also in February 2008, the CICA amended portions of Handbook Section 1000, Financial Statement Concepts, which the CICA concluded permitted deferral of costs that did not meet the definition of an asset. The amendments apply to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Upon adoption of S.3064 and the amendments to Section 1000 on January 1, 2009, capitalized amounts that no longer meet the definition of an asset will be expensed retrospectively. The Company is currently reviewing the potential impact, if any, on its consolidated statements.

***Convergence of Canadian GAAP with International Financial Reporting Standards***

In April 2008, the CICA published the exposure draft Adopting IFRSs in Canada. The exposure draft proposes to incorporate International Financial Reporting Standards (IFRS) into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS. The Company is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

**3. OIL AND GAS PROPERTIES AND DEVELOPMENT COSTS**

The Company has four reportable business segments: Oil and Gas Integrated, Oil and Gas - Conventional, Business and Technology Development and Corporate as further described in Note 9. These segments are different than those reported in the Company's previous financial statements included in its Form 10-Qs and Form 10-Ks and as such the presentation has been changed to conform to the new segments.

	<b>As at September 30, 2008</b>				
	<b>Integrated Canada</b>	<b>Oil and Gas Conventional</b>		<b>Business and Technology Development</b>	<b>Total</b>
		<b>China</b>	<b>U.S.</b>		
Oil and Gas Properties:					
Proved	\$	\$ 139,313	\$ 110,914	\$	\$ 250,227
Unproved	78,348	4,197	4,394		86,939
	78,348	143,510	115,308		337,166
Accumulated depletion		(76,461)	(31,877)		(108,338)
Accumulated provision for impairment		(16,550)	(50,350)		(66,900)
	78,348	50,499	33,081		161,928
Development Costs:					
Feasibility studies and other deferred costs				5,592	5,592
Feedstock test facility				7,902	7,902
Commercial demonstration facility				11,037	11,037
Accumulated depreciation				(7,095)	(7,095)
				17,436	17,436
Furniture and equipment	14	120	537	270	941
Accumulated depreciation	(5)	(92)	(467)	(100)	(664)
	9	28	70	170	277

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\$ 78,357      \$ 50,527      \$ 33,151      \$ 17,606      \$ 179,641

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	<b>As at December 31, 2007</b>			
	<b>Oil and Gas Conventional</b>		<b>Business and Technology Development</b>	<b>Total</b>
	<b>China</b>	<b>U.S.</b>		
Oil and Gas Properties:				
Proved	\$ 134,648	\$ 107,040	\$	\$ 241,688
Unproved	3,297	4,373		7,670
	137,945	111,413		249,358
Accumulated depletion	(58,583)	(27,091)		(85,674)
Accumulated provision for impairment	(16,550)	(50,350)		(66,900)
	62,812	33,972		96,784
Development Costs:				
Feasibility studies and other deferred costs			5,443	5,443
Feedstock test facility			4,724	4,724