IVANHOE ENERGY INC
Form 10-Q
August 09, 2012
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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 June 30, 2012

Commission file number: 000-30586

Ivanhoe Energy Inc.

(Exact name of registrant as specified in its charter)

Yukon, Canada	**98-0372413**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

654-999 Canada Place

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. x 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	x
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 x No

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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IVANHOE ENERGY INC.

Condensed Consolidated Statements of Financial Position

(Unaudited)

(US$000s)	Note	June 30, 2012	December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents	3	27,416	16,890
Restricted cash	4	20,500	20,500
Accounts receivable		5,377	7,859
Note receivable		225	227
Prepaid and other		1,282	1,411
Assets held for sale	5	52,660	41,902
		107,460	88,789
Intangible	6	295,723	273,986
Property, plant and equipment	7	49,002	46,979
Long term receivables		5,295	3,956
		457,480	413,710
Liabilities and Shareholders Equity			
Current Liabilities			
Accounts payable and accrued liabilities		34,181	15,548
Debt	8	38,348	
Derivative instruments	9		183
Income taxes		947	641
		73,476	16,372
Long term debt	8	62,235	61,892
Long term derivative instruments	9, 10	60	1,617
Long term provisions		2,727	1,919
Deferred income taxes		18,041	17,773
		156,539	99,573
Shareholders Equity			
Share capital	12	586,108	586,108
Contributed surplus	13	28,693	26,524
Accumulated deficit		(313,860)	(298,495)
		300,941	314,137
		457,480	413,710

Nature of operations and going concern	**1**

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

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IVANHOE ENERGY INC.

Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(US$000s, except share and per share amounts)	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue					
Oil		**11,292**	9,389	**19,200**	17,508
Interest		**5**	143	**11**	210
		11,297	9,532	**19,211**	17,718
Expenses and other					
Operating	**15**	**4,846**	5,339	**9,494**	9,862
Exploration and evaluation	**6**	**152**		**152**	
General and administrative		**10,400**	11,744	**20,887**	25,161
Depletion and depreciation	**7**	**2,401**	1,891	**4,237**	3,722
Foreign currency exchange gain		**(1,760)**	(238)	**(794)**	(463)
Derivative instruments gain	**9**	**(1,262)**	(6,071)	**(1,732)**	(7,200)
Finance		**470**	359	**586**	367
Other expenses	**8**			**309**	
		15,247	13,024	**33,139**	31,449
Loss before income taxes		**(3,950)**	(3,492)	**(13,928)**	(13,731)
Recovery of (provision for) income taxes					
Current		**(821)**	(477)	**(1,169)**	(799)
Deferred		**68**	(142)	**(268)**	(707)
		(753)	(619)	**(1,437)**	(1,506)
Net loss and comprehensive loss		**(4,703)**	(4,111)	**(15,365)**	(15,237)
Net loss per common share, basic and diluted		**(0.01)**	(0.01)	**(0.04)**	(0.04)
Weighted average number of common shares					
Basic and diluted (000s)		**344,139**	338,432	**344,139**	341,197

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

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IVANHOE ENERGY INC.

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

		Share Capital				
(US$000s, except share amounts)	Note	Shares (000s)	Amount	Contributed Surplus	Accumulated Deficit	Total
Balance January 1, 2011		**334,365**	**550,562**	**23,141**	**(273,219)**	**300,484**
Net loss and comprehensive loss					(15,237)	(15,237)
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			3,235		3,235
Balance June 30, 2011		**343,970**	**585,773**	**24,145**	**(288,456)**	**321,462**

		Share Capital				
(US$000s, except share amounts)	Note	Shares (000s)	Amount	Contributed Surplus	Accumulated Deficit	Total
Balance January 1, 2012		**344,139**	**586,108**	**26,524**	**(298,495)**	**314,137**
Net loss and comprehensive loss					(15,365)	(15,365)
Funding of equity-settled share-based awards				(54)		(54)
Share-based compensation expense	13			2,223		2,223
Balance June 30, 2012		**344,139**	**586,108**	**28,693**	**(313,860)**	**300,941**

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

IVANHOE ENERGY INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(US$000s)	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Activities					
Net loss		**(4,703)**	(4,111)	**(15,365)**	(15,237)
Adjustments to reconcile net loss to cash from operating activities					
Depletion and depreciation	**7**	**2,401**	1,891	**4,237**	3,722
Exploration and evaluation expense	**6**	**152**		**152**	
Share-based compensation expense	**13**	**1,003**	1,471	**2,239**	3,247
Unrealized foreign currency exchange loss (gain)		**(1,669)**	(1,553)	**(620)**	(1,780)
Unrealized derivative instruments gain	**9**	**(1,262)**	(6,071)	**(1,732)**	(7,200)
Current income tax expense		**821**	477	**1,169**	799
Deferred income tax expense		**(68)**	142	**268**	707
Finance expense		**470**	359	**586**	367
Finance costs			269		269
Other expenses	**8**			**309**	
Other		**(2)**	(106)	**(1)**	(12)
Current income tax paid		**(381)**	(267)	**(864)**	(324)
Interest paid		**(302)**		**(302)**	
Share-based payments		**(110)**		**(166)**	
Changes in non-cash working capital items	**16**	**(534)**	1,044	**(986)**	1,978
Net cash used in operating activities		**(4,184)**	(6,455)	**(11,076)**	(13,464)
Investing Activities					
Intangible expenditures		**(19,509)**	(13,906)	**(28,050)**	(23,772)
Property, plant and equipment expenditures		**(5,110)**	(3,514)	**(5,494)**	(7,463)
Long term receivables		**(964)**	(316)	**(1,338)**	(463)
Interest paid		**(2,553)**	15	**(2,553)**	(1,003)
Changes in non-cash working capital items	**16**	**17,538**	1,082	**21,673**	4,578
Net cash used in investing activities		**(10,598)**	(16,639)	**(15,762)**	(28,123)
Financing Activities					
Debt proceeds, net of transaction costs	**8**		72,914	**37,282**	72,914
Proceeds from exercise of options and warrants			59		29,873
Changes in non-cash working capital items	**16**		(28)		(47)
Net cash provided by financing activities			72,945	**37,282**	102,740
Foreign exchange gain on cash and cash equivalents held in a foreign currency		**(62)**	2,659	**82**	3,838
(Decrease) increase in cash and cash equivalents, for the period		**(14,844)**	52,510	**10,526**	64,991
Cash and cash equivalents, beginning of period		**42,260**	80,798	**16,890**	68,317
Cash and cash equivalents, end of period		**27,416**	133,308	**27,416**	133,308

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

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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 June 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 June 30, 2012, Ivanhoe had an accumulated deficit of $313.9 million and working capital deficit of $18.7 million, excluding assets held for sale. In the six months ended June 30, 2012, cash used in operating activities was $11.1 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 June 30, 2012 Financial Statements were approved by the Board of Directors and authorized for issue on July 27, 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 should be read in conjunction with the Company s annual financial statements for the year ended December 31, 2011 prepared in accordance with IFRS. 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.

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.

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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. The Company has not yet evaluated the impact of these changes on its financial statements.

i. IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 was issued in November 2009 and is intended to replace IAS 39, Financial Instruments: Recognition and Measurement (IAS 39) in phases. 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.

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.

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.

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.

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.

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.

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.

3. CASH AND CASH EQUIVALENTS

	June 30, 2012	December 31, 2011
Cash at banks and on hand	**27,416**	16,867
Restricted cash		23
	27,416	16,890

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4. RESTRICTED CASH

	June 30, 2012	December 31, 2011
Ecuador performance bond	**500**	500
Zitong performance bond	**20,000**	20,000
	20,500	20,500

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

Sunwing Zitong Energy (SZE), a wholly owned subsidiary of the Company, 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. There is no assurance that this transaction will close on the terms presently contemplated or at all.

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 after June 30, 2012, but on or before September 30, 2012, the Company will receive an additional $50.0 million. If the transaction closes after September 30, 2012, but on or before December 31, 2012, the Company will receive an additional $20.0 million. Failure to reach completion of the transaction prior to December 31, 2012 will give either party the right to terminate the transaction.

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 $52.7 million at June 30, 2012 (December 31, 2011 $41.9 million); the property was previously reported in the Asia segment.

6. INTANGIBLE ASSETS

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