IVANHOE ENERGY INC
Form 10-Q
August 12, 2014

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, 2014

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, 2014, Ivanhoe Energy Inc. had 114,824,253 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, 2014	December 31, 2013
Assets			
Current Assets			
Cash and cash equivalents		4,634	23,556
Restricted cash		500	500
Accounts receivable		218	534
Prepaid and other		526	942
Assets held for sale		52,703	51,929
		58,581	77,461
Intangible assets	4	154,064	152,823
Property, plant and equipment		435	1,066
Long term receivables		744	603
Notes receivable		-	220
		213,824	232,173
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		3,716	6,295
		3,716	6,295
Long term debt		63,807	63,012
Long term provisions		3,015	2,589
		70,538	71,896
Shareholders' Equity			
Share capital		586,358	586,358
Contributed surplus		33,670	32,614
Accumulated deficit		(476,742)	(458,695)

	143,286	160,277
	213,824	232,173

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, 2014	2013	Six Months Ended June 30, 2014	2013
Interest and other income		19	73	50	90
Expenses and other					
Operating		284	1,421	1,459	2,214
General and administrative		6,025	8,412	13,294	21,118
Depreciation		–	237	125	484
Foreign currency exchange loss (gain)		1,971	(1,589)	(40)	(2,927)
Derivative instruments gain		–	(86)	–	(176)
Finance		1,807	915	2,849	1,433
Other expenses		99	–	410	–
		10,186	9,310	18,097	22,146
Loss before income taxes		(10,167)	(9,237)	(18,047)	(22,056)
Recovery of (provision for) income taxes					
Current		–	–	–	(41)
Deferred		–	852	–	1,737
		–	852	–	1,696
Net loss and total comprehensive loss from continuing operations		(10,167)	(8,385)	(18,047)	(20,360)
Net loss and total comprehensive loss from discontinued operations	3	–	(1)	–	(2,072)
Net loss and comprehensive loss		(10,167)	(8,386)	(18,047)	(22,432)
Net loss per common share, basic and diluted					
From continuing operations		(0.09)	(0.07)	(0.16)	(0.18)
From discontinued operations		–	(0.00)	–	(0.02)
		(0.09)	(0.07)	(0.16)	(0.20)
Weighted average number of common shares					
Basic and diluted (000s)		114,824	114,824	114,824	114,736

(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)

(US$000s, except share amounts)	Note	Share Capital Shares (000s)	Amount	Contributed Surplus	Accumulated Deficit	Total
Balance January 1, 2013		114,713	586,108	29,759	(312,869)	302,998
Net loss and comprehensive loss		–	–	–	(22,432)	(22,432)
Funding of equity-settled share-based awards		–	–	(132)	–	(132)
Share-based compensation expense	5	111	250	1,550	–	1,800
Balance June 30, 2013		114,824	586,358	31,177	(335,301)	282,234

(US$000s, except share amounts)	Note	Share Capital Shares (000s)	Amount	Contributed Surplus	Accumulated Deficit	Total
Balance January 1, 2014		114,824	586,358	32,614	(458,695)	160,277
Net loss and comprehensive loss		–	–	–	(18,047)	(18,047)
Funding of equity-settled share-based awards		–	–	(94)	–	(94)
Share-based compensation expense	5	–	–	1,150	–	1,150
Balance June 30, 2014		114,824	586,358	33,670	(476,742)	143,286

(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, 2014	2013	Six Months Ended June 30, 2014	2013
Operating Activities					
Net loss		(10,167)	(8,386)	(18,047)	(22,432)
Adjustments to reconcile net loss to cash from operating activities					
Depreciation		(4)	237	125	484
Share-based compensation expense		460	918	1,318	2,104
Unrealized foreign currency exchange loss (gain)		1,993	(1,430)	(8)	(2,761)
Unrealized derivative instruments (gain) loss		–	(86)	–	(176)
Current income tax expense		–	–	–	41
Deferred income tax (recovery) expense		–	(852)	–	(1,737)
Finance expense		1,614	544	2,543	1,062
Other		605	–	571	–
Current income tax paid		–	–	–	(1,761)
Interest paid		–	(520)	–	(520)
Share-based payments		–	–	(438)	(188)
Changes in non-cash working capital items	8	(1,154)	5,460	(1,513)	5,258
Net cash used in operating activities		(6,653)	(4,115)	(15,449)	(20,626)
Investing Activities					
Intangible assets and assets held for sale expenditures		(161)	(4,377)	(1,112)	(11,688)
Property, plant and equipment expenditures		–	(227)	–	(449)
Restricted cash		–	–	–	20,000
Long term receivables		(141)	(261)	(141)	(428)
Interest paid		(1,974)	(1,485)	(1,974)	(1,485)
Changes in non-cash working capital items	8	(221)	(1,562)	(40)	1,856
Net cash (used in) provided by investing activities		(2,497)	(7,912)	(3,267)	7,806
Financing Activities					
Changes in non-cash working capital items	8	(4)	20	(3)	15
Net cash provided by financing activities		(4)	20	(3)	15
Foreign exchange loss (gain) on cash and cash equivalents held in a foreign currency		178	(680)	(203)	(721)
Decrease in cash and cash equivalents, for the period		(8,976)	(12,687)	(18,922)	(13,526)
Cash and cash equivalents, beginning of period		13,610	61,980	23,556	62,819
Cash and cash equivalents, end of period		4,634	49,293	4,634	49,293

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

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 limited liability company incorporated under the laws of Yukon, Canada. Ivanhoe’s common shares are listed on the Toronto Stock Exchange (“TSX”) and the NASDAQ Stock Market (“NASDAQ”). The principal corporate office of Ivanhoe is located at 999 Canada Place, Suite 654, Vancouver, British Columbia, V6C 3E1. Our registered and records office is located at 300-204 Black Street, Whitehorse, Yukon, Y1A 2M9 and our operational headquarters are located at 101-6th Avenue SW, 12th Floor, Calgary, Alberta, T2P 3P4.

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 patented Heavy-to-Light (“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, 2014 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. Recoverable 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, 2014, Ivanhoe had an accumulated deficit of $476.7 million and working capital surplus of $2.2 million, excluding assets held for sale. For the six months ended June 30, 2014, cash used in operating activities was $15.5 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 and technology. 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 and technology. 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 2014, there is material uncertainty that casts substantial doubt that the Company will be able to continue as a going concern.

The June 30, 2014 Financial Statements were approved by the Board of Directors and authorized for issue on July 29, 2014.

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, 2013 prepared in accordance with IFRS as 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 annual IFRS consolidated financial statements for the year ended December 31, 2013 except as discussed below.

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 currently 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. During 2013, the IASB decided that a mandatory date of January 1, 2015 would not allow sufficient time for entities to prepare to apply the new standard because the impairment phase of the project has not yet been completed. Accordingly, the IASB decided that a new date should be decided upon when the entire IFRS 9 project is closer to completion. The full impact of this standard will not be known until the phases addressing hedging and impairments have been completed.

2.4 Changes in Accounting Policy and Disclosure

IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on the Company's financial statements.

3. RESULTS OF DISCONTINUED OPERATIONS

Analysis of the results of discontinued operations and on the disposal of the assets of the Zitong Block and Pan-China Resources Ltd., constituting the discontinued operations, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	–	–	–	–
Expenses and other	–	–	–	–
Net income before tax and before disposal	–	–	–	–
Income taxes	–	–	–	–
Net income after tax and before disposal	–	–	–	–
Pre-tax loss on disposal	–	(1)	–	(2,072)
Tax on disposal	–	–	–	–
After-tax loss on disposal	–	(1)	–	(2,072)
Net income from discontinued operations	–	(1)	–	(2,072)

The loss on disposal for the six months ended June 30, 2013 consisted of professional services rendered in connection with the disposal of the assets constituting the discontinued operations.

The net cash flows attributable to the operating, investing and financing activities of the discontinued operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating activities	–	(1)	–	(2,072)
Investing activities	–	–	–	–
Financing activities	–	–	–	–
Total cash flows	–	(1)	–	(2,072)

4. INTANGIBLE ASSETS

	Exploration and Evaluation Assets					
	Asia	Canada	Latin America	Total	HTL™ Technology	Total Intangible Assets
Cost						
Balance December 31, 2012	14,659	141,627	36,872	193,158	92,153	285,311
Additions	722	11,196	7,982	19,900	–	19,900
Exploration and evaluation expense	(15,381)	–	–	(15,381)	–	(15,381)
Impairment charge	–	–	–	–	(92,153)	(92,153)
Assets reclassified as held for sale	–	–	(44,854)	(44,854)	–	(44,854)
Balance December 31, 2013	–	152,823	–	152,823	–	152,823
Additions	–	1,241	–	1,241	–	1,241
Balance June 30, 2014	–	154,064	–	154,064	–	154,064

5. SHARE-BASED PAYMENTS

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

	Three months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Share-based expense related to				
Equity settled transactions	467	889	1,150	1,800
Cash settled transactions	(7)	29	168	304
Total share-based expense	460	918	1,318	2,104

5.1 Stock Option Plan

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

	Number of Stock Options	Weighted Average Exercise Price

	(000s)	(Cdn$)
Outstanding, December 31, 2012	4,958	5.68
Granted	2,587	2.16
Exercised	–	–
Expired	(1,120)	5.14
Forfeited	(531)	6.58
Outstanding, December 31, 2013	5,894	4.16
Granted	1,715	0.52
Exercised	-	-
Expired	-	-
Forfeited	(211)	4.80
Outstanding, June 30, 2014	7,399	3.30
Exercisable, December 31, 2013	2,363	6.31
Exercisable, June 30, 2014	3,204	5.18

Shares authorized for issuance under the option plan at June 30, 2014 were 11.5 million (December 31, 2013 – 11.5 million).

No stock options were exercised in the six months ending June 30, 2014 (2013 – nil).

The weighted average fair value of stock options granted from the stock option plan during the six months ended June 30, 2014 was Cdn$1.45 (2013 – Cdn$2.01) per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

Six months ended June 30,	2014	2013
Expected life (in years)	6.0	6.2
Volatility [(1)]	87.5%	76.9%
Dividend yield	–	–
Risk-free rate	1.7 %	1.6 %
Estimated forfeiture rate	9.6 %	10.0%

(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 June 30, 2014:

Range of Exercise Prices (Cdn$)	Outstanding (000s)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (Cdn$)
1.26 to 3.87	3,522	5.4	2.35
3.88 to 5.67	220	2.1	4.76
5.68 to 8.37	1,739	2.6	7.07
8.38 to 10.32	202	2.6	9.78

5.2 Restricted Share Unit Plan ("RSU")

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

	Number of RSUs (000s) [(1)]	Weighted Average Fair Value (Cdn$)
Outstanding, December 31, 2012	876	2.16
Granted	1,693	0.72

Vested	(312)	2.07
Forfeited	(48)	1.94
Outstanding, December 31, 2013	2,209	1.01
Granted	2,379	0.42
Vested	(832)	0.90
Forfeited	(907)	0.58
Outstanding, June 30, 2014	2,849	0.51

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

The weighted average assumptions used for the calculation were:

Six Months ended June 30,	2014	2013
Expected life (in years)	2.0	2.0
Volatility [(1)]	140 %	76.4 %
Dividend yield	-	–
Risk-free rate	1.1 %	1.1 %
Estimated forfeiture rate	9.6 %	18.8 %

(1) Expected volatility factor based on historical volatility of the Company’s publicly traded common shares.

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The liabilities arising from the RSUs to be settled by way of cash payments and the intrinsic value of those liabilities are:

	June 30, 2014
Current liabilities related to RSUs	219
Long term liabilities related to RSUs	117
Intrinsic value of vested and unreleased RSUs	-

6. FINANCIAL INSTRUMENTS

6.1 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.

	June 30, 2014	December 31, 2013
Convertible Debentures		
Carrying amount	63,807	63,012
Fair value	28,841	31,017

The fair value of the liability component of the Convertible Debentures was estimated using the closing price of the publicly traded debentures at period end.

6.2 Risks Arising from Financial Instruments

Ivanhoe is exposed in varying degrees to normal market risks resulting from 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ("2013 Form 10-K").

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7. SEGMENT INFORMATION

The following table presents the Company's segment loss, capital investments and identifiable assets and liabilities:

	Asia	Canada	Latin America	Technology Development	**Corporate** (3)	Total
Segment income from continuing operations						
For the three months ended June 30, 2014	–	–	–	–	19	19
For the three months ended June 30, 2013	–	1	–	60	12	73
For the six months ended June 30, 2014	–	–	–	–	50	50
For the six months ended June 30, 2013	–	1	–	60	29	90
Segment loss from continuing operations						