IVANHOE ENERGY INC
Form 10-Q
August 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2004

or

o 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	**98-0372413**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Suite 654 999 Canada Place
Vancouver, British Columbia, Canada
V6C 3E1

(Address of principal executive office)

(604) 688-8323

(registrant s telephone number, including area code)

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report:

Not Applicable

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 þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes þ No o

The number of shares of the registrant s capital stock outstanding as of June 30, 2004 was 169,419,911 Common Shares, no par value.

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Part I Financial Information

Item 1 Financial Statements

IVANHOE ENERGY INC.

Unaudited Consolidated Balance Sheets
(stated in thousands of U.S. Dollars except share amounts)

	June 30, 2004	December 31, 2003
		(restated Notes 2 and 7)
Assets		
Current Assets		
Cash and cash equivalents	**$ 30,361**	$ 14,491
Accounts receivable	**4,729**	2,720
Other	**378**	409
	35,468	17,620
Long term assets	**3,677**	998
Oil and gas properties, equipment and investments, net	**96,577**	87,956
	$135,722	$ 106,574
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 11,522**	$ 4,516
Note payable current portion	**917**	167
	12,439	4,683
Note payable	**2,083**	833
Asset retirement obligations	**623**	521
Commitments and contingencies		

Shareholders Equity		
Share capital, issued 169,419,911 common shares; December 31, 2003 161,359,339 common shares	**183,225**	161,075
Contributed surplus	**996**	516
Deficit	**(63,644)**	(61,054)
	120,577	100,537
	$135,722	$ 106,574

(See accompanying notes)

IVANHOE ENERGY INC.
Unaudited Consolidated Statements of Loss and Deficit
(stated in thousands of U.S. Dollars except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
		(restated Notes 2 and 7)		**(restated Notes 2 and 7)**
Revenue				
Oil and gas revenue	**$ 3,472**	$ 2,332	**$ 6,764**	$ 4,864
Interest income	**49**	6	**89**	42
	3,521	2,338	**6,853**	4,906
Expenses				
Operating costs	**1,157**	948	**2,431**	1,845
General and administrative	**1,909**	1,905	**3,813**	3,764
Depletion and depreciation	**1,503**	751	**2,949**	1,671
Write down of GTL investments	**250**	3,321	**250**	3,321
	4,819	6,925	**9,443**	10,601
Net Loss	**1,298**	4,587	**2,590**	5,695
Deficit, beginning of period, as previously reported	**62,346**	31,562	**60,267**	30,564
Retroactive application of change in accounting policy for stock based compensation		421	**787**	311
Deficit, beginning of the period, as restated	**62,346**	31,983	**61,054**	30,875
Deficit, end of period	**$ 63,644**	$ 36,570	**$ 63,644**	$ 36,570
Net Loss per share Basic and Diluted	**$ 0.01**	$ 0.03	**$ 0.02**	$ 0.04

Weighted Average Number of Shares (in thousands)	**169,116**	145,055	**165,622**	144,832

(See accompanying notes)

IVANHOE ENERGY INC.
Unaudited Consolidated Statements of Cash Flow
(stated in thousands of U.S. Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
		(restated Notes 2 and 7)		**(restated Notes 2 and 7)**
Operating Activities				
Net loss	**$ (1,298)**	$ (4,587)	**$ (2,590)**	$ (5,695)
Items not requiring use of cash				
Depletion and depreciation	**1,503**	751	**2,949**	1,671
Write down of GTL investments	**250**	3,321	**250**	3,321
Stock based compensation	**242**	122	**481**	232
Changes in non-cash working capital items	**602**	1,300	**244**	1,650
	1,299	907	**1,334**	1,179
Investing Activities				
Capital spending	**(14,933)**	(2,856)	**(25,356)**	(4,774)
Deposit on investment	**(2,000)**		**(2,500)**	
Proceeds from sale of assets	**13,458**		**13,458**	
Changes in non-cash working capital items	**5,614**	511	**5,131**	710
	2,139	(2,345)	**(9,267)**	(4,064)
Financing Activities				
Shares issued on private placements, net of share issue costs			**20,428**	
Shares issued on exercise of options	**1,236**		**1,375**	
Proceeds from notes and advances	**2,000**	1,500	**12,000**	1,750
Redemption of advance payable	**(10,000)**		**(10,000)**	
	(6,764)	1,500	**23,803**	1,750
Increase (decrease) in cash and cash equivalents, for the period	**(3,326)**	62	**15,870**	(1,135)

Cash and cash equivalents, beginning of period	**33,687**	2,783	**14,491**	3,980
Cash and cash equivalents, end of period	**$ 30,361**	$ 2,845	**$ 30,361**	$ 2,845
Financing activities, non-cash				
Shares issued on conversion of debenture	**$**	$ 1,000	**$**	$ 1,000
Included in the above are the following:				
Taxes paid	**$**	$	**$ 3**	$ 6
Interest paid	**$ 14**	$ 23	**$ 28**	$ 42
Changes in non-cash working capital items				
Operating Activities:				
Accounts receivable	**$ (266)**	$ 495	**$ (856)**	$ 380
Other current assets	**3**	575	**31**	512
Accounts payable and accrued liabilities	**865**	230	**1,069**	758
	602	1,300	**244**	1,650
Investing Activities				
Accounts receivable	**(831)**		**(1,153)**	
Accounts payable and accrued liabilities	**6,445**	511	**6,284**	710
	5,614	511	**5,131**	710
	$ 6,216	$ 1,811	**$ 5,375**	$ 2,360

(See accompanying notes)

Notes to the Consolidated Financial Statements
June 30, 2004
(all tabular amounts are expressed in thousands of U.S. dollars except per share data)
(Unaudited)

1. BASIS OF PRESENTATION

The Company s 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 12. The unaudited consolidated financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the December 31, 2003 consolidated financial statements, except for a change in the policy of accounting for stock based compensation which has been implemented retroactively with a restatement of prior period financial statements, and should be read in conjunction therewith. These interim 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, 2003 consolidated balance sheet, as restated, 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 preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

2. CHANGE IN ACCOUNTING POLICY

Prior to January 1, 2004, the Company accounted for options granted to employees and directors using the intrinsic-value of the options. Under this method, compensation costs were not recognized in the financial statements for share options granted at market value but rather disclosure was required, on a pro forma basis, of the impact on net income of using the fair value at the option grant date. The Company does, however, recognize compensation costs in its financial statements for options granted to non-employees after January 1, 2002 based on the fair value of the options at the date granted. The Company uses the Black-Scholes option pricing model for determining the fair value of options issued at grant date.

For fiscal years beginning on or after January 1, 2004, Canadian GAAP requires compensation costs to be recognized in the financial statements using the fair value based method of accounting for all stock options granted after January 1, 2002. Implementation of this change in accounting policy requires retroactive application with the option of restating financial statements of prior periods.

Accordingly, effective January 1, 2004, the Company changed its accounting policy, for Canadian GAAP purposes, to recognize compensation costs using the fair value based method of accounting for stock options granted to employees and directors after January 1, 2002. This change has been adopted retroactively and the Company has elected to restate the financial statements of prior periods (See Note 7).

3. OIL AND GAS PROPERTIES, EQUIPMENT AND INVESTMENTS
Oil and gas properties, equipment and investments are net of accumulated depletion and depreciation of $13.4 million and $10.5 million as well as a provision for impairment of oil and gas properties of $34.0 million as at June 30, 2004 and December 31, 2003, respectively.

In January 2004, the Company signed farm-out and joint operating agreements with Richfirst Holdings Limited (Richfirst), a wholly owned subsidiary of China International Trust & Investment Company to jointly develop the Dagang oil project. Richfirst acquired a 40% working interest in the project for $20.0 million following Chinese regulatory approvals, which were finalized in June 2004 (see Note 9). The carrying value of the Company s oil and gas assets was reduced by $13.5 million for the amount of the proceeds associated with the sale of the working interest. The reduction in the carrying value does not significantly alter the depletion rate of the China oil and gas assets. The balance of the $20.0 million proceeds will be used to fund a portion of Richfirst s share of future Dagang oil project costs.

In February 2004, the Company farmed into the Knights Landing project in northern California. Under this exploration and development farm-in agreement, the Company purchased, for $1.0 million, a 50% non-operated interest in four recent discoveries in the contract area and agreed to fund, for $0.6 million, gas gathering, surface treatment facilities and meters to connect the four wells to an existing pipeline system. Additionally, the Company agreed to fund 100% of the drilling costs for 10 exploratory gas wells at an estimated cost of $2.3 million to earn a 40% working interest in this prospect.

As a result of the Company s on-going evaluation of its GTL investments, $0.3 million of its investments were written down for the three-month period ended June 30, 2004 as the opportunity to build a 45,000 bpd GTL fuels plant in Oman failed to materialize due to a lack of sufficient uncommitted gas volumes to support a plant of that size.

4. LONG TERM ASSETS
In January 2004, the Company signed a Stock Purchase and Shareholders Agreement with Ensyn Group Inc. (Ensyn Group) and its subsidiary, Ensyn Petroleum International Ltd. (Ensyn), pursuant to which the Company acquired a 10% equity interest in Ensyn and exclusive rights to use the proprietary Ensyn RTP™ Process in several key international markets. The Company paid $2.0 million and will grant Ensyn rights to acquire equity interests in the Company s international oil development projects that use the Ensyn RTP™ Process.

In April 2004, the Company signed an agreement with Ensyn Group and Ensyn pursuant to which the Company advanced to Ensyn an additional $1.0 million in consideration for the right to elect to either take an additional 5% equity interest in Ensyn or consider the advance as a loan to be repaid with interest over a period of 90 days commencing on July 31, 2005.

As at June 30, 2004, all amounts paid to Ensyn under the above agreements are included in long-term assets.

5. SEGMENT INFORMATION
The following tables present the Company s interim segment information for the three-month and six-month periods ended June 30, 2004 and 2003 and identifiable assets as at June 30, 2004 and December 31, 2003:

	Three Month Periods Ended June 30,					
	2004			2003		
				(restated Notes 2 and 7)		
	U.S.	China	Total	U.S.	China	Total
Oil and gas revenue	$2,006	$1,466	$ 3,472	$1,247	$1,085	$2,332
Interest income	49		49	6		6
	2,055	1,466	3,521	1,253	1,085	2,338
Operating costs	677	480	1,157	511	437	948
Depletion and depreciation	1,002	501	1,503	423	328	751
	1,679	981	2,660	934	765	1,699
Segment income before the following	$ 376	$ 485	861	$ 319	$ 320	639
Write down of GTL investments			250			3,321
General and administrative			1,909			1,905
Net loss			$ 1,299			$4,587
Capital Expenditures:						
Oil and gas	$6,905	$7,277	$14,182	$1,556	$1,097	$2,653
Gas-to-liquids and EOR Investments			751			203
			$14,933			$2,856

	Six Month Periods Ended June 30,	
	2004	2003

				(restated Notes 2 and 7)		
	U.S.	China	Total	U.S.	China	Total
Oil and gas revenue	$ 3,800	$ 2,964	$ 6,764	$2,689	$2,175	$4,864
Interest income	89		89	42		42
	3,889	2,964	6,853	2,731	2,175	4,906
Operating costs	1,431	1,000	2,431	1,013	832	1,845
Depletion and depreciation	1,873	1,076	2,949	988	683	1,671
	3,304	2,076	5,380	2,001	1,515	3,516
Segment income before the following	$ 585	$ 888	1,473	$ 730	$ 660	1,390
Write down of GTL investments			250			3,321
General and administrative			3,813			3,764
Net loss			$ 2,590			$5,695
Capital expenditures:						
Oil and gas	$10,023	$14,152	$24,175	$2,670	$1,691	$4,361
Gas-to-liquids and EOR Investments			1,181			413
			$25,356			$4,774

	As at June 30, 2004			As at December 31, 2003		
	U.S.	China	Total	U.S.	China	Total
Identifiable Assets:						
Oil & gas	$89,054	$30,934	$119,988	$61,379	$30,766	$92,145