

Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011
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
(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)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|-----------------------------|---|
| Common Shares, No Par Value | Toronto Stock Exchange The NASDAQ Capital Market |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$547,464,841 based on the Toronto Stock Exchange closing price on that date. At March 5, 2012, the registrant had 344,139,428 common shares outstanding.

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ABBREVIATIONS

As generally used in the oil and gas industry and in this Annual Report on Form 10-K ("Annual Report"), the following terms have the following meanings:

| | | | | | |
|--------|---|-----------------------------------|----------|---|--|
| bbl | = | barrel | mmbbls/d | = | thousand barrels per day |
| bbls/d | = | barrels per day | mboe | = | thousands of barrels of oil equivalent |
| boe | = | barrel of oil equivalent | mboe/d | = | thousands of barrels of oil equivalent per day |
| boe/d | = | barrels of oil equivalent per day | mmbbls | = | million barrels |
| mmbbls | = | thousand barrels | mmbbls/d | = | million barrels per day |

Oil equivalents compare quantities of oil with quantities of gas or express these different commodities in a common unit. A boe is derived by converting six thousand cubic feet of gas to one barrel of oil (6 mcf/1 bbl). 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.

CURRENCY AND EXCHANGE RATES

Unless otherwise specified, all reference to "dollars" or to "\$" are to US dollars and all references to "Cdn\$" are to Canadian dollars. The noon-day exchange rates for Cdn\$1.00, as reported by the Bank of Canada, were:

| (US\$) | 2011 | 2010 |
|--------------|------|------|
| Closing | 0.98 | 1.01 |
| High | 1.06 | 1.01 |
| Low | 0.94 | 0.93 |
| Average noon | 1.01 | 0.97 |

On March 5, 2012, the noon-day exchange rate was US\$0.99 for Cdn\$1.00.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

With the exception of historical information, certain matters discussed in this Annual Report, including those appearing in Items 1 and 2 – Business and Properties and Item 7 – 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 similar expressions 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 Annual Report include, but are not limited to statements relating to or associated with individual wells, regions or projects. Any 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 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 negotiating of an extension to certain of the Company’s production sharing 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 are forward-looking statements.

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 Annual Report 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 appropriate 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 this Annual Report. Such factors include, but are not limited to: the Company’s short 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 implementation of the Company’s capital investment program.

The forward-looking statements contained in this Annual Report 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.

AVAILABLE INFORMATION

The principal executive offices of Ivanhoe Energy Inc. (“Ivanhoe,” the “Company,” “we,” “our,” or “us”) are located at 999 Canada Place, Suite 654, Vancouver, British Columbia, V6C 3E1, and our registered and records office is located at 300-204 Black Street, Whitehorse, Yukon, Y1A 2M9.

Electronic copies of the Company’s filings with the United States Securities and Exchange Commission (the “SEC”) and the Canadian Securities Administrators (the “CSA”) are available, free of charge, through our website (www.ivanhoeenergy.com) or, upon request, by contacting our investor relations department at (403) 817-1108. The information on our website is not, and shall not be, deemed to be part of this Annual Report.

Alternatively, the SEC and the CSA each maintains a website (www.sec.gov and www.sedar.com) that contains our reports, proxy and information statements and other published information that have been filed or furnished with the SEC and the CSA. Further, a copy of this Annual Report is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

PART I

ITEMS 1 AND 2: BUSINESS AND PROPERTIES

GENERAL

Ivanhoe is an independent international heavy oil development and production company focused on pursuing long term growth in its reserve base and production using advanced technologies, including its HTL™ technology. Core operations are in Canada, Ecuador, China and Mongolia, with business development opportunities worldwide.

The Company was incorporated pursuant to the laws of the Yukon Territory of Canada, on February 21, 1995, under the name 888 China Holdings Limited. On June 3, 1996, the Company changed its name to Black Sea Energy Ltd. On June 24, 1999, Black Sea Energy Ltd. merged with Sunwing Energy Ltd. ("Sunwing"), and the name was changed to Ivanhoe Energy Inc.

In 2005, Ivanhoe completed a merger with Ensyn Group Inc. ("Ensyn") acquiring the proprietary, patented heavy oil upgrading process called HTL™. In July 2008, the Company acquired from Talisman Energy Canada ("Talisman") oil sand interests, including certain oil sand leases in the Athabasca region of Canada ("Tamarack" or the "Tamarack Project"). Later in 2008, the Company signed a contract with the Ecuador state oil companies to explore and develop Ecuador's Pungarayacu heavy oil field in Block 20. In 2009, Ivanhoe sold its wholly owned subsidiary, Ivanhoe Energy (USA) Inc., disposing of its oil and gas exploration and production operations in the United States ("US"). Also in 2009, the Company acquired a production sharing contract for the Nyalga Block XVI in Mongolia, through the takeover of PanAsian Petroleum Inc., a privately-owned corporation.

CORPORATE STRATEGY

Ivanhoe continues to pursue its core strategies, which are:

- Utilize long-standing knowledge and relationships in the Far East to pursue conventional oil and gas production and exploration opportunities;
- Seek out heavy oil development projects globally that have operational needs that can benefit from our proprietary HTL™ technology; and
- Bias new country entry and business development to projects that, because of their remote setting, geo-political status or operational needs, have been overlooked by the broader industry, subsequently expanding efforts in the new locations to more conventional oil and gas industry activities.

Pursuing Natural Gas in China

Ivanhoe's wholly-owned subsidiary, Sunwing, has been conducting operations in China since the mid-1990s. In particular, Sunwing is focused on a key natural gas exploration project (the Zitong Block) in Sichuan Province of China. Sichuan is the oldest and one of the most productive gas producing regions of China. Sinopec and PetroChina have made significant gas discoveries in blocks adjacent to Sunwing's Zitong Block.

The Sichuan Basin, located in central China approximately 930 miles southwest of Beijing, is the country's largest gas-producing region, currently producing more than 800 mmcf/d and estimated by Chinese officials to contain a natural gas resource potential of 260 tcf. There is a strong and growing local market for natural gas, with approximately 120 million people living within the basin and with well-developed grid connections to adjacent industrial and population areas.

Natural gas sales are regulated in China and current prices are approximately \$5.00/mcf at the wellhead. As part of China's commitment to develop cleaner sources of energy, demand for natural gas is projected to continue to grow in the country and Sunwing's goal is to tap into this burgeoning market.

Importance of the Heavy Oil Segment of the Oil and Gas Industry

The global oil and gas industry is being impacted by the declining availability of low cost replacement reserves. This has resulted in volatility in oil markets and marked shifts in the demand and supply landscape. Ivanhoe believes that long term demand and the natural decline of conventional oil production will see the development of higher cost and lower value resources, including heavy oil.

Heavy oil developments can be segregated into two types: conventional heavy oil that flows to the surface without steam enhancement and non-conventional heavy oil and bitumen. While the Company focuses on the non-conventional heavy oil, both types of oil play an important role in our corporate strategy.

Production of conventional heavy oil has been steadily increasing worldwide, led by Canada and Latin America but with significant contributions from most other oil basins, including the Middle East and the Far East, as producers struggle to replace declines in light oil reserves. Even without the impact of the large non-conventional heavy oil projects in Canada and Venezuela, world heavy oil production has become increasingly more common.

With regard to non-conventional heavy oil and bitumen, a dramatic increase in interest and activity has been fuelled by higher prices, in addition to various key advances in technology, including improved remote sensing, horizontal drilling and new thermal techniques. This has enabled producers to more effectively access the extensive heavy oil resources around the world.

These newer technologies, together with higher oil prices, have generated increased interest in heavy oil resources. Nevertheless, remaining challenges for profitable exploitation include: i) the requirement for steam and electricity to help extract heavy oil; ii) the need for diluent to move the oil once it is at the surface; iii) the heavy versus light oil price differentials that the producer is faced with when the product gets to market; and iv) conventional upgrading technologies are limited to very large scale, high capital cost facilities. These challenges can lead to “distressed” assets, where economics are poor, or to “stranded” assets, where the resource cannot be economically produced and lies fallow.

Ivanhoe’s Value Proposition

With the application of the HTL™ process, Ivanhoe seeks to address the key heavy oil development challenges and can do so at a relatively small minimum economic scale.

Ivanhoe’s HTL™ upgrading is a partial upgrading process that is designed to operate in facilities as small as 10,000 to 30,000 bbls/d. This is substantially smaller than the minimum economic scale for conventional stand-alone upgraders such as delayed cokers, which typically operate at scales of over 100,000 bbls/d. The HTL™ process is based on carbon rejection, a tried and tested concept in heavy oil processing. The key advantage of HTL™ is that it is a very fast process, with processing times typically under a few seconds. This results in smaller, less costly facilities and eliminates the need for hydrogen addition, an expensive, large minimum scale step typically required in conventional upgrading. HTL™ has the added advantage of converting the by-products from the upgrading process into onsite energy, rather than generating large volumes of low value coke.

The HTL™ process offers significant advantages as a field located upgrading alternative, integrated with the upstream heavy oil production operation. HTL™ provides four key benefits to the producer:

- virtual elimination of external energy requirements for steam generation and/or power for upstream operations;
- elimination of the need for diluent or blend oils for transport;
- capture of the majority of the heavy versus light oil value differential; and
- relatively small minimum economic scale of operations suited for field upgrading and for smaller field developments.

The economics of a project are effectively dictated by the advantages that HTL™ can bring to a particular opportunity. The more stranded the resource and the fewer monetization alternatives that the resource owner has, the greater the opportunity Ivanhoe will have to establish its unique value proposition.

Implementation Strategy

Ivanhoe is an oil and gas company with a unique technology which addresses several major problems confronting the oil and gas industry today and the Company believes it has a competitive advantage because of its patented upgrading process. In addition, because Ivanhoe has experienced thermal recovery teams, the Company is in a position to add value and leverage its technology advantage by working with partners on stranded heavy oil resources around the world.

The Company's continuing strategy is as follows:

- **Advance its two key heavy oil projects – in Canada and Ecuador.** Continue to deploy personnel and financial resources in support of the Company's goal to become a significant heavy oil producer.
- **Advance the HTL™ process.** Additional development work will continue to advance the HTL™ process through the commercial application of HTL™ upgrading in Canada, Ecuador and beyond.
- **Advance its natural gas project in the Zitong Block in Sichuan Province, China.** Through its wholly-owned subsidiary, Sunwing Energy, proceed with additional planning and operational analysis to develop an appraisal program leading to a full development plan for the Zitong block.
- **Enhance the Company's financial position to support its major projects.** Implementation of large projects requires significant capital outlays. The Company is working on various financing initiatives and establishing the relationships required for future development activities.
- **Build internal capabilities.** The Company continues to seek to build its internal leadership and technical capabilities through the addition of key personnel associated with each major project.
- **Continue to deploy the personnel and the financial resources to capture additional opportunities for development projects utilizing the Company's HTL™ process.** Commercialization of the Company's upgrading process requires close alignment with partners, suppliers, host governments and financiers.

PROPERTY DESCRIPTIONS

Our oil and gas operations are located in three geographic areas: Asia, Canada and Ecuador. The Technology Development area captures costs incurred to develop, enhance and identify improvements in the application of the HTL™ technology. Production, revenues, net income, capital expenditures and identifiable assets for these segments appear in Note 19 to the consolidated financial statements and in the MD&A in this Annual Report.

Asia

China

Zitong

In November 2002, we entered into a 30 year production sharing contract ("PSC") with China National Petroleum Corporation ("CNPC") for the Zitong block, which covers an area of approximately 248,000 gross acres after contractual relinquishments in the Sichuan basin. In 2006, we farmed out 10% of our working interest in the Zitong block to Mitsubishi Gas Chemical Company Inc. of Japan ("MGC") for \$4.0 million.

In Phase I of the contract, Ivanhoe reprocessed 1,649 miles of existing 2D seismic data and acquired 705 miles of new 2D seismic data. Two wells were drilled and although both wells encountered expected reservoirs and gas was tested on the second well, neither well demonstrated commercially viable flow rates and both wells were suspended. In Phase II of the contract, the Yixin-2 and Zitong-1 gas wells were drilled in late 2010 and completed in early 2011. Both wells encountered gas in the Xu-4 Formation and were shut-in for pressure build-up following initial flow and pressure tests.

On December 30, 2011, the Company entered into a supplementary agreement to the Contract for Exploration, Development and Production in Zitong Block, Sichuan Basin with CNPC for the Zitong block ("Supplementary Agreement"). The Supplementary Agreement effectively extends the exploration period under the PSC by creating a 36 month evaluation phase beginning July 1, 2011, for the performance of additional work. The Supplementary Agreement is subject to ratification by the Ministry of Commerce of the People's Republic of China.

On January 11, 2012, Ivanhoe signed a binding Memorandum of Understanding which contemplates a transaction (the "Zitong Transaction") whereby Ivanhoe will assign its entire working interest in the Zitong PSC to Shell China Exploration and Production Company Limited ("Shell"). Completion of the Zitong Transaction is subject to government approvals and other prescribed conditions, including rights of first refusal by both CNPC and Ivanhoe's working interest partner, MGC.

Dagang

Ivanhoe's oil production originates in the Kongnan oilfield in Dagang, Hebei Province, China (the "Dagang field"). We have a 30 year PSC with CNPC, covering an area of 10,255 gross acres. From 2000 to 2007, we drilled 46 wells and commercial production commenced on January 1, 2009. The project reached cost recovery in

September 2009 and our working interest decreased to 49%. Operations in the Dagang field will revert to CNPC at the end of the 20 year production phase of the contract or earlier if the field is abandoned.

In 2011, quotas restricted production to 80,000 gross tonnes or 1,600 bbls/d gross. Actual production in 2011 averaged 967 bbls/d net. The production quota in 2012 remains set at 80,000 gross tonnes.

Mongolia

Through a merger with PanAsian Petroleum Inc. in November 2009, we acquired a PSC for the Nyalga Block XVI in the Khenti and Tov provinces in Mongolia. The block covers an area of approximately 3.1 million gross acres, after a 25% relinquishment in 2010. The five year exploration period is divided into three consecutive phases, consisting of two years ("Phase I"), one year ("Phase II") and two years ("Phase III"), with the ability to nominate a two year extension following Phase I or Phase II.

During the initial seismic program, approximately 16% of the block in the Delgerkhaan area was declared by the Mongolian government to be a historical site and operations in this area were suspended. A letter from the Mineral Resources and Petroleum Authority of Mongolia ("MRPAM") stated that the obligations under year one of Phase I would be extended for one year from the time the Company is allowed to re-enter the suspended area. To date, access has not been granted and discussions with MRPAM are ongoing. As a result, the government adjusted the dates on which the project year begins. Phase II is now considered to have commenced on July 20, 2010.

From late 2009 through the first quarter of 2010, the Company acquired an additional 465 kilometres of 2-D seismic across Block XVI, for a total of 925 kilometres of 2-D seismic data over the Kherulen sub-basin. The seismic was used to drill two wells in 2011. The first exploration well, N16-1E-1A, was drilled and abandoned as the well did not encounter oil shows in the reservoir. The Company observed oil staining, fluorescence and increases in background gas at its second exploration well site at N16-2E-B.

Canada

Tamarack, acquired from Talisman in 2008, is a 6,880 acre lease located approximately 10 miles northeast of Fort McMurray, Alberta, Canada. The Tamarack integrated oil sands project ("Tamarack" or the "Tamarack Project") is comprised of a two-phased 40,000 bbl/d steam-assisted gravity drainage thermal recovery ("SAGD") and HTL™ facility. Our independent reserve evaluator, GLJ Petroleum Consultants Ltd. ("GLJ"), has assigned total 3P reserves of 219 mmbbls of bitumen to Tamarack. Talisman held a 20% back-in right which expired in July 2011. Additionally, in 2011, Ivanhoe repaid a \$40 million promissory note to Talisman that was part of the initial purchase price.

Ivanhoe filed an Environmental Impact Assessment for the Tamarack Project in November 2010. Regulators completed their initial review of the Company's application and, as is customary, provided an initial set of Supplemental Information Requests in the third quarter of 2011. The Company submitted the supplemental information to the regulators in the fourth quarter of 2011.

As the regulatory process unfolds, Ivanhoe 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 area communities. It is anticipated that the regulatory approval process will be completed later in 2012. Project advancement, as currently envisaged, is subject to regulatory approval, financing and board sanction.

Ecuador

In October 2008, Ivanhoe Energy Ecuador Inc., an indirect wholly owned subsidiary, signed a 30 year contract with the Ecuador state oil companies Petroecuador and Petroproduccion. The contract gives Ivanhoe the right to explore and develop the Pungarayacu heavy oil field in Block 20, an area of 426 square miles, approximately 125 miles southeast of Quito, Ecuador's capital city. The Company anticipates using HTL™ technology, as well as providing advanced oilfield technology, expertise and capital to develop, produce and upgrade heavy oil from the Pungarayacu field. The Company may also explore for lighter oil in the contract area and blend any light oil discoveries with the heavy oil for delivery to Petroproduccion.

In 2010, Ivanhoe drilled its first two appraisal wells in the Pungarayacu field. The second, IP-5b, well was successfully drilled, cored and logged to a total depth of 1,080 feet. The well was perforated in the Hollin oil sands and steam was successfully injected into the reservoir resulting in production of heated heavy oil. In 2011, the heavy crude oil extracted from the IP-5B well was successfully upgraded to local pipeline specifications using Ivanhoe's proprietary HTL™ upgrading process. Later in 2011, the Company completed a 190-kilometre 2-D seismic survey over the southern portion

of Block 20. Following the analysis of the seismic program, Ivanhoe began preparing to drill one exploration well into the deeper Hollin and pre-cretaceous horizons in the southern part of the Pungarayacu Block to test the potential of lighter oil resources, which would prove beneficial for blending purposes and overall project economics.

RESERVES, PRODUCTION AND RELATED INFORMATION

In addition to the information provided below, please refer to the “Supplementary Disclosures About Oil and Gas Production Activities (Unaudited)” set forth in Item 8 in this Annual Report for certain details regarding the Company’s oil and gas proved reserves, the estimation process and production by country. We have not filed with nor included in reports to any other US federal authority or agency, any estimates of total proved oil reserves since the beginning of the last fiscal year.

The following table presents estimated proved, probable and possible oil reserves as of December 31, 2011:

Summary of Oil and Gas Reserves Using Average 2011 Prices⁽¹⁾

| (mdbl) | China | | | Canada | Total |
|-----------------------------------|--------------|-----------|--------------|----------------|----------------|
| | Dagang | Other | Total China | Tamarack | Consolidated |
| Proved | | | | | |
| Developed | 1,146 | 75 | 1,221 | – | 1,221 |
| Undeveloped | 421 | – | 421 | – | 421 |
| Total proved | 1,567 | 75 | 1,642 | – | 1,642 |
| Probable | | | | | |
| Developed | 375 | – | 375 | – | 375 |
| Undeveloped | 447 | – | 447 | 175,684 | 176,131 |
| Total probable | 822 | – | 822 | 175,684 | 176,506 |
| Total proved plus probable | 2,389 | 75 | 2,464 | 175,684 | 178,148 |
| Possible | | | | | |
| Developed | – | – | – | – | – |
| Undeveloped | – | – | – | 43,809 | 43,809 |

(1) Reserves are the Company’s total gross reserves before royalty deductions.

China

Proved Reserves

Proved reserves at December 31, 2011 were 1,729 mbbbls. Production during the year was offset by in-field performance improvements from continued water injections and our ongoing hydraulic fracture stimulation program in the Dagang field. Four wells were drilled in 2011, and, in combination with geological review and reservoir mapping, supported additional future drilling locations.

In 2011, 153 mbbbls were transferred from proved undeveloped to the proved developed category.

Probable Reserves

At December 31, 2011, probable reserves in China were 822 mbbbls. Additional probable reserves were assigned based on production improvements and increased recovery factors discussed under proved reserves.

Basis of Reserve Estimates

Reserve estimates were calculated using recovery forecasts based on historical production, supported by volumetric estimates using geological parameters. Recoveries rarely exceed 15% of the volumetrically calculated original oil-in-place per well spacing, which is judged acceptable for a water flood in a light oil reservoir. Improvements in production history and production declines are used for a review of producing reserves. With further mapping and geological reviews, proved and probable undeveloped reserves may then be assigned to future drilling and well optimizations.

Canada

Probable and Possible Reserves

No additional reserves were assigned to Tamarack in 2011 as further reserve development is subject to regulatory approval of the Company's application for the project, sanctioning by the Board of Directors and further delineation drilling.

Possible reserves are within the Tamarack Project application area, but have a lower degree of certainty compared to our probable reserves due to lower quality reservoir characteristics or decreased certainty based on the level of reservoir delineation.

Basis of Reserves Estimates

Recovery estimates for Tamarack are based on a combination of reservoir simulation, detailed reservoir characterization and analogue project performance

Internal Control over Reserve Estimation

Management is responsible for the estimates of oil and gas reserves and for preparing related disclosures. Estimates and related disclosures in this Annual Report are prepared in accordance with SEC requirements, generally accepted industry practices in the US and the standards of the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") modified to reflect SEC requirements. As a Canadian public company, we are also subject to the disclosure requirements of National Instrument 51-101 ("NI 51-101") of the CSA, which requires us to disclose reserves and other oil and gas information in accordance with the prescribed standards of NI 51-101 which differ, in certain respects, from SEC requirements. See the Special Note to Canadian Investors on page 11.

The process of estimating reserves requires complex judgments and decision making based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable oil and gas reserves and related future net cash flows, we consider many factors and make various assumptions including:

- expected reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- future oil and gas prices and quality differentials;
- assumed effects of regulation by governmental agencies; and
- future development and operating costs.

We believe these factors and assumptions are reasonable based on the information available to us at the time we prepared our estimates. However, these estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change.

Reserve estimates are categorized by the level of confidence that they will be economically recoverable. Proved reserves are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible in future years from known reservoirs under existing economic conditions, operating methods and government regulations. The term "reasonable certainty" implies a high degree of confidence that the quantities of oil and gas actually recovered will equal or exceed the estimate. To achieve reasonable certainty, the technologies used in the estimation process have been demonstrated to yield results with consistency and repeatability.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Therefore, probable reserves have a higher degree of uncertainty than proved reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. Although possible reserve locations are found by "stepping out" from proved reserve locations, estimates of probable and possible reserves are, by their nature, more speculative than estimates of proved reserves and, accordingly, are subject to substantially greater risk of being realized.

Our reserve estimates were prepared by GLJ and reviewed by our in-house Senior Engineering Advisor ("SEA"). Our SEA is a professional engineer (P.Eng.) in Alberta, with over 29 years of broad petroleum engineering experience in the oil and gas industry in Canada and internationally. His past experience includes reserves estimations for government filings, reservoir development engineering for both oil and gas projects, economic evaluations for potential acquisitions and dispositions, production operations, project management, budgeting and corporate planning.

All reserve information in this Annual Report is based on estimates prepared by GLJ. The technical personnel responsible for preparing the reserve estimates at GLJ meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas by the Society of Petroleum Engineers. GLJ is an independent firm of petroleum engineers, geologists, geophysicists and petrophysicists; they do not own an interest in our properties and are not employed on a contingent fee basis.

Our Board of Directors reviews the current reserve estimates and related disclosures as presented by the independent qualified reserves evaluators in their reserve report. Our Board of Directors has approved the reserve estimates and related disclosures.

Special Note to Canadian Investors

Ivanhoe is a SEC registrant and files annual reports on Form 10-K; accordingly, our reserves estimates and regulatory securities disclosures are prepared based on SEC disclosure requirements. In 2003, the CSA adopted NI 51-101 which prescribes standards that Canadian companies are required to follow in the preparation and disclosure of reserves and related information.

Until 2010, we had an exemption from certain requirements of NI 51-101 which permitted us to substitute disclosures based on SEC requirements for some of the annual disclosure required by NI 51-101 and to prepare our reserve estimates and related disclosures in accordance with SEC requirements, generally accepted industry practices in the US as promulgated by the Society of Petroleum Engineers and the standards of the COGE Handbook, modified to reflect SEC requirements. This exemption is no longer available to us for reserve reporting in Canada.

We have, however, received another exemption from the CSA which, among other things, allows us to disclose reserves and related information in accordance with applicable US disclosure requirements provided that we also make disclosure of our reserves and other oil and gas information in accordance with applicable NI 51-101 requirements. We disclose reserve information in accordance with applicable US disclosure requirements in this Annual Report. We disclose reserves and other oil and gas information in accordance with applicable NI 51-101 requirements in our Form 51-101F1, Statement of Reserves Data and Other Oil and Gas Information, which is filed with the CSA and available at www.sedar.com.

The reserve quantities disclosed in this Annual Report represent reserves calculated on an average, first-day-of-the-month price during the 12 month period preceding the end of the year for 2011, using the standards contained in SEC Regulations S-X and S-K and Accounting Standards Codification 932 Extractive Activities – Oil and Gas (section 235-55), formerly Statement of Financial Accounting Standards No. 69, “Disclosures About Oil and Gas Producing Activities”. Such information differs from the corresponding information prepared in accordance with Canadian disclosure standards under NI 51-101. The primary differences between the current SEC requirements and the NI 51-101 requirements are as follows:

- SEC registrants apply SEC reserves definitions and prepare their reserves estimates in accordance with SEC requirements and generally accepted industry practices in the US, whereas NI 51-101 requires adherence to the definitions and standards promulgated by the COGE Handbook;
- the SEC mandates disclosure of proved reserves calculated using an average, first-day-of-the-month price during the 12 month period preceding and existing costs only, whereas NI 51-101 requires disclosure of reserves and related future net revenues using forecasted prices, with additional constant pricing disclosure being optional;
- the SEC mandates disclosure of reserves by geographic area only, whereas NI 51-101 requires disclosure of more reserve categories and product types; and
- the SEC leaves the engagement of independent qualified reserves evaluators to the discretion of a company’s board of directors, whereas NI 51-101 requires issuers to engage such evaluators.

The foregoing is a general and non-exhaustive description of the principal differences between SEC disclosure requirements and NI 51-101 requirements. Please note that the differences between SEC and NI 51-101 requirements may be material.

Production, Sales Prices and Production Costs

| | 2011 | 2010 |
|---|--------|-------|
| Oil production (bbls/d) | 967 | 788 |
| Average sales price (\$/bbl) | 105.93 | 75.52 |
| Average operating costs ⁽¹⁾ (\$/bbl) | 44.10 | 33.05 |

(1) Average operating costs per unit of production, based on net interest after royalties, represent lifting costs, including a windfall gain levy. According to the "Administrative Measures on Collection of Windfall Gain Levy on Oil Exploitation Business," enterprises exploiting and selling oil in China are subject to a windfall gain levy (the "Windfall Levy") if the monthly weighted average price of oil exceeds a certain threshold. Average operating costs exclude depletion and depreciation, income taxes, interest, selling and general administrative expenses.

Ivanhoe's oil production originates in Asia, specifically the Dagang and Daqing fields in China. The majority of our production comes from Dagang and is sold to the Chinese national petroleum company.

Drilling Activity

| (net wells) ⁽¹⁾ | Net Exploratory | | | Net Development | | | Total Wells Drilled |
|----------------------------|-----------------|-----------|-------|-----------------|-----------|-------|---------------------|
| | Productive | Dry Holes | Total | Productive | Dry Holes | Total | |
| Asia | | | | | | | |
| 2011 | - | 1.0 | 1.0 | 2.5 | - | 2.5 | 3.5 |

(1) Net wells are the sum of fractional working interests owned in gross wells.

Wells in Progress

At December 31, 2011, we were not actively drilling any wells.

Producing Oil Wells

The Company does not have any producing gas wells. The Company had 49.0 gross (24.0 net) productive oil wells in Asia, as at December 31, 2011.

Acreage

| | Developed Acres | | Undeveloped Acres ⁽¹⁾ | |
|-----------------------------|-----------------|-----|----------------------------------|-----------|
| | Gross | Net | Gross | Net |
| Asia – China ⁽²⁾ | 1,724 | 845 | 253,496 | 225,683 |
| Asia – Mongolia | - | - | 3,107,907 | 3,107,907 |
| Canada | - | - | 7,520 | 7,520 |
| Latin America | - | - | 272,639 | 272,639 |

(1) Undeveloped acreage is considered to be those acres on which wells have not been drilled or completed to a point that would permit production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves.

(2) The number of developed acres disclosed in respect of our China properties relates only to those portions of the field covered by our producing operations and does not include the remaining portions of the field previously developed by CNPC.

The Tamarack lease in Canada will expire in October 2016, but Ivanhoe has sufficient drill density to be granted a continuation by the Alberta Department of Energy one year prior to expiry or upon first production, whichever comes first.

We signed a specific services contract with the state oil companies of Ecuador in October 2008 that allows us to develop Block 20 for a term of 30 years, extendable by mutual agreement of the parties, for two additional periods of five years each, depending on the interests of the State and in conformity with local laws.

Subsequent to the completion of Phase II of the Zitong PSC, acreage not identified for development and future production was relinquished to CNPC in 2011. The remaining Zitong acreage will be relinquished upon termination of the PSC in 2032.

Under the terms of the Dagang PSC, acreage in the Dagang field will revert to CNPC upon contract termination in 2027, at the latest, unless Ivanhoe abandons the field before then.

Acreage in Mongolia is subject to periodic relinquishments up to the end of the exploration period and the remaining acreage designated for appraisal and development will expire 20 years after the final commercial discovery on the Nyalga block.

TECHNOLOGY DEVELOPMENT

The Company's Technology Development segment captures HTL™ activities. In April 2005, Ivanhoe merged with Ensyn and thereby obtained an exclusive, irrevocable license to the HTL™ process for all applications other than biomass. The Company has since continued to expand patent coverage to protect innovations to the HTL™ technology and to significantly extend Ivanhoe's portfolio of HTL™ intellectual property. Ivanhoe is the assignee of five granted US patents and currently has six US patent applications pending. In other countries, the Company has 11 patents granted and 41 patents are pending. In addition, Ivanhoe owns exclusive, irrevocable licenses to 21 global patents for the rapid thermal processing process as it pertains to petroleum. The expiration date for Ivanhoe's key patents is 2028.

Ivanhoe has a feedstock test facility ("FTF") at the Southwest Research Institute in San Antonio, Texas. The FTF is a small 10-15 bbls/d, highly flexible, state-of-the-art facility which will permit analysis of crude oil in small volumes. In 2010, the FTF supported basic and front-end engineering for a commercial-scale HTL™ plant for the Tamarack Project in Canada. In 2011, activities at the FTF focused on the assay and analyses related to the successful upgrading of the heavy oil recovered from the Pungarayacu IP-5B well in Ecuador.

CERTAIN FACTORS AFFECTING THE BUSINESS

Competition

The oil and gas industry is highly competitive. Our position in the oil and gas industry, which includes the search for and development of new sources of supply, is particularly competitive. Our competitors include major, intermediate and junior oil and gas companies and other individual producers and operators, many of which have substantially greater financial and human resources and more developed and extensive infrastructure. Our larger competitors, by reason of their size and relative financial strength, can more easily access capital markets and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to more easily absorb the burden of any changes in laws and regulations in the jurisdictions in which we do business, adversely affecting our competitive position. Our competitors may be able to pay more for producing oil and gas properties and may be able to define, evaluate, bid for, and purchase a greater number of properties and prospects. Further, these companies may enjoy technological advantages and may be able to implement new technologies more rapidly. Our ability to acquire additional properties in the future will depend upon our ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies, and consummate transactions in a highly competitive environment. The oil and gas industry also competes with other industries in supplying energy, fuel and other needs of consumers.

Environmental Regulations

Our oil and gas and HTL™ operations are subject to various levels of government regulation relating to the protection of the environment in the countries in which we operate. We believe that our operations comply in all material respects with applicable environmental laws.

Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. As well, environmental laws regulate the qualities and compositions of the products sold and imported. Environmental legislation also requires that wells, facility sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and significant changes to certain existing projects, may require the submission and approval of environmental impact assessments. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean-up costs and damages. We anticipate that changes in environmental legislation may require, among other things, reductions in emissions to the air from our operations and result in increased capital expenditures.

Operations in Canada are governed by comprehensive federal, provincial and municipal regulations. We submitted the Regulatory Application/Environmental Impact Assessment for the Tamarack Project to the Government of Alberta in November 2010. The regulatory process is expected to conclude near the end of 2012. In addition, the Company will be required to obtain numerous ancillary approvals prior to commencing operations and will be subject to ongoing environmental monitoring and auditing requirements.

China, Mongolia and Ecuador continue to develop and implement more stringent environmental protection regulations and standards for different industries. Projects are currently monitored by governments based on the approved standards specified in the environmental impact statements prepared for individual projects, located on the Company's website.

Government Regulations

Our business is subject to certain federal, state, provincial and local laws and regulations in the regions in which we operate relating to the exploration for, and development, production and marketing of, crude oil and gas, as well as environmental and safety matters. In addition, the Chinese and Mongolian governments regulate various aspects of foreign company operations in their respective countries. Such laws and regulations have generally become more stringent in recent years in Canada, Ecuador, China and Mongolia, often imposing greater liability on a larger number of potentially responsible parties. Because the requirements imposed by such laws and regulations are frequently changed, we are not able to predict the ultimate cost of compliance.

EMPLOYEES

As at December 31, 2011, we had 212 employees actively engaged in the business. None of our employees are unionized.

ITEM 1A: RISK FACTORS

Our operations are exposed to various risks, some of which are common to other companies in the oil and gas industry and some of which are unique to our operations. Certain risks set out below constitute "forward-looking statements" and readers should refer to the "Special Note Regarding Forward-Looking Statements" on page 4.

Our ability to continue as a going concern may be adversely affected by inadequate funding

We have a history of operating losses and cash flow from operating activities will not be sufficient to meet our current obligations and fund future capital projects. Historically, we have relied upon equity capital as our principal source of funding. The operation of our business is dependent upon our ability to obtain additional capital to preserve our interests in current projects and to meet obligations associated with future projects. We may seek financing from 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. There is no assurance that we will be able to obtain such financing or obtain it on favorable terms and any future equity issuances may be dilutive to investors. Obtaining financing may be hampered by the inability to attract strategic investors to our projects on acceptable terms, volatility in equity and debt markets and a sustained decrease in the market price of our common shares. Without access to additional financing or other cash generating activities, there is material uncertainty that casts substantial doubt that the Company will be able to continue as a going concern.

We may not be able to fund our substantial capital requirements

Our business is capital intensive and the advancement of our exploration projects in China and Mongolia, development projects in Canada and Ecuador and HTL™ initiatives require significant funding. Since cash flows from existing operations are insufficient to fund future capital expenditures, we intend to finance future capital projects with 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 or from the sale of existing assets. There is no assurance that we will be able to obtain such financing or obtain it on favorable terms and any future equity issuances may be dilutive to investors. Obtaining financing in the future may be hampered by the inability to attract strategic investors to our projects on acceptable terms, volatility in equity and debt markets and a sustained decrease in the market price of our common shares. If we fail to obtain adequate funding when needed, we may have to delay or forego potentially valuable project acquisition and development opportunities or default on existing funding commitments to third parties and forfeit or dilute our rights in existing oil and gas property interests.

Talisman's security interest in our assets could impede our ability to secure third party debt

Through our acquisition of Tamarack in 2008, we incurred a series of debt obligations in favor of Talisman secured by a first fixed charge and security interest in the Tamarack oil sands leases and a general security interest in all of our present and after acquired property, other than our equity interests in our subsidiaries (through which we hold our assets in China, Mongolia and Ecuador and our HTL™ technology). Although we have satisfied substantially all of the material debt obligations we owed to Talisman, we remain subject to a contingent payment obligation of up to Cdn\$15.0 million, which is also secured by Talisman's security interest. This contingent obligation becomes due and payable if and when we obtain the requisite government and other approvals necessary to develop the northern border of one of the leases. We are obliged to use commercially reasonable efforts to obtain these approvals. However, despite our efforts, the risks inherent in oil field development, including potential environmental considerations, create significant uncertainty as to

when, if ever, we will be able to obtain these approvals and, consequently, we cannot predict when, if ever, this contingent obligation will become due and payable or when Talisman's security interest will be released and discharged.

The Talisman security interest restricts our ability to grant security over our Tamarack project assets to secure debt obligations to third parties that we may create in the future. Assets unencumbered by the Talisman security interest may be insufficient as collateral to secure these obligations. This could adversely affect our ability to obtain debt financing or to obtain it on favorable terms. Since Talisman's security interest secures a contingent obligation of potentially indefinite duration, we cannot predict when, and on what terms, we will be able to mitigate this risk.

The volatility of oil prices may affect our financial results

Our revenues, operating results, profitability and future growth are highly dependent on the price of oil. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. Even relatively modest changes in oil prices may significantly change our revenues, results of operations, cash flows and proved reserves. Historically, the market for oil has been volatile and is likely to continue to be volatile in the future.

Oil prices may fluctuate widely in response to relatively minor changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control, such as weather conditions; overall global economic conditions; terrorist attacks or military conflicts; political and economic conditions in oil producing countries; the ability of members of the Organization of Petroleum Exporting Countries ("OPEC") to agree to and maintain oil price and production controls; the level of demand and the price and availability of alternative fuels; speculation in the commodity futures markets; technological advances affecting energy consumption; governmental regulations and approvals; and proximity and capacity of oil pipelines and other transportation facilities. These factors and the volatility of the energy markets make it extremely difficult to predict future oil price movements with any certainty.

We may be required to take write-downs if oil prices decline, our estimated development costs increase or our exploration results deteriorate

We may be required to write-down the carrying value of our properties if oil prices decline or if we have substantial downward adjustments to our estimated proved reserves, increases in our estimates of development costs or deterioration in our exploration results. See "Critical Accounting Principles and Estimates – Impairment" in Item 7, MD&A, of this Annual Report.

Estimates of proved reserves and future net revenue may change if the assumptions on which such estimates are based prove to be inaccurate

Our estimated reserves are based on many assumptions that may turn out to be inaccurate. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment, the assumptions used regarding prices for oil and gas, production volumes, required levels of operating and capital expenditures and quantities of recoverable oil reserves. Any significant variance from the assumptions used could result in the actual quantity of our reserves and future net cash flow being materially different from the estimates we report. In addition, actual results of drilling, testing and production and changes in oil and gas prices after the date of the estimate may result in revisions to our reserve estimates. Revisions to prior estimates may be material.

We may incur significant costs on exploration or development which may prove unsuccessful or unprofitable

There can be no assurance that the costs we incur on exploration or development will result in an acceptable level of economic return. We may misinterpret geological or engineering data, which may result in material losses from unsuccessful exploration or development drilling efforts. We bear the risks of project delays and cost overruns due to unexpected geologic conditions; equipment failures; equipment delivery delays; accidents; adverse weather; government and joint venture partner approval delays; construction or start-up delays; and other associated risks. Such risks may delay expected production and/or increase production costs.

We compete for oil and gas properties and personnel with many other exploration and development companies throughout the world who have access to greater resources

We operate in a highly competitive environment and compete with oil and gas companies and other individual producers and operators, many of which have longer operating histories and substantially greater financial and other resources. Many of these companies not only explore for and produce oil and gas, but also carry on refining operations and market petroleum and other products on a worldwide basis. We also compete with companies in other industries supplying energy, fuel and other needs to consumers. Our larger competitors, by reason of their size and relative financial strength, can more easily access capital markets and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to absorb the burden of any changes in laws and regulations in the jurisdictions in which we do

business and handle longer periods of reduced oil and gas prices more easily. Our competitors may be able to pay more for productive oil and gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects.

We compete with other companies to recruit and retain the limited number of individuals who possess the requisite skills and experience that are relevant to our business. This competition exposes us to the risk that we will have to pay increased compensation to such employees or increase the Company's reliance and associated costs from partnering or outsourcing arrangements. There can be no assurance that employees with the abilities and expertise we require will be available.

Changes to laws, regulations and government policies in the jurisdictions in which we operate could adversely affect our ability to develop our projects

Our projects in Canada, Ecuador, China and Mongolia are subject to various international, federal, state, provincial, territorial and local laws and regulations relating to the exploration for and the development, production, upgrading, marketing, pricing, taxation and transportation of heavy oil, bitumen and related products and other matters, including environmental protection.

The exercise of discretion by governmental authorities under existing legislation and regulations, the amendment of existing legislation and regulations or the implementation of new legislation or regulations, affecting the oil and gas industry could materially increase the cost of developing and operating our projects and could have a material adverse impact on our business. There can be no assurance that laws, regulations and government policies relevant to our projects will not be changed in a manner which may adversely affect our ability to develop and operate them. Failure to obtain all necessary permits, leases, licenses and approvals, or failure to obtain them on a timely basis, could result in delays or restructuring of our projects and increase costs, all of which could have a material adverse effect on our business.

Construction, operation and decommissioning of these projects will be conditional upon the receipt of necessary permits, leases, licenses and other approvals from applicable government and regulatory authorities. The approval process can involve stakeholder consultation, environmental impact assessments, public hearings and appeals to tribunals and courts, among other things. An inability to secure local and regional community support could result in the necessary approvals being delayed or denied. There is no assurance that such approvals will be issued or, if granted, will not be appealed or cancelled or will be renewed upon expiry or will not contain terms and conditions that adversely affect the final design or economics of our projects.

Complying with environmental and other government regulations could be costly and could negatively impact our production

Our operations are governed by various international, federal, state, provincial, territorial and local laws and regulations. Oil, gas, oil sands and heavy oil extraction, upgrading and transportation operations are subject to extensive regulation. Various approvals are required before such activities may be undertaken. We are subject to laws and regulations that govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. These laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling; restrict the substances that can be released into the environment with drilling and production activities; limit or prohibit drilling activities in protected areas such as wetlands or wilderness areas; require that reclamation measures be taken to prevent pollution from former operations; require remedial measures to mitigate pollution from former operations, such as plugging abandoned wells and remediating contaminated soil and groundwater; and require remedial measures be taken with respect to property designated as a contaminated site.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations may result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

No assurance can be given with respect to the impact of future environmental laws or the approvals, processes or other requirements thereunder or our ability to develop or operate our projects in a manner consistent with our current expectations. No assurance can be given that environmental laws will not limit project development or materially increase the cost of production, development or exploration activities or otherwise adversely affect our financial condition, results of operations or prospects.

Our business involves many operating risks that can cause substantial losses; insurance may not protect us against all these risks

Our operations are subject to many risks inherent in the oil and gas industry, including fires; natural disasters; adverse weather conditions; explosions; encountering formations with abnormal pressures; encountering unusual or unexpected geological formations; blowouts; cratering; unexpected operational events; equipment malfunctions; pipeline ruptures; spills; compliance with environmental and government regulations and title problems, any of which could cause us to experience material losses.

We are insured against some, but not all, of the hazards associated with our business, so we may sustain losses that could be substantial due to events that are not insured or are underinsured. The occurrence of an event that is not covered or not fully covered by insurance could have a material adverse impact on our financial condition and results of operations. We do not carry business interruption insurance and, therefore, the loss and delay of revenues resulting from curtailed production are not insured.

Under environmental laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We maintain limited insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost. Accordingly, we could be liable, or could be required to cease production, if environmental damage occurs.

SAGD technologies for in-situ recovery of heavy oil and bitumen are energy intensive and may be unsustainable

We intend to integrate established SAGD thermal recovery techniques with our patented HTL™ upgrading process. Heavy oil recovery using the SAGD process is subject to technical and financial uncertainty. Current SAGD technologies for in-situ recovery of heavy oil and bitumen are energy intensive, requiring significant consumption of natural gas and other fuels for the production of steam used in the recovery process. The amount of steam required in the production process can also vary and impact costs. The performance of the reservoir can also impact the timing and levels of production using SAGD technology. While the technology is now being used by several producers, commercial application of this technology is still in the early stages relative to other methods of production and, accordingly, in the absence of an extended operating history, there can be no assurances with respect to the sustainability of SAGD operations.

We may not successfully commercialize our HTL™ technology

Success in commercializing our HTL™ technology in the oil and gas industry depends on our ability to economically design, construct and operate commercial-scale plants and a variety of other factors, many of which are outside our control. To date, commercial-scale HTL™ plants have only been constructed in the bio-mass industry.

Technological advances could render our HTL™ technology obsolete

We expect that technological advances in the processes and procedures for upgrading heavy oil and bitumen into lighter, less viscous products will continue to progress. It is possible that those advances could cause our HTL™ technology to become uncompetitive or obsolete.

Alternate sources of energy could lower the demand for our HTL™ technology

Alternative sources of energy are continually under development. If reliance upon petroleum based fuels decreases, the demand for our HTL™ upgraded product may decline. It is possible that technological advances in engine design and performance could reduce the use of petroleum based fuels, which would also lower the demand for our HTL™ upgraded product.

Efforts to commercialize our HTL™ technology may give rise to claims of infringement upon the patents or other proprietary rights of others

We own a license to use the HTL™ technology that we are seeking to commercialize, but we may not become aware of claims of infringement upon the patents or other rights of others in this technology until after we have made a substantial investment in the development and commercialization of projects utilizing the technology. Third parties may claim that the technology infringes upon past, present or future patented technologies. Legal actions could be brought against us and our licensors claiming damages and seeking an injunction that would prevent us from testing or commercializing the technology. If an infringement action were successful, in addition to potential liability for damages, we and our licensors could be required to obtain a claiming party's license in order to continue to test or commercialize the technology. Any required license might not be made available or, if available, might not be available on acceptable terms, and we could be prevented entirely from testing or commercializing the technology. We may have to expend substantial resources in litigation defending against the infringement claims of others. Many possible claimants, such as the major energy

companies that have or may be developing proprietary heavy oil upgrading technologies competitive with our technology, may have significantly more resources to spend on litigation.

A breach of confidentiality obligations could put us at competitive risk and potentially damage our business

While discussing potential business relationships with third parties, we may disclose confidential information on operating results or proprietary intellectual property. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put us at competitive risk and may cause significant damage to our business. The harm to our business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, we will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to our business that such a breach of confidentiality may cause.

Certain projects are at a very early stage of development

Our projects are at varying stages of development. We have submitted the Regulatory Application/Environmental Impact Assessment for the Tamarack Project to the Government of Alberta. The regulatory process is expected to take approximately 24 months; however, we could be forced to go to a hearing and there is no assurance that the process will be completed on a timely basis. Construction of the Tamarack Project could be significantly delayed. Additionally, the Government of Alberta may not approve the project as proposed, or it may place certain conditions upon the approval, which could significantly impair the economics of the project. Our Zitong project in China and projects in Ecuador and Mongolia are at a very early stage of development; no reserves have yet been established and no detailed feasibility or engineering studies have yet been produced.

There can be no assurances that these projects will be completed within any anticipated time frame or within the parameters of any anticipated capital cost. We have yet to establish a defined schedule for financing and fully developing such projects. In our efforts to continue developing these projects, we may experience delays, interruption of operations or increased costs as a result of unanticipated events and circumstances. These include breakdowns or failures of equipment or processes; construction performance falling below expected levels of output or efficiency; design errors; challenges to proprietary technology; contractor or operator errors; non-performance by third party contractors; labor disputes; disruptions or declines in productivity; increases in materials or labor costs; inability to attract sufficient numbers of qualified workers; delays in obtaining, or conditions imposed by, regulatory approvals; violation of permit requirements; disruption in the supply of energy; and catastrophic events such as fires, earthquakes, storms or explosions.

Our heavy oil project in Canada may be exposed to title risks and aboriginal claims

With respect to the heavy oil leases that we acquired from Talisman, there is a risk that our ownership of those leases may be subject to prior unregistered agreements or interests or undetected claims or interests that could impair our title. Any such impairment could jeopardize our entitlement to the economic benefits, if any, associated with the leases, which could have a material adverse effect on our financial condition, results of operations and ability to execute our business plans in a timely manner, if at all.

Aboriginal peoples have claimed aboriginal title and rights to large areas of land in western Canada where oil and gas operations are conducted, including claims that, if successful, could affect the timing of the development of our heavy oil leases, or the manner in which we can conduct future operations, and have a material adverse effect on our business.

Our investment in Ecuador may be at risk if the agreement through which we hold our interest in the Block 20 project is challenged or cannot be enforced

We hold our interest in the Block 20 heavy oil project in Ecuador through a services agreement with Petroecuador and its subsidiary Petroproduccion. The agreement is governed by the laws of Ecuador. Although the agreement has been translated into English, the official and governing language of the agreement is Spanish and if any discrepancy exists between the official Spanish version of the agreement and the English translation, the official Spanish version prevails. There may be ambiguities, inconsistencies and anomalies between the official Spanish version of the agreement and the English translation that could materially affect how our rights and obligations under the agreement are conclusively interpreted and such interpretations may be materially adverse to our interests.

The dispute resolution provisions of the Block 20 agreement stipulate that disputes involving industrial property, including intellectual property, and technical or economic issues are subject to international arbitration. Other disputes are subject to resolution through mediation or arbitration in Ecuador. There is a risk that we, and the other parties to the Block 20 agreement, will be unable to agree upon the proper forum for the resolution of a dispute based on the subject matter of

the dispute. There can also be no assurance that the other parties will comply with the dispute resolution provisions or otherwise voluntarily submit to arbitration.

Government policy in Ecuador may change to discourage foreign investment or requirements not foreseen may be implemented. There can be no assurance that our investments and assets in Ecuador will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. While the Block 20 agreement contains provisions for compensation and reimbursement of losses we may suffer under such circumstances, there is no assurance that such provisions would effectively restore the value of our original investment. There can be no assurance that Ecuadorian laws protecting foreign investments will not be amended or abolished or that the existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above. There can also be no assurance that the Block 20 agreement will prove to be enforceable or provide adequate protection against any or all of the risks described above.

Our business may be harmed if we are unable to retain our interests in licenses, leases and production sharing contracts

Some of our properties are held under licenses and leases, working interests in licenses and leases or production sharing contracts. If we fail to meet the specific requirements of the instrument through which we hold our interest, it may terminate or expire. We may not be able to meet any or all of the obligations required to maintain our interest in each such license, lease or production sharing contract. Some of our property interests will terminate unless we fulfill such obligations. If we are unable to satisfy these obligations on a timely basis, we may lose our rights in these properties. The termination of our interests in these properties may harm our business.

Our principal shareholder may significantly influence our business

As at the date of this Annual Report, our largest shareholder, Robert M. Friedland, owned approximately 15.49% of our common shares. As a result, he has the voting power to significantly influence our policies, business and affairs and the outcome of any corporate transaction or other matter, including mergers, consolidations and the sale of all, or substantially all, of our assets. In addition, the concentration of our ownership may have the effect of delaying, deterring or preventing a change in control that otherwise could result in a premium in the price of our common shares.

If we lose our key management and technical personnel, our business may suffer

We rely upon a relatively small group of key management personnel. Given the technological nature of our business, we also rely heavily upon our scientific and technical personnel. Our ability to implement our business strategy may be constrained and the timing of implementation may be impacted if we are unable to attract and retain sufficient personnel. We do not maintain any key man insurance. We do not have employment agreements with all of our key management and technical personnel and we cannot assure that these individuals will remain with us in the future. An unexpected partial or total loss of their services would harm our business.

Information regarding our future plans reflects our current intent and is subject to change

We describe our current exploration and development plans in this Annual Report. Whether we ultimately implement our plans will depend on the availability and cost of capital; the HTL™ technology process test results; additional seismic data or reprocessed existing data; current and projected oil or gas prices; costs and availability of drilling rigs and other equipment; supplies; personnel; success or failure of activities in similar areas; changes in estimates of project completion costs; and our ability to attract other industry partners to acquire a portion of the working interest to reduce costs and exposure to risks.

We will continue to gather data about our projects and it is possible that additional information will cause us to alter our schedule or determine that a project should not be pursued at all. Our plans regarding our projects might change.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 3: LEGAL PROCEEDINGS

The Company is a defendant in a lawsuit filed November 20, 2008, in the United States District Court for the District of Colorado by Jack J. Grynberg and three affiliated companies. 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 Court granted the motion and dismissed the case without prejudice. The Court 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.

On August 13, 2010, the plaintiffs filed a notice of appeal challenging the district court's judgment and some of its related orders. The appeal is currently pending in the United States Court of Appeals for the Tenth Circuit. Briefing on the appeal is complete and the Court heard oral arguments on May 9, 2011, in Denver, Colorado. There has been no ruling as of yet

on the appeal. The likelihood of loss or gain resulting from the lawsuit, and the estimated amount of ultimate loss or gain, are not determinable or reasonably estimable at this time.

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, a portion of the Company's interest in the Pungarayacu field and other miscellaneous relief. 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 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.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares trade on the Toronto Stock Exchange (the "TSX") and The NASDAQ Capital Market ("NASDAQ") under the symbols "IE" and "IVAN" respectively. The trading range of our common shares is as follows:

| | | TSX (Cdn\$) | | NASDAQ (US\$) | |
|------|----|-------------|------|---------------|------|
| | | High | Low | High | Low |
| 2011 | Q1 | 3.58 | 2.67 | 3.67 | 2.75 |
| | Q2 | 2.84 | 1.58 | 2.97 | 1.60 |
| | Q3 | 1.96 | 1.02 | 2.03 | 0.99 |
| | Q4 | 1.47 | 0.75 | 1.46 | 0.72 |
| 2010 | Q1 | 3.90 | 2.90 | 3.79 | 2.75 |
| | Q2 | 3.36 | 1.97 | 3.37 | 1.87 |
| | Q3 | 2.19 | 1.59 | 2.08 | 1.50 |
| | Q4 | 2.89 | 2.15 | 2.88 | 2.10 |
| 2009 | Q1 | 1.53 | 0.57 | 1.22 | 0.45 |
| | Q2 | 2.16 | 1.38 | 1.85 | 1.10 |
| | Q3 | 2.98 | 1.31 | 2.81 | 1.13 |
| | Q4 | 3.25 | 2.20 | 3.12 | 2.02 |

On December 30, 2011, the closing price of our common shares was Cdn\$1.12 on the TSX and \$1.12 on NASDAQ.

As at December 31, 2011, a total of 344,139,428 of our common shares were issued and outstanding and held by 187 holders of record with an estimated 26,343 additional shareholders whose common shares were held for them in street name or nominee accounts.

DIVIDENDS

We have not paid any dividends on our outstanding common shares since we were incorporated and we do not anticipate that we will do so in the foreseeable future. The declaration of dividends on our common shares is, subject to certain statutory restrictions described below, within the discretion of our Board of Directors based on their assessment of, among other factors, our earnings or lack thereof, our capital and operating expenditure requirements and our overall financial condition. Under the *Yukon Business Corporations Act*, our Board of Directors has no discretion to declare or pay a dividend on our common shares if they have reasonable grounds for believing that we are, or after payment of the

dividend would be, unable to pay our liabilities as they become due or that the realizable value of our assets would, as a result of the dividend, be less than the aggregate sum of our liabilities and the stated capital of our common shares.

EXEMPTIONS FROM CERTAIN NASDAQ MARKETPLACE RULES

As a Canadian issuer listed on NASDAQ, we are not required to comply with certain of NASDAQ's Marketplace Rules and instead may comply with applicable Canadian requirements. As a foreign private issuer, we are only required to comply with the following NASDAQ rules: (i) we must have an audit committee that satisfies applicable NASDAQ requirements and that is composed of directors each of whom satisfy NASDAQ's prescribed independence standards; (ii) we must provide NASDAQ with prompt notification after an executive officer of the Company becomes aware of any material non-compliance by us with any applicable NASDAQ Marketplace Rule; (iii) our common shares must be eligible for a Direct Registration Program operated by a clearing agency registered under Section 17A of the Exchange Act; and (iv) we must provide a brief description of any significant differences between our corporate governance practices and those followed by US companies quoted on NASDAQ.

Applicable Canadian rules pertaining to corporate governance require us to disclose in our management proxy circular, on an annual basis, our corporate governance practices, including whether or not our independent directors hold regularly scheduled meetings at which only independent directors are present, but there is no legal requirement in Canada for independent directors to hold regularly scheduled meetings at which only independent directors are present.

Although our independent directors hold meetings from time to time, as and when considered necessary or desirable by the independent lead director or by any other independent director, such meetings are not regularly scheduled. Our non-management directors hold regularly scheduled meetings but not all of our non-management directors are independent.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a company incorporated under the laws of the Yukon Territory of Canada. Some of our directors, controlling shareholders, officers and representatives of the experts named in this Annual Report reside outside the US and a substantial portion of their assets and our assets are located outside the US. As a result, it may be difficult to effect service of process within the US upon the directors, controlling shareholders, officers and representatives of experts who are not residents of the US or to enforce against them judgments obtained in the courts of the US based upon the civil liability provisions of the federal securities laws or other laws of the US. There is doubt as to the enforceability in Canada, against us or against any of our directors, controlling shareholders, officers or experts who are not residents of the US, in original actions or in actions for enforcement of judgments of US courts, of liabilities based solely upon civil liability provisions of the US federal securities laws. Therefore, it may not be possible to enforce those actions against us, our directors, officers, controlling shareholders or experts named in this Annual Report.

EXCHANGE CONTROLS AND TAXATION

There is no law or governmental decree or regulation in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to a non-resident holder of our common shares, other than withholding tax requirements.

There is no limitation imposed by the laws of Canada, the laws of the Yukon Territory, or our constating documents on the right of a non-resident to hold or vote our common shares, other than as provided in the *Investment Canada Act (Canada)* (the "Investment Act"), which generally prohibits a reviewable investment by an investor that is not a "Canadian", as defined, unless after review, the minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. An investment in our common shares by a non-Canadian who is not a "WTO investor" (which includes governments of, or individuals who are nationals of, member states of the World Trade Organization and

corporations and other entities which are controlled by them), at a time when we were not already controlled by a WTO investor, would be reviewable under the Investment Act under two circumstances. First, if it was an investment to acquire control (within the meaning of the Investment Act) and the value of our assets, as determined under Investment Act regulations, was Cdn\$5 million or more. Second, the investment would also be reviewable if an order for review was made by the federal cabinet of the Canadian government on the grounds that the investment related to Canada's cultural heritage or national identity (as prescribed under the Investment Act), regardless of asset value (a "Cultural Business"). Currently, an investment in our common shares by a WTO investor, or by a non-Canadian at a time when we were already controlled by a WTO investor, would be reviewable under the Investment Act if it was an investment to acquire control and the value of our assets, as determined under Investment Act regulations, was not less than a specified amount, which for 2012 is Cdn\$330 million. The Investment Act provides detailed rules to determine if there has been an acquisition of control. For example, a non-Canadian would acquire control of us for the purposes of the Investment Act if the non-Canadian acquired a majority of our outstanding common shares. The acquisition of less than a majority, but one-third or more, of our common shares would be presumed to be an acquisition of control of us unless it could be established that, on the acquisition, we were not controlled in fact by the acquirer through the ownership of common shares. An acquisition of control for the purposes of the Investment Act could also occur as a result of the acquisition by a non-Canadian of all or substantially all of our assets.

The Canadian Federal Government has announced certain forthcoming amendments (the "Amendments") to the Investment Act. Once they come into force, the Amendments would generally raise the thresholds that trigger governmental review. Specifically, with respect to WTO investors, the Amendments would see the thresholds for the review of direct acquisitions of control of a business which is not a Cultural Business increase from the current Cdn\$330 million (based on book value) to Cdn\$600 million (to be based on the "enterprise value" of the Canadian business) for the two years after the Amendments come into force, to Cdn\$800 million in the following two years and then to Cdn\$1 billion for the next two years. Thereafter, the threshold is to be adjusted to account for inflation. The Amendments will come into force when the government enacts regulations which, among other things, will provide how the "enterprise value" is to be determined.

The Investment Act also provides that the Minister of Industry may initiate a review of any acquisition by a non-Canadian of our common shares or assets if the Minister considers that the acquisition "could be injurious to (Canada's) national security".

Amounts that we may, in the future, pay or credit, or be deemed to have paid or credited, to shareholders as dividends in respect of the common shares held at a time when the beneficial owner is not a resident of Canada within the meaning of the *Income Tax Act* (Canada), will generally be subject to Canadian non-resident withholding tax of 25% of the amount paid or credited, which may be reduced under the Canada-US Income Tax Convention (1980), as amended, (the "Convention"). Currently, under the Convention, the rate of Canadian non-resident withholding tax on the gross amount of dividends paid or credited to a US resident that is entitled to the benefits of the Convention is generally 15%. However, if the beneficial owner of such dividends is a US resident corporation that is entitled to the benefits of the Convention and owns 10% or more of our voting stock, the withholding rate is reduced to 5%. In the case of certain tax-exempt entities, which are residents of the US for the purpose of the Convention, the withholding tax on dividends may be reduced to 0%.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

See table under "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" set forth in Item 12 in this Annual Report.

PERFORMANCE GRAPH

See table under "Executive Compensation" set forth in Item 11 in this Annual Report.

SALES OF UNREGISTERED SECURITIES

All securities we issued during the years ended December 31, 2011 and 2010, which were not registered under the Act, have been detailed in previously filed Form 10-Qs and Form 8-Ks.

ITEM 6. SELECTED FINANCIAL DATA

SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected financial data based on International Financial Reporting Standards (“IFRS”) for the two most recent financial years.

| (\$000s, except per share amounts) | 2011 | 2010 |
|--|----------|----------|
| Results of Operations | | |
| Revenues | 37,979 | 21,928 |
| Net loss | (25,276) | (26,582) |
| Net loss per share – basic and diluted | (0.07) | (0.08) |
| Financial Position | | |
| Total assets | 413,710 | 394,418 |
| Long term debt | 61,892 | – |
| Long term derivative instruments | 1,617 | – |
| Long term provisions | 1,919 | 3,008 |

ITEM 7: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

| | |
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The following MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 (the “Financial Statements”). The Financial Statements have been prepared in accordance with and using accounting policies in full compliance with IFRS and International Accounting Standards (“IAS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee, effective for the Company’s reporting for the year ended December 31, 2011.

As a foreign private issuer in the US, Ivanhoe is permitted to file with the SEC financial statements prepared under IFRS without a reconciliation to US generally accepted accounting principles (“GAAP”). It is possible that some of our accounting policies under IFRS could be different from US GAAP.

The date of this discussion is March 15, 2012. Unless otherwise noted, tabular amounts are in thousands of US dollars. Oil and gas production, revenue, reserves and related measures are presented net of royalty payments to governments.

HIGHLIGHTS

| (\$000, except as stated) | 2011 | 2010 |
|--|----------|----------|
| Production (bbls/d) | 967 | 788 |
| Realized oil prices (\$/bbl) | 105.93 | 75.52 |
| Oil revenue | 37,403 | 21,720 |
| Capital expenditures | 51,060 | 70,980 |
| Cash flow used in operating activities | (26,245) | (31,290) |
| Net loss | (25,276) | (26,582) |
| Net loss per share – basic and diluted | (0.07) | (0.08) |

Oil production increased in 2011 as Ivanhoe received additional volumes to offset capital expenditures incurred at Dagang in 2011. Additional production, in combination with stronger realized prices, resulted in higher oil revenue for the Company. The net loss in 2011 was \$25.3 million compared to a \$26.6 million net loss in 2010. Although oil revenue increased in 2011, net income was impacted by higher operating and general and administrative expenses as well as lower non-cash foreign currency exchange and derivative instrument gains in comparison to 2010. The current year also benefitted from lower exploration and evaluation expenses than in the prior year.

Capital expenditures totaled \$51.1 million in 2011. In China, the Yixin-2 and Zitong-1 gas wells at the Company's Zitong project in China were tested and fracture stimulated. At Dagang, four wells were drilled and completed in 2011. A well drilled in 2010 was also completed in early 2011. The fracture stimulation program at Dagang continued throughout 2011. In the Nyalga basin of Mongolia, Ivanhoe's first exploration well, N16-1E-1A, was drilled and abandoned as the well did not encounter oil shows in the reservoir. The Company observed oil staining, fluorescence and increases in background gas at its second exploration well site at N16-2E-B.

In Canada, regulators completed their initial review of the Company's application for the Tamarack Project and, as is customary, provided the Company with an initial set of Supplemental Information Requests in the third quarter of 2011. The Company submitted the supplemental information to the regulators in the fourth quarter of 2011. Project advancement, as currently envisaged, is subject to regulatory approval and financing.

In Ecuador, Ivanhoe completed a 190-kilometre 2-D seismic survey of Block 20. Following analysis of the seismic program, the Company plans to drill an exploration well into the deeper Hollin and pre-cretaceous horizons in the southern part of the Pungarayacu Block. The well will test the potential for lighter oil resources, which would prove beneficial for blending purposes and overall project economics.

RESULTS OF OPERATIONS

Revenue

| | 2011 | 2010 |
|-------------------------------------|---------|---------|
| Oil revenue (\$000s) | 37,403 | 21,720 |
| Production | | |
| Asia (net bbls) | | |
| Dagang | 341,258 | 273,868 |
| Daqing | 11,842 | 13,751 |
| Total production | 353,100 | 287,619 |
| Average daily production (bbls/d) | 967 | 788 |
| Pricing | | |
| Average realized oil price (\$/bbl) | 105.93 | 75.52 |
| Average Brent (\$/bbl) | 110.63 | 80.25 |

Oil revenue in 2011 rose in comparison to 2010 due to a combination of higher production volumes and stronger realized prices. Gross oil production from the Dagang field in China was relatively constant. However, the terms of the Company's PSC at Dagang with CNPC stipulate that capital expenditures are to be funded 100% by Ivanhoe and CNPC's portion of the costs are reimbursed through the receipt of additional oil sales. Due to higher levels of capital activity at Dagang in 2011, additional oil production was allocated to Ivanhoe.

Dagang production is sold at the prior three month rolling average price of Cinta crude, which historically averages \$2.00/bbl less than Brent crude, the standard the Company uses for its China reserve estimates. Following the increase in Cinta crude prices in 2011, our realized oil prices rose compared to 2010.

Netbacks

| (\$/bbl) | 2011 | 2010 |
|--|---------|---------|
| Realized oil prices ⁽¹⁾ | 105.93 | 75.52 |
| Less operating costs | | |
| Field operating | (19.68) | (19.81) |
| Windfall Levy | (23.18) | (11.59) |
| Engineering and support costs | (1.24) | (1.76) |
| Net operating revenue ⁽¹⁾ | 61.83 | 42.36 |
| Depletion | (19.54) | (21.54) |
| Net revenue from operations ⁽¹⁾ | 42.29 | 20.82 |

(1) Realized oil prices 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

| (\$000s) | 2011 | 2010 |
|------------------------|--------|--------|
| Asia | | |
| Field operating | 6,947 | 5,699 |
| Windfall Levy | 8,185 | 3,333 |
| Engineering support | 438 | 507 |
| | 15,570 | 9,539 |
| Technology Development | | |
| FTF operating costs | 4,561 | 4,086 |
| Total operating costs | 20,131 | 13,625 |

Operating costs in China rose by \$6.0 million in 2011 in comparison to 2010. The increase is primarily attributable to the Windfall Levy administered by the People's Republic of China which rises with higher oil prices. Historically, the Windfall Levy was imposed at progressive rates from 20% to 40% on the portion of the monthly weighted average sales price exceeding \$40.00/bbl. Effective November 1, 2011, the Ministry of Finance of the People's Republic of China raised the Windfall Levy threshold to \$55.00/bbl.

Field operating costs in total increased over the prior year due to additional production volumes in 2011. However, on a per barrel basis, field operating costs in 2011 were consistent with the prior year.

Operating costs in the Technology Development segment are incurred at the Company's Feedstock Test Facility ("FTF") at the Southwest Research Institute in San Antonio, Texas. FTF operating costs in 2011 are higher than in 2010 due to activities associated with assay and analyses related to the successful upgrading of the heavy oil recovered from the Pungarayacu IP-5B well in Ecuador and planned maintenance costs associated with enhancements implemented at the FTF in the second quarter of 2011.

Exploration and Evaluation

Costs of exploring for, and evaluating, oil and gas properties are initially capitalized as intangible exploration and evaluation assets and charged to exploration and evaluation ("E&E") expense only if sufficient reserves cannot be established. In 2011, \$2.1 million of drilling costs were expensed in connection with the exploration well in Mongolia that was plugged and abandoned. In addition, it was determined that \$0.7 million of expenditures related to the seismic program in Ecuador would have limited future value and were therefore charged to E&E expense.

Following the drilling of the Zitong-1 and Yixin-2 wells, areas excluding those identified for development and future production were to be relinquished at the end of 2010; consequently \$3.5 million of geological costs incurred in prior periods were expensed as E&E costs in 2010. Ivanhoe drilled two appraisal wells on Block 20 in Ecuador in 2010. The first appraisal well, IP-15, encountered cementing and completion problems prior to steam injection operations, therefore testing was suspended without recovering oil. As a result, \$4.9 million of drilling and testing costs were expensed as E&E costs in the fourth quarter of 2010.

General and Administrative

G&A expenses incurred in 2011 were \$5.6 million higher in comparison to 2010. Staff costs rose \$4.5 million as a result of the Company's growing commitments to its projects around the world. Professional fees increased as incremental legal costs of \$1.4 million were incurred in connection with the proceedings described in Part I, Item 3 of this Form 10-K and \$0.4 million of additional contract engineering costs related to Ivanhoe's HTL™ technology were incurred to investigate new applications. G&A in 2011 also includes \$0.3 million of financing and filing fees associated with the Cdn\$73.3 million convertible unsecured subordinated debentures ("Convertible Debentures") issued in the second quarter of 2011. Rising costs in 2011 were offset by lower charitable contributions; in 2010, the Company committed to a \$1.0 million donation to flood victims in Ecuador.

Depletion and Depreciation

Depletion and depreciation expense in 2011 rose in comparison to 2010 due to a combination of factors. Depletion in Asia increased \$0.7 million in 2011 due to higher production, despite a lower depletion rate as the result of additional Dagang reserves recorded on January 1, 2011. The depreciation expense incurred by the Technology segment was \$0.6 million higher in 2011 due to revisions of the dismantled Commercial Demonstration Facility salvage values reducing depreciation in 2010.

Foreign Exchange

The Company incurred a smaller net foreign exchange gain in 2011 in comparison to the prior year. The Canadian dollar was stronger than the US dollar in the first nine months of 2011, subsequently weakening in the fourth quarter of 2011. Net foreign exchange gains incurred on the translation of the Company's Canadian dollar denominated cash, debt and payables in the first three quarters of 2011 were partially offset by net foreign exchange losses in the fourth quarter.

In the first quarter of 2010, the Company incurred a net foreign exchange gain on the translation of its Canadian dollar cash raised in the Cdn\$150.0 million private placement when the Canadian dollar strengthened against the US dollar, which was partially offset by a net foreign exchange loss incurred in the second quarter of 2010 when the Canadian dollar weakened. In the second half of 2010, additional foreign exchange gains were incurred on the translation of monetary items as the Canadian dollar continued to strengthen relative to the US dollar.

Derivative Instruments

In 2011, the unrealized gain on derivative instruments was less than in the prior year. An unrealized gain on the Convertible Debentures totaled \$7.8 million and a combination of the expiry and revaluation of the Company's Purchase Warrants resulted in a gain of \$4.1 million. Additionally, a gain of \$1.2 million was recognized on the revaluation of the convertible portion of the Cdn\$40.0 million convertible promissory note issued to Talisman ("Convertible Note"). The revaluation of an option granted to a private investor in January 2010 to acquire an equity interest in one of the Company's subsidiaries created a loss of \$0.2 million in the current year.

The \$18.6 million unrealized gain recorded in 2010 stemmed from a \$15.0 million and \$3.6 million gain, respectively, on the revaluation of the Purchase Warrants and Convertible Note.

Gain on Derecognition of Long Term Provision

As part of a 2005 merger agreement, the Company assumed a \$1.9 million contingent obligation. In the third quarter of 2011, the Company determined, based on recent events and clarification of contract terms, that satisfaction of the specific contractual contingencies was unlikely and the liability was derecognized.

Provision for Income Taxes

Current taxes increased due to higher oil revenue in 2011 than in the comparable period. Ivanhoe incurred a future tax recovery of \$3.4 million in 2011 due to capital spending in China and continued operating loss carryforwards in the US.

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 with a 30 day notification period.

| | Total | 2012 | 2013 | 2014 | 2015 | After 2015 |
|---|---------|--------|--------|-------|-------|------------|
| Long term debt | 72,085 | – | – | – | – | 72,085 |
| Interest on long term debt | 18,647 | 4,145 | 4,145 | 4,145 | 4,145 | 2,067 |
| Short term debt and interest | 10,658 | 10,658 | – | – | – | – |
| Asset retirement obligations ⁽¹⁾ | 2,201 | – | 386 | – | – | 1,815 |
| Zitong appraisal program | 75,510 | 40,680 | 31,680 | 3,150 | – | – |
| Leases | 4,508 | 1,734 | 1,278 | 592 | 402 | 502 |
| Total | 183,609 | 57,217 | 37,489 | 7,887 | 4,547 | 76,469 |

(1) Represents undiscounted asset retirement obligations after inflation. The discounted value of these estimated obligations (\$1.6 million) is provided for in the consolidated financial statements.

Long Term Debt and Interest

As described in the Financial Statements, the Company issued Cdn\$73.3 million of Convertible Debentures maturing on June 30, 2016. The Convertible Debentures bear interest at an annual rate of 5.75%, payable semi-annually on the last day of June and December of each year, commencing on December 31, 2011.

Short Term Debt and Interest

On December 30, 2011, Ivanhoe entered into a loan agreement for \$10.0 million with Ivanhoe Capital Finance Ltd. The funds were advanced on January 3, 2012 and incur interest at a rate of 13.3% per annum. The principal balance matures in 180 days or earlier in the case of certain events.

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 December 31, 2011, 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 \$2.2 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.

Leases

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

Zitong Appraisal Program

The terms of the Supplementary Agreement call for the completion of an appraisal program by the end of June 2014. The work program is expected to consist of a 160 sq. km of 3D seismic survey, as well as drilling and completing three horizontal wells on the Guan and Wen structures.

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 conditional, final payment for the 2008 purchase transaction.

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 consolidated statements of cash flows, are summarized in the following table:

| | 2011 | 2010 |
|---|----------|----------|
| Net cash used in operating activities | (26,245) | (31,290) |
| Net cash used in investing activities | (85,422) | (68,684) |
| Net cash provided by financing activities | 61,423 | 138,286 |

Ivanhoe's cash flow from operating activities is not sufficient to meet its operating and capital obligations over the next twelve months. The Company intends to use its working capital to meet its commitments. However, additional sources of funding 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 and debt markets. However, there is no assurance that these sources of funding will be available to the Company in the future or available on acceptable terms.

Operating Activities

Cash used in operating activities in the current year was lower than in 2010 as growth in revenue exceeded increases in operating costs and G&A expenses.

Investing Activities

E&E Expenditures

E&E capital expenditures for the Company in 2011 totaled \$37.4 million. The Yixin-2 and Zitong-1 gas wells at the Company's Zitong project in China were tested and fracture stimulated. Subsequent to post-fracture gas flow tests, down-hole electronic recorders were installed to gather additional pressure data during an extended shut-in period. The data was analyzed and will be used in future operations.

In the Nyalga basin of Mongolia, expenditures incurred on the Company's first exploration well at N16-1E-1A were expensed. The drilling rig was mobilized to a second site, N16-2E-B, and drilling commenced in the middle of September where oil staining, fluorescence and increases in background gas were observed.

In Canada, regulators have completed their initial review of the Company's application for the Tamarack Project and, as is customary, provided the Company with an initial set of Supplemental Information Requests in the third quarter of 2011. The Company submitted supplemental information to the regulators in the fourth quarter of 2011.

In Ecuador, the Company completed a 190-kilometre 2-D seismic survey of Block 20. The seismic data will assist in the selection of future drilling locations.

In comparison, Ivanhoe spent \$65.3 million on E&E capital expenditure in 2010. The Company successfully drilled two wells, Yixin-2 and Zitong-1, to total depth. Ivanhoe completed its winter delineation drilling program at Tamarack in early 2010 and, in November 2010, submitted its regulatory application to the Government of Alberta. Two appraisal wells were drilled in 2010 on Block 20 in Ecuador. The first appraisal well, IP-15, encountered certain cementing and completion problems prior to steam injection operations and testing was suspended without recovering oil. The second appraisal well, IP-5b, was successfully drilled, cored and logged.

Property, Plant and Equipment Expenditures

In 2011, property, plant and equipment ("PP&E") additions totaled \$13.7 million. At Dagang, four wells were drilled and completed. A well drilled in 2010 was also completed in early 2011. The fracture stimulation program at Dagang continued throughout the year.

In 2010, \$5.6 million of PP&E additions were incurred as the Company conducted five fracture stimulations at the Dagang field during the year.

Restricted Cash

Ivanhoe was required to post a \$20.0 million performance bond as part of the completion and signing of the Supplementary Agreement with CNPC in December 2011.

Financing Activities

Cash provided by financing activities was lower in 2011 than in the prior year. In June 2011, the Company raised \$72.9 million, net of issuance costs, through the issuance of the Convertible Debentures. The net proceeds were used to repay the Convertible Note due to Talisman on July 11, 2011, as well as operating expenses and capital expenditures. In the first quarter of 2011, cash proceeds of \$29.9 million were raised through the exercise of purchase warrants and stock options.

In comparison, the Company raised \$135.7 million, net of issuance costs, through a private placement of 50 million special warrants at a price of Cdn\$3.00 per special warrant in 2010.

Capital Structure

| As at December 31, | 2011 | 2010 |
|----------------------|---------|---------|
| Debt | – | 39,832 |
| Long term debt | 61,892 | – |
| Shareholders' equity | 314,137 | 300,484 |

Ivanhoe intends to use its cash and cash equivalent balance to fulfill its commitments and partially fund operations in 2012. Cash flow may be insufficient 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 and debt markets. 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, 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.

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

The Financial Statements have been prepared in accordance 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.

A detailed summary of the Company's significant accounting policies is included in Note 3 to the Financial Statements. Some of these policies involve critical accounting estimates as they require the Company to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The following section discusses critical accounting estimates and assumptions and how they affect the amounts reported in the Company's Financial Statements.

Intangible E&E Assets

Management must determine if intangible E&E assets, which have not yet resulted in the discovery of proved reserves, should continue to be capitalized or charged to E&E expense. When making this determination, Ivanhoe considers factors such as the Company's drilling results, planned exploration and development activities, the financial capacity of the Company to further develop the property, the ability to use the Company's HTL™ technology in certain projects, lease expiries, market conditions and technical recommendations from its exploration staff.

Although the Company believes its estimates are reasonable and consistent with current conditions, internal planning and expected future operations, such estimates are subject to significant uncertainties and judgments. Ivanhoe cannot predict if an event that triggers impairment will occur, when it will occur or how it will affect the reported asset amounts.

Impairment

Property, Plant and Equipment

The Company periodically assesses its oil and gas assets, or groups of assets, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Among other things, an impairment may be triggered by falling oil and gas prices, a significant negative revision to reserve estimates, the inability to use the Company's HTL™ technology in certain projects, changes in capital costs or the inability to raise sufficient financial resources to further develop the property.

Cash flow estimates for the Company's impairment assessments require significant assumptions about future prices and costs, production, reserves volumes and discount rates, as well as potential benefits from the application of its HTL™ technology. Given the significant assumptions required and the likelihood that actual conditions will differ, the assessment of impairment is considered to be a critical accounting estimate.

It is difficult to determine and assess how a change in future costs, production, reserves volumes, or the application of HTL™ technology could impact Ivanhoe's impairment tests. A 1% increase in the discount rate and a 5% decrease in the forward pricing used in the calculation of cash flows from proved plus probable reserves as at December 31, 2011, would not impair the Company's development project.

Intangible Technology Assets

The Company's intangible technology assets consist of an exclusive, irrevocable license to deploy its HTL™ technology. Ivanhoe annually reviews the technology assets for impairment or if an adverse event or change occurs. Indicators of adverse events could include HTL™ patent expiries, advancements of new technologies or the inability to successfully commercialize the HTL™ technology. The intangible asset impairment is a critical accounting estimate because it requires Ivanhoe to make assumptions about competitive technological developments, the successful commercialization of its HTL™ technology and future cash flows from the HTL™ technology.

Ivanhoe cannot predict if an event that triggers impairment will occur, when it will occur or how it will affect the reported asset amounts. Although the Company believes its estimates are reasonable and consistent with current conditions, internal planning and expected future operations, such estimates are subject to significant uncertainties and judgments.

Oil and Gas Reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production becomes available and as economic conditions impacting oil and gas prices and costs change. Such revisions could be upwards or downwards. For details on our reserve estimation process, refer to the section titled "Reserves, Production and Related Information" in Items 1 and 2 of this Annual Report.

Reserve estimates have a material impact on depletion and the Company's impairment evaluations, which in turn have a material impact on earnings. Total proved and probable reserves estimates are used to determine rates used in the unit-of-production depletion calculations. In the year ended December 31, 2011, depletion expense of \$6.9 million was recorded. If proved and probable reserves estimates changed by 10%, the Company's depletion and depreciation expense would have changed by approximately \$0.7 million, assuming all other variables remained constant.

Option Pricing Model

The Company uses the Black-Scholes option pricing model to measure the fair value of stock options and equity settled Restricted Share Units ("RSUs") on the date of grant. Determining the fair value of stock-based awards on the grant date requires judgment, including estimating the expected life of the award, the expected volatility of the Company's common shares and expected dividends. In addition, judgment is required to estimate the number of awards that are expected to be forfeited. Changes in assumptions can materially affect the estimated fair value, and therefore, the existing models do not necessarily provide precise measures of fair value.

Convertible Debentures

On June 9, 2011, the Company issued Cdn\$73.3 million of Convertible Debentures. The Canadian dollar denominated debt is considered to contain an embedded derivative since the functional currency of the Company is the US dollar. As a result, the Convertible Debentures were bifurcated into debt and the convertible option, which was recognized at fair value using the Black-Scholes valuation method. Changes in the fair value of the convertible option are recorded in earnings; therefore the valuation of the convertible option is a critical accounting estimate.

The Black-Scholes valuation method requires the input of highly subjective assumptions regarding expected volatility of the Company's share price and the risk-free interest rate. If the volatility used to fair value the convertible component at December 31, 2011 decreased by 10%, the fair value of the convertible option would decrease by \$1.1 million. If volatility increased by 10%, the fair value of the convertible option would increase by \$1.6 million.

Convertible Note

In connection with the acquisition of the Tamarack leases in July 2008 from Talisman, the Company issued a Cdn\$40.0 million Convertible Note. The Canadian dollar denominated debt was considered to contain an embedded derivative since the functional currency of the Company is the US dollar. As a result, the Convertible Note was bifurcated into debt and the convertible option, which was recognized at fair value using the Black-Scholes valuation method. Changes in the fair value of the convertible option were recorded in earnings, and as a result, the valuation of the convertible option was a critical accounting estimate prior to the maturity of the Convertible Note on July 11, 2011.

Deferred Income Taxes

Ivanhoe operates in a specialized industry and in several tax jurisdictions. As a result, the Company's income is subject to various rates of taxation. The breadth of the Company's operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the taxes that the Company will ultimately pay. The final taxes paid are dependent upon many factors, including negotiations with taxation authorities in various jurisdictions, uncertain tax positions and resolution of disputes arising from federal, provincial, state and local tax audits.

The deferred income tax liability is a critical accounting estimate because it requires Ivanhoe to make assumptions about the resolution of these uncertainties and the associated final taxes may result in adjustments to the Company's tax assets and tax liabilities.

NEW ACCOUNTING PRONOUNCEMENTS

Transition to International Financial Reporting Standards

Effective January 1, 2011, Ivanhoe adopted IFRS, as issued by the IASB, as the Company's basis for accounting. Most adjustments required on transition to IFRS were made retrospectively against opening retained earnings as of the date of the first comparative statement of financial position. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

First-time Adoption of International Financial Reporting Standards

"First-Time Adoption of International Financial Reporting Standards" ("IFRS 1") provides companies adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS where retrospective restatement would either be onerous or would not provide more useful information. As a result of relying upon the exemptions described below, there was no material impact in these areas at the date of transition to IFRS.

| Area of IFRS | Summary of Exemption Available |
|-------------------------------|--|
| Property, plant and equipment | <p>Companies may elect to report property, plant and equipment from oil and gas operations on the opening statement of financial position on the transition date at a deemed cost, instead of the actual cost, as though IFRS had been adopted retroactively. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount reported under Canadian GAAP. The exemption can be applied on an asset-by-asset basis.</p> <p>Ivanhoe elected to report property, plant and equipment from oil and gas operations in its opening statement of financial position on the transition date at the deemed cost previously calculated under Canadian GAAP.</p> |
| Decommissioning liabilities | <p>In accounting for changes in decommissioning liabilities, IFRS requires changes in such obligations to be added to, or deducted from, the cost of the asset to which they relate. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Rather than recalculating the effect of all such changes throughout the life of the obligation, companies may elect to measure the liability and the related depreciation effects at the date of transition to IFRS.</p> <p>Ivanhoe elected to measure only those decommissioning liabilities outstanding from the FTF on the date of transition to IFRS.</p> |
| Stock-based compensation | <p>Companies may elect not to apply IFRS 2, "Share-Based Payment," to stock options granted on or before November 7, 2002, or which vested before the date of transition to IFRS.</p> <p>Ivanhoe elected to utilize this exemption for the all stock options awarded after November 7, 2002, that vested before January 1, 2010.</p> |
| Business combinations | <p>Companies may elect to either restate all past business combinations in accordance with IFRS 3, "Business Combinations," or to apply an elective exemption from applying IFRS 3 to past business combinations.</p> <p>Ivanhoe elected to utilize this exemption and transactions entered into prior to the transition date will not be restated.</p> |

Areas of Significance

IFRS had a significant impact on the Company's ongoing accounting in the areas described below, in addition to the impact of transition policy choices made under IFRS 1.

| Accounting Policy Area | Impact of Policy Adoption |
|-----------------------------------|---|
| Exploration and evaluation assets | <p>The Company followed the full cost method of accounting for its oil and gas operations under Canadian ("Cdn") GAAP, whereby all costs related to the exploration for, and development of, oil and gas reserves were capitalized and periodically evaluated for impairment. Under IFRS, exploration costs will initially be capitalized as E&E assets until it can be determined if sufficient quantities of reserves have been found to justify commercial production. If commercial quantities of reserves are found, E&E assets will be reclassified to oil and gas properties and development costs and, if not, E&E assets will be expensed on the consolidated statement of loss.</p> <p>Costs incurred in connection with our projects in Canada, Ecuador, Mongolia and exploration projects in China were reclassified as E&E assets, while producing assets in China continued to be classified as oil and gas properties and development costs on the consolidated statement of financial position.</p> |
| Impairments | <p>Cdn GAAP generally used a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists and then measuring any impairment by comparing asset carrying values with fair values calculated using discounted cash flows. International Accounting Standard 36, "Impairment of Assets," uses a one-step approach for both testing and measuring of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write downs where carrying values of assets were previously supported under Cdn GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. IFRS also requires the reversal of any previous impairment losses where circumstances have changed such that impairments have been reduced. Cdn GAAP prohibited the reversal of impairment losses. IFRS will result in greater variability in our operating results and asset carrying values.</p> |
| Capitalized G&A | <p>G&A directly related to exploration and development activities was capitalized as oil and gas properties and development costs under Cdn GAAP. The threshold to capitalize G&A is higher under IFRS; therefore, less G&A will be capitalized in the future and G&A on the consolidated statement of loss will be higher as a result.</p> |
| Financial instruments | <p>Under Cdn GAAP, the equity component of the Company's Convertible Note and the common share purchase warrants were classified as shareholders' equity. In accordance with IAS 32, "Financial Instruments: Presentation," financial instruments with an exercise price denominated in a currency other than our functional currency are accounted for as derivatives. Since our Convertible Note and common share purchase warrants are denominated in Cdn dollars and our functional currency is US dollars, these items were reclassified from shareholders' equity to liabilities under IFRS. Additionally, IFRS requires derivative instruments to be recorded at fair value with changes in their fair value recognized in the consolidated statement of loss. This will create variability in our results of operations and the carrying value of liabilities.</p> |
| Stock-based compensation | <p>Stock options were accounted for using the fair value method under Cdn GAAP. The fair value was determined using the Black-Scholes option pricing model and recorded as compensation expense on a straight-line basis over the period that the stock options vested. Under IFRS 2, "Share-Based Payment," compensation expense will be charged to earnings on a graded vesting basis. This will accelerate the compensation expense recognized on the consolidated statement of loss in comparison to Cdn GAAP.</p> |

New Accounting Pronouncements

The information contained in Note 3.18, Standards and Interpretations Issued But Not Yet Adopted, to our Financial Statements in Part II, Item 8 is incorporated by reference into this Part II, Item 7.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that would have a material adverse effect on our liquidity, consolidated financial position or results of operations.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are 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 and liquidity risk. We recognize these risks and manage our operations to minimize our exposures to the extent practicable.

COMMODITY PRICE RISK

Commodity price risk related to oil prices is one of Ivanhoe's most significant market risk exposures. The Company's operating results and financial condition are influenced by the prices the Company receives for its oil production. Oil prices may fluctuate widely in response to a variety of factors including global and domestic economic conditions, weather conditions, political stability, transportation facilities, the price and availability of alternative fuels and government regulations.

Based on estimated 2012 production, a US\$1.00/bbl change in the price of oil would increase or decrease net income and cash flows from operations for 2012 by US\$0.82/bbl. In the past, Ivanhoe has used derivatives to minimize variability in

the Company's cash flow from operations when required to do so by loan covenants. However, no hedging contracts were in place in 2011 and the Company does not anticipate using hedging contracts in 2012 to manage its commodity price risk.

FOREIGN CURRENCY EXCHANGE RATE RISK

Ivanhoe is exposed to foreign currency exchange rate risk as a result of incurring capital expenditures and operating costs in currencies other than the US dollar. A substantial portion of our activities are transacted in or referenced to US dollars, including oil sales in Asia, capital spending in Ecuador and ongoing FTF operations. A portion of our transactions are in other currencies, such as Dagang operating costs paid in Chinese renminbi, Tamarack exploration activities funded in Cdn dollars and the Cdn dollar Convertible Debentures issued in 2011. The Company did not enter into any foreign currency derivatives in 2011, nor do we anticipate using foreign currency derivatives in 2012. To help reduce the Company's exposure to foreign currency exchange rate risk, it seeks to hold assets and liabilities denominated in the same currency when appropriate.

The following table shows the Company's exposure to foreign currency exchange rate risk on its net loss and comprehensive loss for 2011, assuming reasonably possible changes in the relevant foreign currency. This analysis assumes all other variables remain constant.

| (Increase) Decrease in Net Loss and Comprehensive Loss | 10% Increase or Weakening | 10% Decrease or Strengthening |
|--|------------------------------|----------------------------------|
| Chinese renminbi | 1,953 | (2,387) |
| Canadian dollar | 3,685 | (3,711) |

CREDIT RISK

Ivanhoe is exposed to credit risk with respect to its cash and cash equivalents, restricted cash, accounts receivable, note receivable and long term receivables. The Company's maximum exposure to credit risk at December 31, 2011, is represented by the carrying amount of these non-derivative financial assets. Most of the Company's credit exposures are with counterparties in the energy industry and are therefore exposed to normal industry credit risks. Ivanhoe manages its credit risk by only entering into sales contracts with established entities.

The Company believes its exposure to credit risk related to cash and cash equivalents, as well as restricted cash, is minimal due to the quality of the financial institutions where the funds are held and the nature of the deposit instruments.

Currently, all of the Company's oil production is sold to one national oil corporation. As a result, 96% of the outstanding accounts receivable balance at December 31, 2011 (December 31, 2010 – 85%) is due from a national oil corporation. Long term value-added tax receivable from the Ecuadorian government will be recoverable upon commencement of commercial operations. Ivanhoe considers the risk of default on these items to be low due to the Company's ongoing operations in China and Ecuador.

LIQUIDITY RISK

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. Since cash flows from existing operations are insufficient to fund future capital expenditures, we intend to finance future capital projects with a combination of strategic investors and/or public and private debt and equity markets, either at the parent company level or at the project level or from the sale of existing assets. There is no assurance that we will be able to obtain such financing or obtain it on favorable terms.

NON-IFRS FINANCIAL MEASURES

The Company's realized oil price per barrel is calculated by dividing oil revenue by the Company's total production for the respective periods presented. Net operating revenue per barrel is calculated by dividing oil revenue less 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 consolidated statement 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 its usefulness as a comparative measure.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Ivanhoe Energy Inc.,

We have audited the accompanying consolidated financial statements of Ivanhoe Energy Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss, statements of changes in equity, and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ivanhoe Energy Inc. and subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that as of December 31, 2011, the Company had an accumulated deficit of \$298.5 million, and working capital of \$30.7 million, excluding assets held for sale and derivative financial liabilities, and during the year ended December 31, 2011, cash used in operating activities was \$26.2 million and the Company expects to incur further losses in the development of its business. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants

March 15, 2012
Calgary, Canada

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IVANHOE ENERGY INC.

Consolidated Statements of Financial Position

| (US\$000s) | Note | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|--------|----------------------|----------------------|--------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | 5 | 16,890 | 68,317 | 24,362 |
| Restricted cash | 6 | 20,500 | - | - |
| Accounts receivable | 11 | 7,859 | 6,359 | 5,021 |
| Note receivable | | 227 | 264 | 225 |
| Prepaid and other | | 1,411 | 2,859 | 771 |
| Assets held for sale | 7 | 41,902 | - | - |
| | | 88,789 | 77,799 | 30,379 |
| Intangible | 8 | 273,986 | 273,568 | 207,750 |
| Property, plant and equipment | 9 | 46,979 | 40,618 | 41,983 |
| Long term receivables | 11 | 3,956 | 2,433 | 839 |
| | | 413,710 | 394,418 | 280,951 |
| Liabilities and Shareholders' Equity | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | | 15,548 | 21,482 | 10,779 |
| Debt | 10 | - | 39,832 | - |
| Derivative instruments | 11, 12 | 183 | 8,447 | 13,023 |
| Income taxes | 14 | 641 | - | 530 |
| Decommissioning costs | | - | - | 753 |
| | | 16,372 | 69,761 | 25,085 |
| Long term debt | 10 | 61,892 | - | 36,934 |
| Long term derivative instruments | 11, 12 | 1,617 | - | - |
| Long term provisions | 13 | 1,919 | 3,008 | 2,187 |
| Deferred income taxes | 14 | 17,773 | 21,165 | 22,336 |
| | | 99,573 | 93,934 | 86,542 |
| Shareholders' Equity | | | | |
| Share capital | 16 | 586,108 | 550,562 | 422,322 |
| Contributed surplus | 16 | 26,524 | 23,141 | 18,724 |
| Accumulated deficit | | (298,495) | (273,219) | (246,637) |
| | | 314,137 | 300,484 | 194,409 |
| | | 413,710 | 394,418 | 280,951 |
| Nature of operations and going concern | 1 | | | |

(See accompanying Notes to the Consolidated Financial Statements)

IVANHOE ENERGY INC.
Consolidated Statements of Loss and Comprehensive Loss

| (US\$000s, except share and per share amounts) | Note | Year Ended December 31, | |
|---|------|-------------------------|-----------------|
| | | 2011 | 2010 |
| Revenue | | | |
| Oil | | 37,403 | 21,720 |
| Interest | | 576 | 208 |
| | | 37,979 | 21,928 |
| Expenses and other | | | |
| Operating | 21 | 20,131 | 13,625 |
| Exploration and evaluation | 8 | 2,774 | 8,471 |
| General and administrative | | 48,449 | 42,807 |
| Depletion and depreciation | 9 | 8,030 | 6,524 |
| Foreign currency exchange gain | | (355) | (3,325) |
| Derivative instruments gain | 11 | (12,965) | (18,571) |
| Interest | | 361 | 24 |
| Gain on derecognition of long term provision | 13 | (1,900) | - |
| | | 64,525 | 49,555 |
| Loss before income taxes | | (26,546) | (27,627) |
| (Provision for) recovery of income taxes | | | |
| Current | 14 | (2,122) | (126) |
| Deferred | 14 | 3,392 | 1,171 |
| | | 1,270 | 1,045 |
| Net loss and comprehensive loss | | (25,276) | (26,582) |
| Net loss per common share, basic and diluted | | (0.07) | (0.08) |
| Weighted average number of common shares | | | |
| Basic and diluted (000s) | | 342,678 | 327,442 |

(See accompanying Notes to the Consolidated Financial Statements)

IVANHOE ENERGY INC.
Consolidated Statements of Changes in Equity

| (US\$000s, except share amounts) | Note | Share Capital | | Contributed Surplus | Accumulated Deficit | Total |
|--|------|----------------|----------------|---------------------|---------------------|----------------|
| | | Shares (000s) | Amount | | | |
| Balance January 1, 2010 | | 282,559 | 422,322 | 18,724 | (246,637) | 194,409 |
| Net loss and comprehensive loss | | - | - | - | (26,582) | (26,582) |
| Shares issued for cash, net of share issue costs | 16 | 50,000 | 121,697 | - | - | 121,697 |
| Shares issued for services | | 280 | 799 | - | - | 799 |
| Exercise of stock options | 17 | 1,524 | 5,735 | (3,940) | - | 1,795 |
| Exercise of purchase warrants | | 2 | 9 | - | - | 9 |
| Share-based compensation expense | 17 | - | - | 8,357 | - | 8,357 |
| Balance December 31, 2010 | | 334,365 | 550,562 | 23,141 | (273,219) | 300,484 |

| (US\$000s, except share amounts) | Note | Share Capital | | Contributed Surplus | Accumulated Deficit | Total |
|----------------------------------|------|----------------|----------------|---------------------|---------------------|----------------|
| | | Shares (000s) | Amount | | | |
| Balance January 1, 2011 | | 334,365 | 550,562 | 23,141 | (273,219) | 300,484 |
| Net loss and comprehensive loss | | - | - | - | (25,276) | (25,276) |
| Shares issued for services | | 169 | 335 | - | - | 335 |
| Exercise of stock options | 17 | 985 | 4,164 | (2,231) | - | 1,933 |
| Exercise of purchase warrants | 16 | 8,620 | 31,047 | - | - | 31,047 |
| Share-based compensation expense | 17 | - | - | 5,614 | - | 5,614 |
| Balance December 31, 2011 | | 344,139 | 586,108 | 26,524 | (298,495) | 314,137 |

(See accompanying Notes to the Consolidated Financial Statements)

IVANHOE ENERGY INC.
Consolidated Statements of Cash Flows

| (US\$000s) | Note | Year Ended December 31, | |
|--|--------|-------------------------|-----------------|
| | | 2011 | 2010 |
| Operating Activities | | | |
| Net loss | | (25,276) | (26,582) |
| Adjustments to reconcile net loss to cash from operating activities | | | |
| Depletion and depreciation | 9 | 8,030 | 6,524 |
| Exploration and evaluation expense | 8 | - | 3,537 |
| Share-based compensation expense | 17 | 5,883 | 7,557 |
| Unrealized foreign currency exchange gain | | (446) | (3,523) |
| Unrealized derivative instruments gain | 11 | (12,965) | (18,571) |
| Current income tax expense | 14 | 2,122 | 126 |
| Deferred income tax recovery | 14 | (3,392) | (1,171) |
| Interest expense | | 361 | 24 |
| Finance costs | | 269 | - |
| Gain on derecognition of long term provision | 13 | (1,900) | - |
| Other | | 50 | (38) |
| Current income tax paid | | (1,481) | (656) |
| Interest paid | | (333) | - |
| Decommissioning costs settled | | - | (179) |
| Changes in non-cash working capital items | 22 | 2,833 | 1,662 |
| Net cash used in operating activities | | (26,245) | (31,290) |
| Investing Activities | | | |
| Intangible expenditures | | (37,390) | (65,347) |
| Property, plant and equipment expenditures | | (13,670) | (5,633) |
| Restricted cash | | (20,500) | - |
| Long term receivables | | (1,536) | (1,558) |
| Interest paid | | (4,011) | (1,610) |
| Changes in non-cash working capital items | 22 | (8,315) | 5,464 |
| Net cash used in investing activities | | (85,422) | (68,684) |
| Financing Activities | | | |
| Shares and warrants issued on private placements, net of share issue costs | 16 | - | 135,696 |
| Convertible debentures issued, net of issue costs | 10 | 72,914 | - |
| Repayment of convertible note | 10 | (41,421) | - |
| Proceeds from exercise of options and warrants | 12, 17 | 29,873 | 2,600 |
| Changes in non-cash working capital items | 22 | 57 | (10) |
| Net cash provided by financing activities | | 61,423 | 138,286 |
| Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency | | (1,183) | 5,643 |
| Increase (decrease) in cash and cash equivalents, for the year | | (51,427) | 43,955 |
| Cash and cash equivalents, beginning of year | | 68,317 | 24,362 |
| Cash and cash equivalents, end of year | | 16,890 | 68,317 |

(See accompanying Notes to the Consolidated Financial Statements)

IVANHOE ENERGY INC.

Notes to the 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, principal address and registered and records office of the Company are located at 999 Canada Place, Suite 654, Vancouver, British Columbia, Canada, V6C 3E1.

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 December 31, 2011 audited consolidated financial statements (“Financial Statements”) have been prepared using International Financial Reporting Standards (“IFRS”) 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 December 31, 2011, Ivanhoe had an accumulated deficit of \$298.5 million and working capital of \$30.7 million, excluding assets held for sale and derivative financial liabilities. In the year ended December 31, 2011, cash used in operating activities was \$26.2 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 December 31, 2011 Financial Statements were approved by the Board of Directors and authorized for issue on March 1, 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 IFRS as issued by the International Accounting Standards Board (“IASB”). The Financial Statements are not subject to qualification relating to the application of IFRS as issued by the IASB.

2.2 Basis of Presentation

The Company adopted IFRS on January 1, 2011, with a transition date of January 1, 2010. Comparative financial information has been restated to comply with IFRS as detailed in Note 27.

The Financial Statements have been prepared on an historical cost basis, except derivative instruments, which are measured at fair value as explained in accounting policies set out in Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The Financial Statements incorporate the financial statements of the Company, its subsidiaries, all of which are wholly owned, and special purpose entities that are controlled by the Company. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation. The consolidated accounts are prepared using uniform accounting policies.

Certain of the Company's exploration and development activities are conducted jointly with others through jointly controlled operations. The Financial Statements reflect only the Company's proportionate interest in such activities.

3.2 Foreign Currency Translation

The Company and its subsidiaries' reporting currency and the functional currency of its operations is the US dollar as this is the principal currency of the economic environments in which they operate.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect on the date of the statement of financial position. Non-monetary assets and liabilities, as well as operating transactions, are translated at the exchange rate prevailing at the time of the transaction. Translation gains and losses are reflected in earnings.

3.3 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits at banks, restricted cash and short term highly liquid investments with original maturities of three months or less.

3.4 Restricted Cash

Restricted cash balances that are not expected to be released within three months or less are reported separately from restricted cash balances included in cash and cash equivalents.

3.5 Intangible Assets

i. Exploration and Evaluation Assets

Costs of exploring for, and evaluating, oil and gas properties are initially capitalized as intangible exploration and evaluation assets ("E&E assets"). Costs may include license fees, technical studies, seismic programs, exploratory drilling and directly attributable general and administrative costs. Interest on borrowings incurred to finance qualifying E&E assets is capitalized.

If E&E assets result in sufficient proved reserves to justify commercial production and technical feasibility can be established, the assets will be tested for impairment and reclassified as property, plant and equipment ("PP&E"). If E&E assets result in sufficient reserves to justify commercial production, but those reserves cannot be classified as proved, the assets will be tested for impairment and continue to be capitalized as intangible assets as long as progress is being made to assess the reserves and economic viability of the well and/or related project. If sufficient reserves cannot be established, the corresponding E&E assets are charged to exploration and evaluation expense ("E&E expense").

E&E assets which may be attributable to a broad exploration area, such as license fees, technical studies or seismic programs, will be reclassified to PP&E or charged to E&E expense to best reflect the nature of the assets. Costs incurred prior to establishing the legal right to explore an area are charged to E&E expense as incurred.

ii. Technology Assets

The Company's HTL™ technology license ("Technology Assets") consist of an exclusive, irrevocable license to deploy its HTL™ technology. Technology Assets are measured at cost and classified as an intangible asset. Amortization of the Technology Assets will commence when the technology is available for use in field operations.

iii. Derecognition

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the intangible asset is derecognized.

3.6 Property, Plant and Equipment

i. Oil and Gas Property and Equipment

PP&E is reported at cost less accumulated depletion, depreciation and accumulated impairment losses. PP&E may include the purchase price, reclassified E&E assets, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and decommissioning costs. Interest on borrowings incurred to finance qualifying PP&E is capitalized until the asset is capable of fulfilling its intended use.

PP&E is depleted using the unit-of-production method based on proved plus probable reserves, taking into account associated future development costs. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of six thousand cubic feet of natural gas for one barrel of oil. Depletion rates are updated annually unless there is a material change in circumstances, in which case they would be updated more frequently.

ii. Other Assets

Furniture and equipment are depreciated on a straight-line basis over the estimated useful life of the respective assets, ranging from three to five years. The Feedstock Test Facility ("FTF") is depreciated over its expected economic life of 20 years.

3.7 Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This classification is required when the sale is highly probable and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset, the asset must be actively marketed for sale at a price that is reasonable in relation to its fair value and the sale is expected to be completed within one year.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in the consolidated statement of loss in the period measured. Non-current assets held for sale are presented in current assets within the consolidated statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

3.8 Impairment

The Company periodically assesses tangible and intangible assets or groups of assets for impairment annually or earlier whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Individual assets are grouped into cash generating units for impairment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

If indicators of impairment exist, the recoverable amount of the asset group is estimated. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Previously recognized impairment losses are reversed if there has been a change in the estimates used to determine the asset group's recoverable amount. If that is the case, the carrying amount of the asset group is increased to its revised recoverable amount which cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior periods. Such a reversal is recognized in earnings. Subsequent to a reversal of impairment, the depletion or depreciation expense is adjusted in future periods to allocate the asset group's revised carrying amount, less any residual value, over its remaining useful life.

3.9 Decommissioning Provision

The Company recognizes a provision for decommissioning costs when it has an obligation to dismantle and remove its PP&E or restore the site on which it is located. The provision is estimated as the present value of the expected future expenditures, determined in accordance with local conditions and requirements, discounted at a risk-free rate. A corresponding amount is added to the carrying value of the related asset and is amortized as an expense over the economic life of the asset. The

carrying amount of the provision is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount and/or timing of the underlying cash flows needed to settle the obligation. Actual decommissioning costs incurred reduce the obligation. Any difference between the recorded decommissioning provision and the actual costs incurred is recorded as a gain or loss in the settlement period.

3.10 Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. When it is appropriate to discount a provision, the increase in the provision due to passage of time is recognized as interest expense.

3.11 Financial Assets

Financial assets are classified as i) loans and receivables, ii) available-for-sale, iii) financial assets at fair value through profit or loss, or iv) as held-to-maturity. Ivanhoe determines the classification of its financial assets upon initial recognition. Financial assets are recognized initially at fair value and subsequent measurement depends upon their classification.

i. Loans and Receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's cash and cash equivalents, restricted cash, accounts receivable, note receivable and long term receivables are classified as loans and receivables.

ii. Available-for-Sale

Available-for-sale financial assets are measured at fair value, with gains or losses recognized within other comprehensive income. Accumulated changes in fair value are recorded as a separate component of equity until the investment is derecognized or impaired. The Company does not currently have any financial assets classified as available-for-sale.

iii. Financial Assets at Fair Value Through Profit or Loss

Financial assets are classified as fair value through profit or loss ("FVTPL") when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company currently does not have any financial assets classified at FVTPL.

iv. Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the intent and ability to hold to maturity. These investments are recognized on a trade date basis and are subsequently measured at amortized cost using the effective interest method. The Company does not currently have any financial assets classified as held-to-maturity.

v. Impairment

Financial assets, other than those at FVTPL, are assessed for indicators of impairment annually. Financial assets are impaired when there is evidence that the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivables, is directly reduced by the impairment loss. The carrying amount of accounts receivable is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are recorded against the allowance account. Changes in the carrying amount of the allowance account are recognized in earnings.

With the exception of available-for-sale equity instruments, which are revalued through other comprehensive income, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through earnings. On the date of the impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had it not been impaired.

vi. Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired, or have been transferred, and the Company has transferred substantially all risks and rewards of ownership.

3.12 Financial Liabilities

Financial liabilities are classified as i) financial liabilities at FVTPL or ii) as other financial liabilities measured at amortized cost. Ivanhoe determines the classification of its financial liabilities upon initial recognition. The measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including bifurcated embedded derivatives, are also classified as FVTPL. Changes in the fair value of financial liabilities classified as FVTPL are recognized through earnings. The Company's derivative instruments are classified as financial liabilities at FVTPL.

ii. Other Financial Liabilities

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities, debt, long term obligation and long term accrued liabilities are classified as other financial liabilities.

3.13 Oil and Gas Revenue

Sales of oil and gas production are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. Oil and gas revenue represents the Company's share and is recorded net of royalty payments to governments and other mineral interest owners.

3.14 Income Tax

Income tax expense represents the sum of tax currently payable and deferred tax.

i. Current income tax

Income tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

ii. Deferred income tax

Using the liability method, deferred income tax is provided for on taxable and deductible differences between the tax basis of assets and liabilities in comparison to their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, jointly controlled entities and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, jointly controlled entities and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is expected to be realized or the liability is expected to be settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in earnings.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.15 Borrowing Costs

For qualifying assets, which take a substantial period of time to get ready for intended use, interest on borrowings incurred to finance E&E assets and PP&E is capitalized until the asset is capable of fulfilling its intended use. Capitalized borrowing costs cannot exceed the actual interest and financing costs incurred. All other interest and financing costs are recognized in earnings in the period in which they are incurred.

3.16 Share-Based Payments

Equity settled share-based payments in the form of stock options granted to directors, employees and those providing similar services to Ivanhoe and its subsidiaries, are measured at fair value on the grant date and expensed on a graded basis over the vesting period of each annual installment. The cumulative expense for equity settled transactions incorporates a forfeiture rate to reflect the Company's best estimate of the number of equity instruments that will ultimately vest.

Cash settled share-based payments, such as the restricted share units granted to eligible employees, are measured at fair value on the grant date and are re-valued at each subsequent reporting period until vested. The awards are expensed on a graded basis over the vesting period of each annual installment. A forfeiture rate is applied in the same manner as described for equity settled awards. No expense is recognized for awards that do not ultimately vest.

Shares issued from the stock bonus plan are measured at fair value on the grant date.

3.17 Income or Loss per Common Share

Basic net income or loss per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share amounts are calculated based on net income divided by dilutive common shares. Dilutive common shares are arrived at by adding common shares issuable on conversion of options or purchase warrants to weighted average common shares, assuming that proceeds received from the exercise of in-the-money stock options and purchase warrants are used to purchase common shares at the average market price; dilution from the Company's convertible debt is considered using the "if converted" method.

3.18 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 which 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 in issue, but not yet adopted, that are anticipated to have a material effect on the reported loss or net assets of the Company.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions in certain circumstances that affect reported amounts. The most sensitive estimates affecting the Financial Statements are in the areas set out below. Actual results may differ from these estimates.

4.1 Critical Judgments in Applying Accounting Policies

i. E&E Assets

Management must determine if E&E assets, which have not yet resulted in the discovery of proved reserves, should continue to be capitalized or charged to E&E expense. When making this determination, management considers factors such as the Company's drilling results, planned exploration and development activities, the financial capacity of the Company to further develop the property, the ability to use the Company's HTL™ technology in certain projects, lease expiries, market conditions and technical recommendations from its exploration staff.

ii. Impairment

a. Property, Plant and Equipment

Ivanhoe annually evaluates its oil and gas assets or groups of assets for impairment or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Among other things, an impairment may be triggered by falling oil and gas prices, a significant negative revision to reserve estimates, the inability to use the Company's HTL™ technology in certain projects, changes in capital costs or the inability to raise sufficient financial resources to further develop the property. Cash flow estimates for the Company's impairment assessments require significant assumptions about future prices and costs, production, reserves, discount rates and potential benefits from the application of its HTL™ technology.

b. Intangible Technology Assets

Ivanhoe annually reviews the intangible Technology Assets for impairment or if an adverse event or change occurs. Indicators of adverse events could include HTL™ patent expiries, advancements of new technologies or the inability to successfully commercialize the HTL™ technology. The impairment of the Technology Assets requires management to make assumptions about competitive technological developments, the successful commercialization of the Company's HTL™ technology and future cash flows from the HTL™ technology.

4.2 Key Sources of Estimation Uncertainty

i. Oil and Gas Reserves

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgment and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production becomes available and as economic conditions impacting oil and gas prices and costs change. Such revisions could be upwards or downwards. Reserve estimates have a material impact on depletion and the Company's impairment evaluations, which in turn have a material impact on earnings.

The recoverable value of the Company's PP&E is calculated based on future net cash flows from proved plus probable reserves, discounted at a pre-tax rate that includes risks specific to the asset. A 1% increase in the discount rate and a 5% decrease in the forward pricing used in the calculation of cash flows from proved plus probable reserves as at December 31, 2011, would not impair the Company's development projects.

ii. HTL™ Technology

Future cash flows from HTL™ technology is a key source of estimation uncertainty as it requires management to make assumptions about the successful commercialization of the HTL™ technology and competitive technological developments. Success in commercializing the HTL™ technology in the oil and gas industry depends on the Company's ability to economically design, construct and operate commercial-scale plants and a variety of other factors. Ivanhoe expects that technological advances in the processes and procedures for upgrading heavy oil and bitumen into lighter, less viscous products will continue to progress. It is possible that those advances could cause the HTL™ technology to become uncompetitive or obsolete.

iii. Option Pricing Models

The Company uses the Black-Scholes option pricing model to measure the fair value of stock options and equity settled Restricted Share Units ("RSUs") on the date of grant. Determining the fair value of stock-based awards on the grant date requires judgment, including estimating the expected life of the award, the expected volatility of the Company's common shares and expected dividends. In addition, judgment is required to estimate the number of awards that are expected to be

forfeited. Changes in assumptions can materially affect the estimated fair value, and therefore, the existing models do not necessarily provide precise measures of fair value.

iv. Convertible Note and Convertible Debentures

In connection with the acquisition of the Tamarack leases in July 2008 from Talisman Energy Canada (“Talisman”), the Company issued a Cdn\$40.0 million convertible promissory note (the “Convertible Note”). The Canadian dollar denominated debt is considered to contain an embedded derivative since the functional currency of the Company is the US dollar. As a result, the Convertible Note was bifurcated into debt and the convertible option, which was recognized at fair value using the Black-Scholes valuation method. The Black-Scholes valuation method requires the input of highly subjective assumptions regarding expected volatility of the Company’s share price and risk-free interest rate, and is therefore considered to be a crucial accounting estimate.

On June 9, 2011, the Company issued Cdn\$73.3 million of 5.75% convertible unsecured subordinated debentures (“Convertible Debentures”). The Canadian dollar denominated debt is considered to contain an embedded derivative since the functional currency of the Company is the US dollar. As a result, the Convertible Debentures were bifurcated into debt and the convertible option, which was recognized at fair value using the Black-Scholes valuation method. The Black-Scholes valuation method requires the input of highly subjective assumptions regarding expected volatility of the Company’s share price and risk-free interest rate, and is therefore considered to be a crucial accounting estimate.

v. Deferred Income Taxes

Ivanhoe operates in a specialized industry in several tax jurisdictions. As a result, income is subject to various rates of taxation. The breadth of the Company’s operations and the global complexity of tax regulations require assessments of uncertainties and judgments in estimating the taxes it will ultimately pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, uncertain tax positions and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Company’s tax assets and tax liabilities.

5. CASH AND CASH EQUIVALENTS

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---------------------------|----------------------|----------------------|--------------------|
| Cash at banks and on hand | 16,867 | 10,147 | 6,797 |
| Term deposits | – | 57,670 | – |
| Money market accounts | – | – | 14,715 |
| Restricted cash | 23 | 500 | 2,850 |
| | 16,890 | 68,317 | 24,362 |

Restricted cash includes funds pledged as security for a letter of credit with a short term maturity.

6. RESTRICTED CASH

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--------------------------|----------------------|----------------------|--------------------|
| Ecuador performance bond | 500 | – | – |
| Zitong performance bond | 20,000 | – | – |
| | 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, Sichuan Basin with China National Petroleum Corporation (“CNPC”) for the Zitong block (“Supplementary Agreement”).

7. 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. The transaction is subject to government approvals and other prescribed conditions. There is no assurance that this transaction will close as described.

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 upon closing of up to \$75.0 million, contingent on the timing of the receipt of full government approvals and third-party consents and waivers for the transaction. Should SZE receive government approval for the transaction, Shell will become liable for the performance bond disclosed in Note 6, resulting in a release of restricted cash back to the Company.

The carrying value of the Zitong asset, which is comprised of E&E expenditures, was \$41.9 million at December 31, 2011; capital expenditures were previously reported in the Asia segment.

8. INTANGIBLE ASSETS

| | Exploration and Evaluation Assets | | | | HTL™ Technology | Total Intangible Assets |
|--------------------------------------|-----------------------------------|----------------|------------------|----------------|--------------------|----------------------------|
| | Asia | Canada | Latin America | Total | | |
| Cost | | | | | | |
| Balance January 1, 2010 | 14,411 | 94,431 | 6,755 | 115,597 | 92,153 | 207,750 |
| Additions | 27,261 | 29,324 | 17,704 | 74,289 | – | 74,289 |
| Exploration and evaluation expense | (3,537) | – | (4,934) | (8,471) | – | (8,471) |
| Balance December 31, 2010 | 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 | 181,833 | 92,153 | 273,986 |

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

Intangible assets within the Asia segment exclude a 10% partner working interest in the Zitong block.

In the year ended December 31, 2011, \$2.1 million (December 31, 2010 – \$2.1 million) of employee benefits directly attributable to E&E assets were capitalized. In addition, in the year ended December 31, 2011, \$0.3 million (December 31, 2010 – \$0.8 million) related to share-based compensation costs were capitalized to E&E assets.

9. PROPERTY, PLANT AND EQUIPMENT

| | Oil and Gas Property and Equipment | | | | Other Assets | Total PP&E |
|---|------------------------------------|----------|---------------|---------------|---------------|---------------|
| | Asia | Canada | Latin America | Total | | |
| Cost | | | | | | |
| Balance January 1, 2010 | 31,816 | - | - | 31,816 | 11,373 | 43,189 |
| Additions | 4,123 | - | - | 4,123 | 1,648 | 5,771 |
| Disposals | - | - | - | - | (12) | (12) |
| Balance December 31, 2010 | 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 |
| Accumulated Depletion and Depreciation | | | | | | |
| Balance January 1, 2010 | - | - | - | - | 1,206 | 1,206 |
| Depletion and depreciation | 6,196 | - | - | 6,196 | 934 | 7,130 |
| Disposals | - | - | - | - | (6) | (6) |
| Balance December 31, 2010 | 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 |
| Net Book Value | | | | | | |
| As at January 1, 2010 | 31,816 | - | - | 31,816 | 10,167 | 41,983 |
| As at December 31, 2010 | 29,743 | - | - | 29,743 | 10,875 | 40,618 |
| As at December 31, 2011 | 35,767 | - | - | 35,767 | 11,212 | 46,979 |

Oil and Gas Property and Equipment

In the year ended December 31, 2011, \$0.1 million (December 31, 2010 – \$0.1 million) of employee benefits directly attributable to PP&E were capitalized.

Other Assets

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

The Company performed a ceiling test calculation at December 31, 2011 and 2010 and January 1, 2010 to assess the recoverable value of its oil and gas properties. The present value of future net revenue from the Company's proved plus probable reserves exceeded the carrying value of the Company's oil and gas properties in 2011 and 2010 therefore no impairment was recorded.

Security

Should Ivanhoe receive government and other approvals necessary to develop the northern border of one of the Tamarack leases, the Company will be required to make a cash payment to Talisman of up to Cdn\$15.0 million, as a conditional, final payment for the 2008 purchase transaction (Note 15). 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).

10. DEBT

10.1 Convertible Note

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|----------------------|----------------------|----------------------|--------------------|
| Convertible Note | - | 40,217 | 38,005 |
| Unamortized discount | - | (385) | (1,071) |
| Carrying amount | - | 39,832 | 36,934 |

In connection with the acquisition of the Tamarack leases in July 2008, the Company issued the Cdn\$40.0 million Convertible Note which matured on July 11, 2011 and was repaid in full.

In the year ended December 31, 2011, \$1.5 million (December 31, 2010 – \$2.5 million) of interest and accretion from the Convertible Note was capitalized to E&E assets. No interest from the Convertible Note was recorded as interest expense in the year ended December 31, 2011 (December 31, 2010 – nil).

10.2 Convertible Debentures

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|----------------------|----------------------|--------------------|
| Convertible Debentures | 72,085 | - | - |
| Unamortized financing costs and derivative instrument | (10,193) | - | - |
| Carrying amount | 61,892 | - | - |

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. The issuance included a public offering of Cdn\$50.0 million. The issuance also included Cdn\$23.3 million in privately placed debentures with 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 carrying amount of the Convertible Debentures at December 31, 2011 was \$61.9 million. 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 as further described in Note 12.1. The remaining unamortized amount is composed of \$8.6 million of unamortized value related to the derivative as well as \$1.6 million in transaction costs. Transaction costs of \$0.3 million were allocated to the derivative and charged to earnings at initial recognition.

Interest incurred on the Convertible Debentures was recorded as follows:

| | Year ended December 31, | |
|---|----------------------------|------|
| | 2011 | 2010 |
| Interest expense | 333 | - |
| Capitalized to E&E | 2,878 | - |
| Capitalized to PP&E | 319 | - |
| Total interest incurred on Convertible Debentures | 3,530 | - |

11. FINANCIAL INSTRUMENTS

11.1 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.

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|-------------------------------|----------------------|----------------------|--------------------|
| Convertible Debentures | | | |
| Carrying amount | 61,892 | - | - |
| Fair value | 51,901 | - | - |

The fair value of the liability component of the Convertible Debentures was estimated using the closing price of the publically traded debentures at December 31, 2011.

11.2 Financial Instruments Measured at Fair Value Through Profit and Loss

The Company classifies its financial instruments according to the fair value hierarchy outlined in IFRS 7, "Financial Instruments: Disclosures," 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 FVTPL:

| | Level 1 | | Level 2 | | Level 3 | Total Fair Value |
|---|------------------------------|-------------------------------------|---|---|----------------------|------------------------|
| | 2006 Purchase Warrants | 2009 & 2010 Purchase Warrants | 2008 Convertible Component of Debt | 2011 Convertible Component of Debentures | Subsidiary Option | |
| Balance January 1, 2010 | 7,582 | 667 | 4,773 | - | - | 13,022 |
| Issuance of purchase warrants | - | 13,999 | - | - | - | 13,999 |
| Exercise of purchase warrants | (3) | - | - | - | - | (3) |
| Derivative gains through profit and loss | (1,964) | (13,050) | (3,557) | - | - | (18,571) |
| Balance December 31, 2010 | 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 |

The gain on derivative instruments of \$13.0 million for the year ended December 31, 2011, (December 31, 2010 – \$18.6 million) originated from the expiration and revaluation of derivative instruments measured at FVTPL.

Where the instrument is quoted in an active market, the movement in fair value due to credit risk is calculated as the change in fair value that is not attributable to changes in market risk. Where the instrument is not quoted in an active market, the fair value is calculated using a valuation technique that incorporates credit risk by discounting the cash flows using a credit-adjusted rate which reflects the level at which the Company could issue similar instruments at the reporting date. The amount of change in the fair value, during the period and cumulatively, of designated financial liabilities through FVTPL that is attributable to changes in credit risk is determined to be nil.

11.3 Risks Arising from Financial Instruments

In the normal course of operations, the Company is exposed to market risks resulting from movements in commodity prices, foreign currency exchange rates and interest rates, which may result in fluctuations in the fair value or future cash flows of its financial instruments.

i. Commodity Price Risks

Commodity price risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to the changes in market commodity prices. Oil prices and quality differentials are influenced by worldwide factors such as Organization of Petroleum Exporting Countries ("OPEC") actions, political events and supply and demand fundamentals. The Company may periodically use different types of derivative instruments to manage its exposure to price volatility. However, no hedging contracts were in place in the year for 2011.

ii. Foreign Currency Exchange Rate Risk

Ivanhoe is exposed to foreign currency exchange rate risk as a result of incurring capital expenditures and operating costs in currencies other than the US dollar. A substantial portion of the Company's activities are transacted in, or referenced to, US dollars, including oil sales in Asia, capital spending in Ecuador and ongoing FTF operations. A portion of transactions are in other currencies, such as Asia operating costs paid in Chinese renminbi, Canada exploration activities funded in Canadian dollars and the Convertible Debentures issued in Canadian dollars in 2011. The Company did not enter into any foreign currency derivatives in 2011. To help reduce the Company's exposure to foreign currency exchange rate risk, the Company seeks to hold assets and liabilities denominated in the same currency when appropriate.

The following table shows the Company's exposure to foreign currency exchange rate risk on its net loss and comprehensive loss for 2011, assuming reasonably possible changes in the relevant foreign currency. This analysis assumes all other variables remain constant.

| (Increase) Decrease in Net Loss and Comprehensive Loss | Change From a 10% Increase or Weakening | Change From a 10% Decrease or Strengthening |
|--|---|---|
| Chinese renminbi | 1,953 | (2,387) |
| Canadian dollar | 3,685 | (3,711) |

iii. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Interest rate risk arises from interest-bearing borrowings which have a variable interest rate. The Company's net loss and comprehensive loss would not have been impacted by an interest rate change in 2011 as interest related to the Convertible Debentures is fixed and interest resulting from the Convertible Note was capitalized to E&E assets.

iv. Credit Risk

Ivanhoe is exposed to credit risk with respect to its cash and cash equivalents, restricted cash, accounts receivable, note receivable and long term receivables. The Company's maximum exposure to credit risk at December 31, 2011, is represented by the carrying amount of these non-derivative financial assets.

The Company believes its exposure to credit risk related to cash and cash equivalents and restricted cash is minimal due to the quality of the financial institutions where the funds are held and the nature of the deposit instruments. Most of the Company's credit exposures are with counterparties in the energy industry and are therefore exposed to normal industry credit risks. Ivanhoe manages its credit risk by entering into sales contracts only with established entities.

Currently, all of the Company's oil production is sold to one national oil corporation. As a result, 96% of the outstanding accounts receivable balance at December 31, 2011 (December 31, 2010 – 85%, January 1, 2010 – 94%) is due from a national oil corporation. Long term receivables are primarily composed of value-added tax receivable amounts from the Ecuadorian government and will be recoverable upon commencement of commercial operations. Ivanhoe considers the risk of default on these items to be low due to the Company's ongoing operations in China and Ecuador.

| | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|------------------------------------|----------------------|----------------------|--------------------|
| Accounts receivable – current | 7,859 | 6,329 | 5,004 |
| Accounts receivable – over 90 days | – | 30 | 17 |
| | 7,859 | 6,359 | 5,021 |

v. Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. Since cash flows from existing operations are insufficient to fund operations and future capital expenditures, Ivanhoe intends to finance future capital projects with a combination of strategic investors and/or public and private debt and equity markets, either at the parent company level or at the project level or from the sale of existing assets. There is no assurance that the Company will be able to obtain such financing, or obtain it on favorable terms.

The contractual maturity of the fixed rate derivative and non-derivative financial liabilities are shown in the table below. The amounts presented represent the future undiscounted cash flows and therefore may not equate to the values presented in the statement of financial position.

| | Less than 1 year | 1 to 2 years | 3 to 4 years |
|---|------------------------|-----------------|-----------------|
| As at December 31, 2011 | | | |
| Derivative financial liabilities | | | |
| Subsidiary option | 183 | – | – |
| Convertible debenture | – | – | 1,617 |
| Non-derivative financial liabilities | | | |
| Accounts payable and accrued liabilities | 15,548 | – | – |
| Debt and interest | 4,145 | 8,290 | 78,297 |

12. DERIVATIVE INSTRUMENTS

12.1 Convertible Debentures

The Company issued Cdn\$73.3 million in Convertible Debentures in the second quarter of 2011, as described in Note 10.2. The outstanding principal amount is convertible into common shares of the Company. The fair value of the convertible component was \$1.6 million at December 31, 2011, calculated with the Black-Scholes valuation method using a risk-free interest rate of 1.27%, a dividend yield of 0.0%, a weighted average volatility factor of 40% and an expected life of 4.5 years.

If the volatility used to fair value the convertible component decreased by 10%, the fair value would decrease by \$1.1 million. If volatility increased by 10%, the fair value of the convertible option would increase by \$1.6 million.

12.2 Convertible Note

The Company issued a Cdn\$40.0 million Convertible Note, as described in Note 10.1. The outstanding principal amount was convertible, at Talisman's option, into common shares of the Company. The fair value of the convertible component was nil at December 31, 2011 (December 31, 2010 – \$1.2 million) as the Convertible Note was paid in full on July 11, 2011.

12.3 Subsidiary Option

In January 2010, one of the Company's subsidiaries granted a private investor an option (the "Subsidiary Option") to acquire an equity interest in the subsidiary representing 20% of the subsidiary's currently issued share capital (16.67% of the enlarged share capital immediately following the exercise of the Subsidiary Option) for Cdn\$25.0 million. Upon exercising the Subsidiary Option, Cdn\$25.0 million of existing inter-corporate indebtedness owed by the subsidiary to the Company (through an intermediate subsidiary) would be converted into additional common shares of the subsidiary, thereby diluting the private investor's equity interest to 14.286%. The Subsidiary Option was valid for one year and expired unexercised on January 26, 2012. The option was determined to have a nominal value on the date of grant.

The fair value of the Subsidiary Option as at December 31, 2011 was \$0.2 million, calculated using the Black-Scholes valuation method using an estimated share value of \$17.99, an exercise price of \$30.00 per share, a risk-free interest rate of

1.00%, a dividend yield of 0.0%, an expected life of approximately one month and an estimated volatility of 87.1%, which approximates the volatility of Ivanhoe's publically traded common shares.

12.4 Purchase Warrants

The following table reflects the changes in the Company's purchase warrants outstanding:

| (000s) | Purchase Warrants | Shares Issuable |
|----------------------------------|-------------------|-----------------|
| Balance January 1, 2010 | 12,135 | 12,135 |
| Private placements | 12,500 | 12,500 |
| Exercised | (2) | (2) |
| Balance December 31, 2010 | 24,633 | 24,633 |
| Exercised | (8,620) | (8,620) |
| Expired | (16,013) | (16,013) |
| Balance December 31, 2011 | - | - |

All of the Company's purchase warrants expired in 2011 and no purchase warrants remain outstanding at December 31, 2011.

At December 31, 2010, the following purchase warrants were exercisable:

| Year of Issue | Price Per Special Warrant | Outstanding ⁽¹⁾ (000s) | Fair Value (\$US000s) | Expiry Date | Exercise Price Per Share | Cash Value on Exercise (\$US000s) | Valuation Method |
|---------------|---------------------------|-----------------------------------|-----------------------|-------------|--------------------------|-----------------------------------|---------------------|
| 2006 | US\$2.23 | 11,398 | 5,615 | May 2011 | Cdn\$2.93 ⁽²⁾ | 33,577 | Quoted Market Price |
| 2009 | N/A | 735 | 11 | Feb 2011 | Cdn\$4.05 | 2,993 | Black-Scholes |
| 2010 | Cdn\$3.00 | 10,417 | 1,326 | Feb 2011 | Cdn\$3.16 | 33,095 | Black-Scholes |
| 2010 | Cdn\$3.00 | 2,083 | 279 | Feb 2011 | Cdn\$3.16 | 6,619 | Black-Scholes |
| | | 24,633 | 7,231 | | | 76,284 | |

(1) One common share is issuable for each purchase warrant upon exercise.

(2) Each common share purchase warrant originally entitled the holder to purchase one common share at a price of US\$2.63 per share until the fifth anniversary date of the closing. In September 2006, these warrants were listed on the Toronto Stock Exchange and the exercise price was changed to Cdn\$2.93.

At December 31, 2010, the fair value of the purchase warrants issued in 2009 and 2010 was calculated using a weighted average risk-free interest rate of 1.0%, a dividend yield of 0.0%, a weighted average volatility factor of 66.6% and an expected life of two months.

13. LONG TERM PROVISIONS

| | December 31, 2011 | December 31, 2010 |
|----------------------------------|-------------------|-------------------|
| Decommissioning provision | | |
| Balance, beginning of year | 1,108 | 1,040 |
| Liabilities incurred | - | 642 |
| Liabilities settled | - | (179) |
| Revisions in cash flow estimates | 59 | (488) |
| Unwinding of discount | 27 | 23 |
| Change in discount rates | 373 | 70 |
| Balance, end of year | 1,567 | 1,108 |
| Long term obligation | - | 1,900 |
| Long term accrued liabilities | 352 | - |
| | 1,919 | 3,008 |

13.1 Decommissioning Provision

The decommissioning provision represents the present value of decommissioning costs related to oil and gas properties in Canada, the FTF, and oil and gas properties in Ecuador, which are expected to be incurred in 2013, 2029 and 2038 respectively. The Company records a provision for the estimated future cost of decommissioning oil and gas properties and the FTF on a discounted basis. The provision for the costs of decommissioning these oil and gas properties and the FTF has been estimated, using current prices and discounted using a risk-free interest rate of 1.1% to 2.4% at December 31, 2011 (December 31, 2010 – 2.0% to 3.7%).

The Company 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.

13.2 Long term obligation

As part of a 2005 merger agreement, the Company assumed a \$1.9 million contingent obligation. In the third quarter of 2011, the Company determined, based on recent events and clarification of contract terms, that satisfaction of the specific contractual contingencies was unlikely and the liability was derecognized.

13.3 Long term accrued liabilities

Long term accrued liabilities include share-based payments arising from cash-settled awards from the Restricted Share Unit plan (Note 17) and a finance lease obligation related to vehicle leases in Ecuador.

14. INCOME TAXES

The Company and its subsidiaries are required to individually file tax returns in each of the jurisdictions in which they operate. The provision for income taxes differs from the amount computed by applying the statutory income tax rates to the net losses before income taxes. The combined Canadian federal and provincial statutory rates as at December 31, 2011 and 2010 were 26.5% and 28.0%, respectively. The sources and tax effects for the differences are as follows:

| | For the year ended December 31, | |
|--|------------------------------------|----------|
| | 2011 | 2010 |
| Loss from continuing operations before income taxes | (26,546) | (27,627) |
| Combined Canadian federal and provincial statutory rates | 26.5% | 28.0% |
| Tax benefit | (7,035) | (7,736) |
| Compensation not deductible | 1,410 | 1,604 |
| Tax losses and deferred deductions not recognized as deferred tax assets | 10,111 | 5,830 |
| Foreign net losses affected at higher income tax rates | (867) | (396) |
| Expiry of tax loss carry-forwards | 172 | 982 |
| Derivative and other gains not taxable | (3,784) | – |
| Share issue costs | (662) | (633) |
| Net currency exchange gains not taxable | (144) | (911) |
| Change in prior year estimate of tax loss carry-forwards | 368 | (1,306) |
| Effect of change in effective income tax rates on deferred tax assets | – | 1,096 |
| Other differences | (839) | 425 |
| Provision for (recovery of) income taxes | (1,270) | (1,045) |

Significant components of the Company's deferred income tax assets and liabilities are as follows:

| | December 31, 2011 | | December 31, 2010 | |
|-------------------------------|-------------------|-----------------|-------------------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| Assets held for sale | 10,475 | (10,475) | - | - |
| Property, plant and equipment | 3,325 | (3,344) | - | (1,379) |
| Intangible assets | - | (39,209) | - | (48,021) |
| Tax loss carry-forwards | 21,105 | - | 27,885 | - |
| Tax credit carry-forwards | 350 | - | 350 | - |
| | 35,255 | (53,028) | 28,235 | (49,400) |

As at December 31, 2011, the Company's deferred income tax liability is \$17.8 million in the consolidated statement of financial position, which is composed of \$14.1 million in the US tax jurisdiction, \$1.0 million in China and \$2.7 million related to Mongolia.

The Company has recorded deferred tax assets only to the extent that they offset deferred tax liabilities in respect of income taxes expected to be levied by a particular taxation authority on a particular taxable entity or where different taxable entities can be expected to realize the assets and settle the liabilities simultaneously.

The Company has not recorded deferred income tax assets in respect of the following:

| | December 31, 2011 | December 31, 2010 |
|-------------------------|----------------------|----------------------|
| Tax loss carry-forwards | 172,617 | 139,390 |
| Financing costs | 6,334 | 6,801 |
| | 178,951 | 146,191 |

The consolidated loss carry-forward amounts and the year of expiry as at December 31, 2011, are shown in the following table. In China, the loss carry-forwards have no expiration period. A loss of approximately Cdn\$55.3 million from the disposition of Russian operations in 2000, is a capital loss for Canadian income tax purposes, and is available for carry-forward against future Canadian capital gains indefinitely and is not included in the deferred income tax assets above.

| Year of Expiry | |
|----------------|----------------|
| 2012 | 2,327 |
| 2014 | 5,426 |
| 2015 | 7,040 |
| 2018 | 2,093 |
| 2019 | 1,078 |
| 2020 to 2025 | 5,508 |
| 2026 to 2031 | 175,141 |
| No expiry | 81,115 |
| | 279,728 |

As at December 31, 2011, the Company's loss carry-forwards is composed of \$144.2 million in Canada, \$81.1 million in China and \$54.4 million in the United States.

At December 31, 2011, current income taxes payable is \$0.6 million (December 31, 2010 – nil; January 1, 2010 – \$0.5 million).

15. COMMITMENTS AND CONTINGENCIES

15.1 Zitong Appraisal Program

The terms of the Supplementary Agreement call for the completion of a \$75.5 million appraisal program by the end of June 2014.

15.2 Operating Lease Arrangements

In the year ended December 31, 2011, the Company expended \$1.8 million (December 31, 2010 – \$1.4 million) on operating leases relating to the rental of office space, which expire between June 2012 and March 2017.

At December 31, 2011, future net minimum payments for operating leases were:

| | |
|------------|-------------------|
| 2012 | 1,734 |
| 2013 | 1,278 |
| 2014 | 592 |
| 2015 | 402 |
| After 2015 | 502 |
| | <hr/> 4,508 <hr/> |

15.3 Other

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

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.

16. SHAREHOLDERS' EQUITY

16.1 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, 2010 – 334,365,482) Nil preferred shares (December 31, 2010 – nil) |

In 2011, cash proceeds of \$29.9 million were raised through the exercise of purchase warrants and stock options.

In 2010, the Company raised \$135.7 million, net of \$6.0 million of issuance costs, through a private placement of 50 million special warrants at a price of Cdn\$3.00 per special warrant. The Canadian dollar purchase warrants were considered to contain an embedded derivative since the functional currency of the Company is the US dollar. As a result, they were bifurcated into debt and the convertible option, which was recognized at a fair value of approximately \$14.0 million using the Black-Scholes valuation method.

See the Consolidated Statements of Changes in Equity for the change in common shares issued in the years ended December 31, 2011 and 2010.

16.2 Contributed Surplus

Contributed surplus at January 1, 2010 consisted solely of share-based compensation expense from equity settled awards.

17. 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:

| | Year ended December 31, | |
|---|----------------------------|-------|
| | 2011 | 2010 |
| Share-based expense related to Equity settled transactions | 5,614 | 7,557 |
| Cash settled transactions | 269 | - |
| Total share-based expense | 5,883 | 7,557 |
| Share-based payments capitalized as E&E assets | 335 | 799 |

17.1 Stock Option Plan

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

| | December 31, 2011 | | December 31, 2010 | |
|--------------------------------|--------------------------------------|---|--------------------------------------|---|
| | Number of Stock Options (000s) | Weighted Average Exercise Price (Cdn\$) | Number of Stock Options (000s) | Weighted Average Exercise Price (Cdn\$) |
| Outstanding, beginning of year | 16,927 | 2.24 | 15,013 | 2.27 |
| Granted | 2,924 | 2.06 | 6,041 | 2.56 |
| Exercised | (1,687) | 2.44 | (2,743) | 2.28 |
| Expired | (710) | 2.90 | (635) | 2.60 |
| Forfeited | (1,706) | 2.46 | (749) | 2.64 |
| Outstanding, end of year | 15,748 | 2.14 | 16,927 | 2.24 |
| Exercisable, end of year | 8,231 | 2.13 | 7,324 | 2.19 |

Shares authorized for issue under the option plan at December 31, 2011 were 24.1 million (December 31, 2010 – 23.4 million).

The weighted average share price per option at the date of exercise for stock options exercised in the year ended December 31, 2011 was Cdn\$3.15 (December 31, 2010 – Cdn\$3.23).

The weighted average fair value of stock options granted from the stock option plan during the year ended December 31, 2011 was Cdn\$1.22 (December 31, 2010 – Cdn\$1.81) per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

| Year ended December 31, | 2011 | 2010 |
|---------------------------|-------|-------|
| Expected life (in years) | 6.4 | 6.3 |
| Volatility ⁽¹⁾ | 74.0% | 87.3% |
| Dividend yield | – | – |
| Risk-free rate | 2.2% | 2.6% |
| Estimated forfeiture rate | 6.6% | 5.5% |

(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 December 31, 2011:

| Range of Exercise Prices (Cdn\$) | Outstanding (000s) | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price (Cdn\$) |
|----------------------------------|-----------------------|--|---|
| 0.92 to 1.29 | 1,000 | 7.0 | 0.92 |
| 1.30 to 1.89 | 3,942 | 1.8 | 1.61 |
| 1.90 to 2.79 | 9,524 | 4.3 | 2.34 |
| 2.80 to 3.44 | 1,282 | 5.0 | 3.27 |
| | 15,748 | 3.9 | 2.14 |

17.2 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 evenly over three years and are settled in shares or cash on the anniversary date. RSUs do not entitle the holder to voting rights until they have vested and shares have been provided to the participant.

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

| | December 31, 2011 | |
|--------------------------------|---|---|
| | Number of RSUs (000s) ⁽¹⁾ | Weighted Average Fair Value (Cdn\$) |
| Outstanding, beginning of year | – | – |
| Granted | 1,115 | 1.62 |
| Forfeited | (178) | 2.08 |
| Outstanding, end of year | 937 | 1.53 |

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

The weighted average fair value of RSU's granted during the year ended December 31, 2011 was Cdn\$1.62 per RSU at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

| | Year ended December 31, 2011 |
|---------------------------|---------------------------------|
| Expected life (in years) | 3.0 |
| Volatility ⁽¹⁾ | 64.8% |
| Dividend yield | – |
| Risk-free rate | 1.2% |
| Estimated forfeiture rate | 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:

| | December 31, 2011 |
|---------------------------------------|-------------------|
| Current liabilities related to RSUs | 152 |
| Long term liabilities related to RSUs | 117 |
| Intrinsic value of vested RSUs | - |

18. RETIREMENT PLANS

In 2001, the Company adopted a defined contribution retirement or thrift plan ("401(k) Plan") to assist US employees in providing for retirement or other future financial needs. Employees' contributions (up to the maximum allowed by US tax laws) are matched 100% by the Company. Payments are also made to a state managed plan for employees in China.

For the year ended December 31, 2011, the Company paid \$0.4 million for retirement plan contributions (year ended December 31, 2010 – \$0.4 million).

19. 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 in Alberta, Canada. 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.

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

| Year ended December 31, 2011 | Asia | Canada | Latin America | Technology Development | Corporate | Total |
|--|----------------|----------------|----------------|------------------------|-----------|-----------------|
| Revenue | | | | | | |
| Oil ⁽¹⁾ | 37,403 | - | - | - | - | 37,403 |
| Interest | 4 | - | - | - | 572 | 576 |
| | 37,407 | - | - | - | 572 | 37,979 |
| Expenses | | | | | | |
| Operating | 15,570 | - | - | 4,561 | - | 20,131 |
| Exploration and evaluation | 2,124 | - | 650 | - | - | 2,774 |
| General and administrative | 12,086 | 3,257 | 7,645 | 4,026 | 21,435 | 48,449 |
| Depletion and depreciation | 7,053 | 9 | 138 | 555 | 275 | 8,030 |
| Foreign currency exchange (gain) loss | 275 | (6) | 3 | - | (627) | (355) |
| Derivative instruments (gain) loss | 183 | - | - | - | (13,148) | (12,965) |
| Interest | 26 | 6 | 32 | 8 | 289 | 361 |
| Gain on derecognition of long term provision | - | - | - | - | (1,900) | (1,900) |
| | 37,317 | 3,266 | 8,468 | 9,150 | 6,324 | 64,525 |
| Income (loss) before income taxes | 90 | (3,266) | (8,468) | (9,150) | (5,752) | (26,546) |
| (Provision for) recovery of income taxes | | | | | | |
| Current | (2,115) | - | - | - | (7) | (2,122) |
| Deferred | (989) | - | - | (1,389) | 5,770 | 3,392 |
| | (3,104) | - | - | (1,389) | 5,763 | 1,270 |
| Net income (loss) and comprehensive income (loss) | (3,014) | (3,266) | (8,468) | (10,539) | 11 | (25,276) |
| Capital investments – Intangible | 20,390 | 6,280 | 10,720 | - | - | 37,390 |
| Capital investments – Property, plant and equipment | 12,733 | - | 43 | 879 | 15 | 13,670 |
| As at December 31, 2011 | | | | | | |
| Assets ⁽²⁾ | 107,902 | 133,880 | 40,216 | 102,435 | 29,277 | 413,710 |
| Liabilities ⁽³⁾ | 140,621 | 144,531 | 64,362 | 87,822 | (337,763) | 99,573 |
| As at December 31, 2010 | | | | | | |
| Assets ⁽²⁾ | 85,273 | 123,890 | 24,392 | 101,899 | 58,964 | 394,418 |
| Liabilities ⁽³⁾ | 114,980 | 131,277 | 42,162 | 76,747 | (271,232) | 93,934 |
| As at January 1, 2010 | | | | | | |
| Assets ⁽²⁾ | 57,528 | 94,594 | 7,778 | 101,893 | 19,158 | 280,951 |
| Liabilities ⁽³⁾ | 81,047 | 98,262 | 13,145 | 56,909 | (162,821) | 86,542 |

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

(2) Assets include investments in subsidiaries that are eliminated for consolidation within the Corporate segment.

(3) Liabilities for the Corporate segment include intercompany receivables of \$428.7 million at December 31, 2011 (December 31, 2010 – \$352.5 million; January 1, 2010 – \$216.7 million) resulting in a negative balance.

| Year ended December 31, 2010 | Asia | Canada | Latin America | Technology Development | Corporate | Total |
|--|----------------|----------------|-----------------|------------------------|--------------|-----------------|
| Revenue | | | | | | |
| Oil ⁽¹⁾ | 21,720 | - | - | - | - | 21,720 |
| Interest | 6 | - | - | - | 202 | 208 |
| | 21,726 | - | - | - | 202 | 21,928 |
| Expenses | | | | | | |
| Operating | 9,539 | - | - | 4,086 | - | 13,625 |
| Exploration and evaluation | 3,537 | - | 4,934 | - | - | 8,471 |
| General and administrative | 8,413 | 3,719 | 9,525 | 953 | 20,197 | 42,807 |
| Depletion and depreciation | 6,303 | 9 | 52 | (83) | 243 | 6,524 |
| Foreign currency exchange gain | (62) | (15) | - | - | (3,248) | (3,325) |
| Derivative instruments gain | - | - | - | - | (18,571) | (18,571) |
| Interest | - | 6 | 8 | 10 | - | 24 |
| | 27,730 | 3,719 | 14,519 | 4,966 | (1,379) | 49,555 |
| Income (loss) before income taxes | (6,004) | (3,719) | (14,519) | (4,966) | 1,581 | (27,627) |
| (Provision for) recovery of income taxes | | | | | | |
| Current | (111) | - | - | - | (15) | (126) |
| Deferred | (73) | - | - | 1,244 | - | 1,171 |
| | (184) | - | - | 1,244 | (15) | 1,045 |
| Net income (loss) and comprehensive income (loss) | (6,188) | (3,719) | (14,519) | (3,722) | 1,566 | (26,582) |
| Capital investments – Intangible | 27,261 | 26,526 | 11,560 | - | - | 65,347 |
| Capital investments – Property, plant & equipment | 4,580 | 3 | 308 | 351 | 391 | 5,633 |

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

20. CAPITAL MANAGEMENT

The Company defines capital as total shareholders' equity and debt. At December 31, 2011, the Company is not subject to any financial covenants. The Company's objectives are to safeguard Ivanhoe's ability to continue as a going concern, to continue the exploration and development of its projects and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. To manage its capital requirements, the Company prepares an annual expenditure budget that is updated periodically. The annual and updated budgets are approved by the Board of Directors. Ivanhoe's capital structure at December 31 was:

| As at December 31, | 2011 | 2010 |
|----------------------|---------|---------|
| Debt | - | 39,832 |
| Long term debt | 61,892 | - |
| Shareholders' equity | 314,137 | 300,484 |

The Company's main source of funds has historically been public and private equity and debt markets. The Company does not anticipate cash flow from operating activities will be sufficient to meet its operating and capital obligations and, as such, the Company intends to finance its operating and capital projects from a combination of strategic investors in its projects and/or public and private debt and equity markets, either at a parent company level or at a project level.

Cash provided by financing activities was lower in 2011 than in the prior year. In June 2011, the Company raised \$72.9 million, net of issuance costs, through the issuance of the Convertible Debentures. The net proceeds were used to repay the Convertible Note due to Talisman on July 11, 2011, as well as operating expenses and capital expenditures. In 2011, cash proceeds of \$29.9 million were raised through the exercise of purchase warrants and stock options.

In comparison, the Company raised \$135.7 million, net of issuance costs, through a private placement of 50 million special warrants at a price of Cdn\$3.00 per special warrant in 2010.

In order to maximize ongoing development efforts, the Company does not pay dividends. The Company's invests its cash in highly liquid, short term, interest-bearing investments with maturities of 90 days or less to correspond with the expected timing of expenditures.

21. OPERATING EXPENSES

Operating expenses for the Company are comprised of the following:

| Year ended December 31, | 2011 | 2010 |
|-------------------------|--------|--------|
| Asia | | |
| Field operating | 6,947 | 5,699 |
| Windfall levy | 8,185 | 3,333 |
| Engineering support | 438 | 507 |
| | 15,570 | 9,539 |
| Technology Development | | |
| FTF operating costs | 4,561 | 4,086 |
| Total operating costs | 20,131 | 13,625 |

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\$40.00 per barrel. On November 1, 2011, China's Ministry of Finance raised the windfall levy threshold from US\$40.00 per barrel to US\$55.00 per barrel.

22. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Activities

| | Year ended December 31, | |
|--|----------------------------|---------|
| | 2011 | 2010 |
| Operating activities | | |
| Accounts receivable | (2,210) | (551) |
| Note receivable | 38 | (39) |
| Prepaid and other current assets | (301) | 176 |
| Accounts payable and accrued liabilities | 5,306 | 2,076 |
| | 2,833 | 1,662 |
| Investing activities | | |
| Accounts receivable | 716 | (775) |
| Prepaid and other current assets | 1,748 | (2,264) |
| Accounts payable and accrued liabilities | (10,779) | 8,503 |
| | (8,315) | 5,464 |
| Financing activities | | |
| Accounts payable and accrued liabilities | 57 | (10) |
| | (5,425) | 7,116 |

23. RELATED PARTY TRANSACTIONS

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. Related party transactions are in the normal course of business which the Company believes to be valued at fair market value.

The breakdown of the related party expenses for the year ended December 31 is as follows:

| Related Party | Nature of Transaction | 2011 | 2010 |
|--------------------------------|-----------------------|--------------|--------------|
| Global Mining Management Corp. | Administration | 585 | 1,107 |
| Ivanhoe Capital Aviation Ltd. | Aircraft | 1,200 | 1,200 |
| I2MS.Net PTE Ltd. | Information systems | 222 | 374 |
| Ivanhoe Capital Services Ltd. | Administration | 407 | 293 |
| SouthGobi Resources Ltd. | Administration | 154 | 77 |
| Ibex Resources Inc. | Business development | – | 40 |
| 1092155 Ontario Inc. | HTL™ technology | 44 | 52 |
| Ensyn Technologies Inc. | HTL™ technology | 14 | 7 |
| Ivanhoe Capital PTE Ltd. | Administration | 150 | 75 |
| Ivanhoe Mines Ltd. | Administration | – | 13 |
| | | 2,776 | 3,238 |

The liabilities of the Company include the following amounts due to related parties:

| Related Party | Nature of Transaction | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|--------------------------------|-----------------------|----------------------|----------------------|--------------------|
| Global Mining Management Corp. | Administration | 52 | 86 | 40 |
| I2MS.Net PTE Ltd. | Information systems | 18 | 13 | 17 |
| SouthGobi Resources Ltd. | Administration | 13 | 38 | – |
| Ivanhoe Capital Services Ltd. | Administration | 93 | 70 | 15 |
| Ivanhoe Capital PTE Ltd. | Administration | 7 | – | – |
| | | 183 | 207 | 72 |

Ivanhoe sold Cdn\$7.7 million of the Convertible Debentures, on a private placement basis and on the same terms as the public offering (Note 10.2), to certain officers and directors.

24. REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other key members of management was:

| Year ended December 31, | 2011 | 2010 |
|---|--------------|--------------|
| Base salaries or fees and other cash payments | 3,762 | 3,675 |
| Employer's contributions to retirement plan | 87 | 66 |
| Share-based compensation expense | 2,780 | 2,398 |
| | 6,629 | 6,139 |

25. INVESTMENTS IN SUBSIDIARIES

Ivanhoe has investments in the following 100% owned subsidiaries which principally affect the operating results or net assets of the Company. Subsidiaries which are inactive or immaterial have been omitted.

| Name of Subsidiary | Jurisdiction of Incorporation or Formation |
|-------------------------------------|--|
| Sunwing Holding Corporation * | Barbados |
| Sunwing Energy Ltd. | Bermuda |
| Sunwing Zitong Energy Ltd. | British Virgin Islands |
| Pan-China Resources Ltd. | British Virgin Islands |
| Ivanhoe Energy Mongolia Inc. * | Alberta |
| PanAsian Energy Ltd. | Nevis |
| Shaman LLC | Mongolia |
| Ivanhoe Energy Latin America Inc. * | British Columbia |
| Ivanhoe Energy Ecuador Inc. | British Columbia |
| Ivanhoe Energy Canada Inc. * | Alberta |
| Ivanhoe Energy Holdings Inc. * | Nevada |
| Ivanhoe HTL Petroleum Ltd. | Nevada |

* - subsidiary held directly by Ivanhoe Energy Inc. All other companies are held through subsidiary undertakings.

26. SUBSEQUENT EVENTS

Ivanhoe entered into an unsecured loan agreement on December 30, 2011 with Ivanhoe Capital Finance Ltd. ("ICFL") for \$10.0 million. The funds were advanced to the Company on January 3, 2012. The outstanding balance is subordinate in repayment to all amounts owing under the loan to UBS Securities LLC. Interest on the loan is 13.33% 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 amount of the loan may be converted into common shares of the Company at Cdn\$0.96 per share.

In January 2010, one of the Company's subsidiaries granted a private investor an option to acquire an equity interest in the subsidiary representing 20% of the subsidiary's currently issued share capital (16.67% of the enlarged share capital immediately following the exercise of the Subsidiary Option) for Cdn\$25.0 million. The Subsidiary Option was valid for one year and expired unexercised on January 26, 2012.

In March 2012, the Company signed a credit agreement for a \$50.0 million loan with UBS Securities LLC, which will be accessible once minor filings are completed. The loan matures in twelve months, includes an initial draw of \$30.0 million, and a feature which allows Ivanhoe to elect to increase the total amount of the loan by an incremental \$20.0 million. The loan agreement contains customary terms and covenants for a transaction of this nature.

27. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS on January 1, 2011, with a transition date of January 1, 2010. The accounting policies adopted by Ivanhoe as a result are presented in Note 3 of the Company's Financial Statements.

Under IFRS 1, "First-time Adoption of International Financial Reporting Standards," ("IFRS 1") the standards are applied retrospectively at the transition date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

27.1 Exemptions from Full Retrospective Application

IFRS 1 outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. None of the mandatory exemptions from retrospective application were applicable to Ivanhoe; estimates were not adjusted with the benefit of hindsight. The Company has utilized the following exemptions to its opening statement of financial position dated January 1, 2010:

i. Deemed Cost

The Company elected to report oil and gas properties, recorded in PP&E and E&E assets, at a deemed cost instead of the actual cost as though IFRS had been adopted retroactively. The deemed cost will be the amounts previously reported under Canadian GAAP.

ii. Decommissioning Provisions Included in the Cost of Property, Plant and Equipment

The exemption provided in IFRS 1 from the full retrospective application of International Financial Reporting Committee 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities", was applied to decommissioning liabilities associated with the Company's oil and gas properties recorded in PP&E and intangible assets. The Company elected to re-measure its FTF decommissioning provision under IFRS.

iii. Share-Based Payment

The Company elected to apply the share-based payment exemption and has applied IFRS 2, "Share-based Payments", only to those stock options that were issued after November 7, 2002, but that had not vested by the January 1, 2010 transition date.

iv. Business Combinations

The Company applied the business combinations exemption in IFRS 1 and has not restated business combinations that took place prior to the January 1, 2010 transition date.

v. Leases

The Company applied the lease exemption in IFRS 1 for contracts and agreements entered into before January 1, 2010. Where Ivanhoe has, under Canadian GAAP, made the same determination of whether an arrangement contains a lease as required by IFRIC 4, "Determining whether an Arrangement contains a Lease," but that assessment was made at a date other than that required by IFRIC 4, the Company elected not to reassess that determination.

27.2 Reconciliations to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the consolidated statement of financial position and consolidated statement of loss and comprehensive loss of the Company from those reported under Canadian GAAP.

Changes made to the statements of financial position and statements of loss have resulted in reclassifications of various amounts on the statements of cash flows. Due to the reclassification of capitalized overhead under Canadian GAAP to operating costs or general and administrative expenses under IFRS, \$8.6 million of cash used in investing activities under Canadian GAAP was reclassified to cash used in operating activities under IFRS. Since there was no change to the total increase in cash and cash equivalents, no reconciliation for the statements of cash flows was presented.

Certain amounts previously reported under Canadian GAAP have been reclassified to conform with IFRS presentation standards. Restricted cash was combined with cash and cash equivalents and asset retirement obligations were combined with other long term provisions. Other name changes have been made to certain financial statement line items to conform with the IFRS format standards.

Reconciliation of Consolidated Statements of Financial Position

| (US\$000s) | At January 1, 2010 | | | At December 31, 2010 | | |
|---|--------------------|----------------------|---------------|----------------------|----------------------|---------------|
| | Canadian GAAP | Effect of Transition | IFRS Balances | Canadian GAAP | Effect of Transition | IFRS Balances |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | 24,362 | – | 24,362 | 68,317 | – | 68,317 |
| Accounts receivable | 5,021 | – | 5,021 | 6,359 | – | 6,359 |
| Note receivable | 225 | – | 225 | 264 | – | 264 |
| Prepaid and other | 771 | – | 771 | 2,859 | – | 2,859 |
| | 30,379 | – | 30,379 | 77,799 | – | 77,799 |
| Intangible | 92,153 | 115,597 a | 207,750 | 92,153 | 197,193 a | 273,568 |
| | | – | | | (7,482) b | |
| | | – | | | 175 c | |
| | | – | | | (8,471) g | |
| Property, plant and equipment | 158,392 | (115,597) a | 41,983 | 237,200 | (197,193) a | 40,618 |
| | | (904) b | | | (2,014) b | |
| | | 92 c | | | 189 c | |
| | | – | | | 2,436 f | |
| Long term receivables | 839 | – | 839 | 2,433 | – | 2,433 |
| | 281,763 | (812) | 280,951 | 409,585 | (15,167) | 394,418 |
| Liabilities and Shareholders' Equity | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable and accrued liabilities | 10,779 | – | 10,779 | 21,482 | – | 21,482 |
| Debt | – | – | – | 39,832 | – | 39,832 |
| Derivative instruments | – | 13,023 d | 13,023 | – | 8,447 d | 8,447 |
| Income taxes | 530 | – | 530 | – | – | – |
| Decommissioning costs | 753 | – | 753 | – | – | – |
| | 12,062 | 13,023 | 25,085 | 61,314 | 8,447 | 69,761 |
| Long term debt | 36,934 | – | 36,934 | – | – | – |
| Long term provisions | 2,095 | 92 c | 2,187 | 2,644 | 364 c | 3,008 |
| Deferred income taxes | 22,643 | (307) b | 22,336 | 21,518 | (367) b | 21,165 |
| | | – | | | 14 f | |
| | 73,734 | 12,808 | 86,542 | 85,476 | 8,458 | 93,934 |
| Shareholders' Equity | | | | | | |
| Share capital | 422,322 | – | 422,322 | 550,562 | – | 550,562 |
| Purchase warrants | 19,427 | (19,427) d | – | 33,423 | (33,423) d | – |
| Contributed surplus | 20,029 | (2,947) d | 18,724 | 22,983 | (2,947) d | 23,141 |
| | | 1,642 e | | | 3,105 e | |
| Convertible note | 2,086 | (2,086) d | – | 2,086 | (2,086) d | – |
| Accumulated deficit | (255,835) | 9,198 | (246,637) | (284,945) | 11,726 | (273,219) |
| | 208,029 | (13,620) | 194,409 | 324,109 | (23,625) | 300,484 |
| | 281,763 | (812) | 280,951 | 409,585 | (15,167) | 394,418 |

Reconciliation of Consolidated Statements of Loss and Comprehensive Loss

| (US\$000s) | Year ended December 31, 2010 | | |
|---|------------------------------|----------------------|-----------------|
| | Canadian GAAP | Effect of Transition | IFRS |
| Revenue | | | |
| Oil | 21,720 | - | 21,720 |
| Interest | 208 | - | 208 |
| | 21,928 | - | 21,928 |
| Expenses | | | |
| Operating | 13,514 | 111 b | 13,625 |
| Exploration and evaluation | - | 8,471 g | 8,471 |
| General and administrative | 32,864 | 8,481 b 1,462 e | 42,807 |
| Depletion and depreciation | 8,960 | (2,436) f | 6,524 |
| Foreign currency exchange gain | (3,325) | - | (3,325) |
| Derivative instruments gain | - | (18,571) d | (18,571) |
| Interest | 24 | - | 24 |
| | 52,037 | (2,482) | 49,555 |
| Loss before income taxes | (30,109) | 2,482 | (27,627) |
| (Provision for) recovery of income taxes | | | |
| Current | (126) | - | (126) |
| Deferred | 1,125 | 60 b (14) f | 1,171 |
| | 999 | 46 | 1,045 |
| Net loss and comprehensive loss | (29,110) | 2,528 | (26,582) |

Notes to reconciliation

a. Reclassification of Intangible Assets

Under Canadian GAAP, oil and gas properties in the exploration and evaluation stage were classified as oil and gas properties and development costs. In accordance with IFRS 6 "Exploration for and evaluation of mineral resources", these properties were reclassified as intangible assets.

b. Adjustment for Capitalized Overhead

Under Canadian GAAP, the Company capitalized employee benefits and overhead that were directly attributable to E&E assets and PP&E. A portion of the amounts capitalized under Canadian GAAP do not meet the threshold for capitalization under IAS 16, "Property, Plant and Equipment," and therefore have been reclassified as operating costs or general and administrative expenses, as appropriate.

c. Decommissioning Provisions

Under Canadian GAAP, the present value of the Company's estimated future decommissioning costs was calculated using a credit-adjusted risk-free discount rate. The discount rate under IFRS does not permit company specific credit adjustments and therefore the decommissioning provision has been recalculated using a risk-free discount rate.

d. Derivative Instruments

Under Canadian GAAP, the equity component of the Company's Convertible Note and the purchase warrants were classified as shareholders' equity. In accordance with IAS 32, "Financial Instruments: Presentation," financial instruments with an exercise price denominated in a currency other than the Company's functional currency are accounted for as derivatives. As a result, the equity component and purchase warrants have been reclassified as derivative instruments.

This resulted in the reclassification of the convertible portion of the Convertible Note and purchase warrants from shareholders' equity to liabilities under IFRS. Additionally, IFRS requires these items to be recorded at fair value with changes in their fair value recognized in the income statement.

e. Share-Based Payments

Stock options were accounted for using the fair value method under Canadian GAAP and charged to operations on a straight-line basis. Under IFRS 2, "Share-Based Payment," share-based payments are charged to operations on a graded vesting basis thereby accelerating the compensation expense recognized in earnings.

f. Depletion

Under Canadian GAAP, the Company depleted its oil and gas assets using the unit-of-production method, based on proved reserves. For IFRS purposes, the Company is depleting its oil and gas assets using the unit-of-production method, based on proved plus probable reserves. This has resulted in a deferral of depletion expense.

g. Exploration and Evaluation Expense

Under Canadian GAAP, capitalization of unsuccessful exploration activities was permitted if the carrying value of the Company's total capitalized oil and gas properties and development was not impaired. Under IFRS, unsuccessful exploration and evaluation wells and impaired geological and geophysical assets will be charged to earnings as E&E expense.

SUPPLEMENTARY DISCLOSURES ABOUT OIL AND GAS PRODUCTION ACTIVITIES

(Unaudited)

(all tabular amounts are expressed in US\$000s, except reserves and depletion rate amounts)

The following information about the Company's oil and gas producing activities is presented in accordance with Accounting Standards Codification 932 Extractive Activities – Oil and Gas (section 235-55) formerly US SFAS No. 69, "Disclosures About Oil and Gas Producing Activities".

Oil and Gas Reserves

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Estimates of oil and gas reserves are subject to uncertainty and will change as additional information regarding the producing fields and technology becomes available and as future economic conditions change.

Reserves presented in this section represent the Company's share of reserves, excluding royalty interests of others. The reserves were based on the estimates by the independent petroleum engineering firm of GLJ Petroleum Consultants Ltd. The changes in the Company's net proved oil reserves in China for the three-year period ended December 31, 2011, were as follows:

| (mmbbls) | |
|--|--------------------|
| Net proved reserves, December 31, 2008 | 1,032 |
| Revisions of previous estimates | 535 ⁽¹⁾ |
| Production | (466) |
| Net proved reserves, December 31, 2009 | 1,101 |
| Revisions of previous estimates | 925 ⁽²⁾ |
| Production | (288) |
| Net proved reserves, December 31, 2010 | 1,738 |
| Revisions of previous estimates | 100 |
| Extensions and discoveries | 150 |
| Production | (353) |
| Net proved reserves, December 31, 2011 | 1,635 |

(1) The oil reserve revision is due to improved production and fracture performance of the Dagang property in relation to what was estimated in the 2008 reserve report.

(2) The reserve revision in 2010 is mainly related to lower estimated decline rates on the Dagang property based on production to date.

Net proved producing reserves in China as at December 31, were as follows:

| (mmbbls) | |
|----------|-------|
| 2009 | 885 |
| 2010 | 1,265 |
| 2011 | 1,235 |

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

For the years ended December 31, 2011, 2010, and 2009 future net cash flows were computed using 12 month historical average prices in estimating the Company's proved oil reserves, current costs, and statutory tax rates adjusted for tax deductions, that relate to existing proved oil reserves. The following standardized measure of discounted future net cash flows from proved oil reserves was computed using prices of \$93.91, \$76.35 and \$58.00 per bbl of oil in 2011, 2010 and 2009, respectively. A discount rate of 10% was applied in determining the standardized measure of discounted future net cash flows.

The Company does not believe that this information reflects the fair market value of its oil and gas properties. Actual future net cash flows will differ from the presented estimated future net cash flows in that:

- future production from proved reserves will differ from estimated production;
- future production may also include production from probable and possible reserves;
- future, rather than average annual, prices and costs will apply; and
- existing economic, operating and regulatory conditions are subject to change.

The standardized measure of discounted future net cash flows for China as at December 31 in each of the three most recently completed financial years were as follows:

| | 2011 |
|--|-------------|
| Future cash inflows | 178,378 |
| Future development and restoration costs | (12,260) |
| Future production costs | (75,639) |
| Future income taxes | (14,656) |
| Future net cash flows | 75,823 |
| 10% annual discount | (20,713) |
| Standardized measure | 55,110 |

| | 2010 |
|--|-------------|
| Future cash inflows | 132,745 |
| Future development and restoration costs | (7,209) |
| Future production costs | (58,790) |
| Future income taxes | (12,238) |
| Future net cash flows | 54,508 |
| 10% annual discount | (14,861) |
| Standardized measure | 39,647 |

| | 2009 |
|--|-------------|
| Future cash inflows | 63,862 |
| Future development and restoration costs | (3,307) |
| Future production costs | (36,825) |
| Future income taxes | (593) |
| Future net cash flows | 23,137 |
| 10% annual discount | (4,589) |
| Standardized measure | 18,548 |

Note: The Company is using current costs in the preparation of the information shown in the tables above and to determine proved reserves. However, future production costs may not be easily comparable to historical production costs. The two main causes of difficulty in analyzing future production costs when compared to historical spending are summarized as follows:

1. In March 2006, the Ministry of Finance of the Peoples Republic of China ("PRC") issued the "Administrative Measures on Collection of Windfall Gain Levy on Oil Exploitation Business" (the "Windfall Levy Measures"). According to the Windfall Levy Measures, effective as of March 26, 2006, enterprises exploiting and selling oil in the PRC are subject to a windfall gain levy (the "Windfall Levy") if the monthly weighted average price of oil is above \$40.00/bbl. The Windfall Levy is imposed at progressive rates from 20% to 40% on the portion of the weighted average sales price exceeding \$40.00/bbl. As a result, the cost associated with the Windfall Levy is not related to production volumes but instead is related to the commodity price. As an example, as oil prices increased during 2008, the amount of the Windfall Levy also increased significantly, resulting in a \$13.46 per bbl increase in 2008 when compared to 2007. The Windfall Levy accounted for \$21.14/bbl cost of the total \$43.92/bbl operating costs in our China operations, or in absolute terms \$10.4 million of the total \$21.5 million. This compared to only \$4.00/bbl or \$1.9 million in absolute terms incurred during 2009. On November 1, 2011, China's Ministry of Finance raised the windfall levy threshold from \$40.00/bbl to \$55.00/bbl.
2. Effective January 1, 2009, the Dagang field reached "Commercial Production" status as defined by the Production Sharing Contract with our partner CNPC. The effect of this change is that the Company no longer pays 100% of operating costs but now pays 82%, representing the "pre-cost recovery" proportionate share. Effective September 1, 2009, the project reached cost recovery and the working interests changed to 51% CNPC and 49% for the Company. In our 2008 independent reserve report that was used to prepare the standardized measure disclosures above, the 49/51% reversion was estimated based on total costs yet to recover.

Changes in standardized measure of discounted future net cash flows from China as at December 31 in each of the three most recently completed financial years were as follows:

| | 2011 |
|--|-------------|
| Sale of oil and gas, net of production costs | (21,833) |
| Net changes in prices and production costs | 24,927 |
| Extensions and discoveries, net of future production and development costs | 9,426 |
| Net change in future development costs | (18,571) |
| Development costs incurred during the period that reduced future development costs | 12,605 |
| Revisions of previous quantity estimates | 4,485 |
| Accretion of discount | 3,965 |
| Net change in income taxes | (2,418) |
| Changes in production rates (timing) and other | 2,877 |
| Increase | 15,463 |
| Standardized measure, beginning of year | 39,647 |
| Standardized measure, end of year | 55,110 |
| | 2010 |
| Sale of oil and gas, net of production costs | (12,216) |
| Net changes in prices and production costs | 15,878 |
| Extensions and discoveries, net of future production and development costs | - |
| Net change in future development costs | (8,082) |
| Development costs incurred during the period that reduced future development costs | 4,924 |
| Revisions of previous quantity estimates | 31,578 |
| Accretion of discount | 1,855 |
| Net change in income taxes | (11,645) |
| Changes in production rates (timing) and other | (1,193) |
| Increase | 21,099 |
| Standardized measure, beginning of year | 18,548 |
| Standardized measure, end of year | 39,647 |
| | 2009 |
| Sale of oil and gas, net of production costs | (14,777) |
| Net changes in prices and production costs | 6,396 |
| Extensions and discoveries, net of future production and development costs | - |
| Net change in future development costs | (3,536) |
| Development costs incurred during the period that reduced future development costs | 3,712 |
| Revisions of previous quantity estimates | 11,106 |
| Accretion of discount | 1,409 |
| Net change in income taxes | (593) |
| Changes in production rates (timing) and other | 745 |
| Increase | 4,462 |
| Standardized measure, beginning of year | 14,086 |
| Standardized measure, end of year | 18,548 |

Costs incurred in oil and gas property acquisition, exploration, and development activities for the Company's oil and gas properties for the years ended December 31 were as follows:

| | 2011 | 2010 |
|----------------------|---------------|---------------|
| Canada | | |
| Exploration | 9,697 | 29,324 |
| | 9,697 | 29,324 |
| Ecuador | | |
| Property acquisition | | |
| Unproved | 767 | 1,237 |
| Exploration | 11,536 | 16,467 |
| | 12,303 | 17,704 |
| Asia | | |
| Exploration | 23,094 | 27,261 |
| Development | 12,923 | 4,123 |
| | 36,017 | 31,384 |
| Total | 58,017 | 78,412 |

The depletion rates, on a net production basis, were as follows:

| China (\$/bbl) | | |
|-----------------------|--|-------|
| 2011 | | 19.54 |
| 2010 | | 21.54 |

The results of operations from producing activities for the years ended December 31 were as follows:

| | 2011 | 2010 |
|---|---------------|---------|
| Oil revenue | 37,403 | 21,720 |
| Operating | (15,570) | (9,539) |
| Depletion | (7,053) | (6,303) |
| Results of operations from producing activities | 14,780 | 5,878 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

The Company's management, including our Executive Chairman and 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 December 31, 2011. Based upon this evaluation, management concluded that these controls and procedures were effective to ensure that (1) information required to be disclosed in the Company's reports under the Exchange Act is accumulated and communicated to the Company's Executive Chairman and Chief Financial Officer to allow timely decisions regarding required disclosure and (2) 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. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on our assessment, management has concluded that, as of December 31, 2011, the Company's internal control over financial reporting was effective based on those criteria. Management has reviewed the results of its assessment with the Audit Committee of the Board of Directors. Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants that audited the consolidated financial statements included in Item 8 of this Form 10-K, has also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, as stated in their report which immediately follows.

/s/ Carlos A. Cabrera

Carlos A. Cabrera
Executive Chairman

/s/ Gerald D. Schiefelbein

Gerald D. Schiefelbein
Chief Financial Officer

March 15, 2012

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Ivanhoe Energy Inc.

We have audited the internal control over financial reporting of Ivanhoe Energy Inc. and subsidiaries (the "Company") as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Canadian generally accepted auditing standards and Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our report dated March 15, 2012 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants

March 15, 2012
Calgary, Canada

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Each director is elected for a one-year term or until his successor has been duly elected or appointed. All of our directors were elected at our last annual general meeting of shareholders ("AGM") held on April 27, 2011. The term of office of each director concludes at our next AGM, unless the director's office is earlier vacated in accordance with our by-laws.

| Name | Age | Positions Held | Ivanhoe Director Since |
|-----------------------|-----|-----------------------------------|------------------------|
| Carlos A. Cabrera | 60 | Executive Chairman | 2010 |
| Robert M. Friedland | 61 | Founder and Executive Co-Chairman | 1995 |
| A. Robert Abboud | 82 | Independent Lead Director | 2006 |
| Howard R. Balloch | 60 | Director | 2002 |
| Brian F. Downey | 70 | Director | 2005 |
| Robert G. Graham | 58 | Director | 2005 |
| Peter G. Meredith | 68 | Director | 2007 |
| Alexander A. Molyneux | 37 | Director | 2010 |
| Robert A. Pirraglia | 62 | Director | 2005 |

Officers serve at the pleasure of the Board of Directors.

| Name | Age | Current Position | Executive Officer Since |
|------------------------|-----|---|-------------------------|
| Carlos A. Cabrera | 60 | Executive Chairman | 2011 |
| Robert M. Friedland | 61 | Founder and Executive Co-Chairman | 2008 |
| David A. Dyck | 50 | President and Chief Operating Officer | 2010 |
| Gerald D. Schiefelbein | 53 | Chief Financial Officer | 2009 |
| K. C. Patrick Chua | 56 | Executive Vice President | 1999 |
| Gerald G. Moench | 63 | Executive Vice President | 1999 |
| Greg G. Phaneuf | 42 | Executive Vice President, Corporate Development | 2010 |
| Michael A. Silverman | 58 | Executive Vice President, Technology and Chief Technology Officer | 2007 |
| Edwin J. Veith | 53 | Executive Vice President, Upstream | 2007 |

A. ROBERT ABBOUD

Mr. Abboud has been the Independent Lead Director of the Company since May 2006 and serves as a member of the Company's Audit, Nominating and Corporate Governance and Executive Committees. He was Co-Chairman of the Company from May 2006 to December 2011. Mr. Abboud has been President and Chief Executive Officer of A. Robert Abboud and Company, a private investment company, since 1984, and has had a 46-year career in oil and gas, banking and foreign affairs. He was previously President and Chief Operating Officer of Occidental Petroleum Corporation, Chairman and Chief Executive Officer of First Chicago Corporation and The First National Bank of Chicago, Chairman and Chief Executive Officer of First City Bancorporation of Texas, Chairman of ACB International, Ltd., a joint venture that included the Bank of China and a subsidiary of the Chinese Ministry of Foreign Relations and Trade. Mr. Abboud has served as a member of the Board of Directors of AMOCO and as Audit Committee Chairman for AAR Corporation, Alberto-Culver Company, Hartmarx Corporation, ICN Pharmaceuticals Inc. and Inland Steel Industries. Mr. Abboud holds a Bachelor of Arts (Cum Laude) from Harvard College, a J.D. from Harvard Law School and a Master of Business Administration from Harvard Business School, and is a member of the Illinois and Massachusetts Bar Associations, as well as the Federal Bar and American Bar Associations. Mr. Abboud was selected to serve on our Board due to his extensive experience at the senior executive and board level in the oil and gas industry and in international finance, and for the financial acumen, strategic insight, acute business judgment and international business experience he brings to the Company.

ROBERT M. FRIEDLAND

Mr. Friedland has been Founder and Executive Co-Chairman of the Company since May 2008. A co-founder of the Company, Mr. Friedland has been a director since February 1995, Deputy Chairman of the Company from June 1999 to May 2008, President of the Company from May 2008 to May 2010 and Chief Executive Officer of the Company from May 2008 to December 2011. Mr. Friedland has served on the Company's Executive Committee since its formation in October 2008 and was Chair of the Executive Committee from October 2008 to December 2011. Mr. Friedland served as Executive Chairman of Ivanhoe Mines Ltd., a Canadian public company with extensive operating, development and exploration interests in the Asia Pacific region from March 1994 to May 2011 and was appointed as Chief Executive Officer in October 2010. Mr. Friedland is Chairman (since 1991) and President (since 1988) of Ivanhoe Capital Corporation, a private company based in Singapore that specializes in providing venture capital and project financing for international business enterprises, predominantly in the fields of energy and minerals. He has also been Chairman since 2000, and was President from 2003-2008, of Ivanplats Limited, a private company with assets in Africa, and was Chairman of Potash One Inc., a Canadian public company, from May 2009 to January 2011. Mr. Friedland brings many valuable attributes to our Board, including his extensive experience in international corporate finance and as a senior executive and director of several internationally-focused natural resource companies and his proven track record in overseeing the exploration for, and discovery of, major resource deposits in Canada, Mongolia, Africa and elsewhere.

HOWARD R. BALLOCH

Mr. Balloch has been a director of the Company since January 2002. Mr. Balloch is the Chair of both the Nominating and Corporate Governance and Compensation and Benefits Committees, and is a member of the Executive Committee. He is Chairman of Canaccord Genuity Asia Limited, following the acquisition by Canaccord Financial Inc. of The Balloch Group, the investment advisory firm he founded in 2001. A veteran Canadian diplomat, Mr. Balloch began serving as Canada's ambassador to the People's Republic of China, Mongolia and the Democratic People's Republic of Korea in 1996 after a 20-year career in the Government of Canada's Department of Foreign Affairs and International Trade and Privy Council Office. Mr. Balloch is Vice Chairman of the Canada China Business Council, having served as its President between 2001 and 2006. Mr. Balloch holds a Bachelor of Arts (Honours) degree in Political Science and Economics and a Master of Arts in International Relations from McGill University, and completed Ph.D. studies at the University of Toronto and at Fondation Nationale de Sciences Politiques, Paris. Mr. Balloch was selected to serve as a director on our Board based on his experience as a Canadian diplomat and as an international businessman, his extensive knowledge of foreign affairs and the political and regulatory environment in many of the key regions in which the Company operates, including China and Mongolia, and his knowledge and experience in matters of public company governance.

CARLOS A. CABRERA

Mr. Cabrera has been a director of the Company since May 2010 and was appointed as Executive Chairman of the Company in December 2011. Mr. Cabrera serves as the Chair of the Executive Committee and served as a member of the Audit, Nominating and Corporate Governance and Compensation and Benefits Committees from May 2010 to December 2011. Mr. Cabrera is the former Chairman (January 2009 to July 2009), President and Chief Executive Officer (from December 2006 to January 2009) of UOP LLC, a Honeywell company. During his 35 year career with UOP, he held several managerial and technology positions, including Senior Vice President of Refining and Petrochemicals, Senior Vice President of Process Technology and Equipment and Vice President of Corporate Development and New Ventures. Mr. Cabrera served as the President and Chief Executive Officer of the National Institute of Low Carbon and Clean Energy (NICE), a wholly owned subsidiary of the Shenua Group, based in Beijing, China, from December 2010 to November 2011 and remains to date on its Advisory Board. Mr. Cabrera has also served as a director of GEVO, Inc. since June 2010 and is a member of its Nominating and Corporate Governance and Audit Committees. In January 2012, he joined the Board of Directors of the Gas Technology Institute, a US based leading research institute, development and training organization serving energy and environmental markets. Mr. Cabrera has been a member of the Executive Board of Big West Oil LLC, a private US oil company, since December 2011. Mr. Cabrera also serves as a Distinguished Associate to the World Energy Consultancy Firm FACTS. Mr. Cabrera serves on the Global Advisory Board of the University of Chicago Booth School of Business. During Mr. Cabrera's 36 years in the refining and petrochemicals industry, he has been granted seven U.S. patents, authored numerous publications and frequently serves on industry panels as a recognized business and technical leader. He has a Bachelor of Science degree in chemical engineering from the University of Kentucky and a Master's degree in business administration from the University of Chicago. Mr. Cabrera brings to the Board extensive experience in petroleum refining, gas processing and petrochemical production as well as international business development and senior executive management experience.

BRIAN F. DOWNEY

Mr. Downey joined the Board of Directors in July 2005 and was appointed Chairman of the Audit Committee at that time. Mr. Downey also serves as a member of the Compensation and Benefits Committee and the Nominating and Corporate Governance Committee. Mr. Downey has been President of Downey & Associates Management Inc., a real estate holding company, since July 1986, and Financial Advisor to Lending Solutions, Inc., a full-service loan call centre located in the US whose clients are primarily US and Canadian financial institutions, since January 2002. From 1995 to 2002 he was a principal and served as Chief Executive Officer (“CEO”) of Lending Solutions, Inc., and from 1986 to 1995 he served as President and Chief Executive Officer of Credit Union Central of Canada, the national trade association and national liquidity facility for all credit unions in Canada. Mr. Downey has a Certified Management Accountant (CMA) designation from the University of Manitoba and is a Member of the Society of Management Accountants of Ontario. Mr. Downey was selected to serve as a director on our Board due to his extensive experience and expertise in financial and accounting matters. Mr. Downey is the Company’s “audit committee financial expert” within the meaning of the Securities Exchange Act of 1934.

DR. ROBERT G. GRAHAM

Dr. Graham has been a director of the Company since April 2005 and served as the Company’s Chief Technology Officer from April 2007 to September 2007. Dr. Graham co-founded Ensyn and served on the board and in various senior executive roles with Ensyn until it was acquired by the Company in 2005. Since then, he has served as Chairman (since June 2007) and Chief Executive Officer (since July 2008), and President and Chief Executive Officer (from April 2005 to June 2007) of Ensyn Corporation. Dr. Graham has been working on the commercial development of the RTP™ biomass refining and petroleum upgrading technologies since the early 1980’s. This work culminated in the development of commercial RTP applications in the wood industry in the late 1980’s and the establishment of Ensyn Renewables Inc. to capitalize on commercial projects for this business. In 1997, Dr. Graham initiated the application of this commercial RTP™ technology in the petroleum industry. Dr. Graham holds Bachelor of Science and Bachelor of Science Honours degrees from Carlton University, and a Master of Engineering and Ph.D. in Chemical Engineering from the University of Western Ontario. Dr. Graham brings unique skill, expertise and experience to our Board as the inventor of our HTL™ technology and as a scientist and businessman with extensive experience in the technology industry.

PETER G. MEREDITH

Mr. Meredith joined the Board of Directors in December 2007 and serves as a member of the Executive Committee. He previously served as a director from 1996 to 1999 and as the Company’s Chief Financial Officer from June 1999 to January 2000. Mr. Meredith has been Deputy Chairman of Ivanhoe Mines Ltd. since May 2006 and was Chief Financial Officer of Ivanhoe Mines Ltd. from May 2004 to May 2006 and from June 1999 to November 2001. He is also the Chairman (since October, 2009) and was previously Chief Executive Officer (June 2007 to October 2009) of SouthGobi Resources Ltd., and served as Chief Financial Officer of Ivanhoe Capital Corporation from June 2001 to March 2009. Prior to joining the Company, Mr. Meredith spent 31 years with Deloitte & Touche LLP, Chartered Accountants, where he retired as a partner in 1996. He was a member of its Canadian board of directors from 1991 to 1996. Mr. Meredith is a Chartered Accountant and is a member of the Institute of Chartered Accountants of British Columbia, the Institute of Chartered Accountants of Ontario and the Ordre des Comptables Agrées du Quebec. Mr. Meredith was selected to serve as a director on our Board due to his extensive experience at the senior executive and board level with international resource companies and his financial accounting, reporting and corporate finance expertise, and the depth of his knowledge of the Company’s operations and of the political and regulatory requirements of the regions in which the Company operates derived from his involvement in leadership roles with the Company and other resource companies operating in similar regions since 1996.

ALEXANDER A. MOLYNEUX

Mr. Molyneux has been a director of the Company since 2010. Mr. Molyneux is President and Chief Executive Officer of Canadian-based SouthGobi Resources Ltd. (TSX:SGQ, HK:1878). SouthGobi is focused on exploration and development of its Permian-age coal deposits in Mongolia’s South Gobi region to supply a wide range of coal products to markets in Mongolia and China. SouthGobi’s largest shareholder is Ivanhoe Mines Ltd. Before joining SouthGobi in 2009, Mr. Molyneux was Head of Metals and Mining Investment Banking for Citigroup where he established a leading metals and mining investment banking business in Asia. During a distinguished career at Citigroup and UBS, he advised on coal-related public offerings, mergers and acquisitions, bond and debt offerings totaling several billion dollars. Mr. Molyneux holds a Bachelor’s degree in Economics from Monash University in Australia. Mr. Molyneux was selected to serve as a director on our Board based on his comprehensive background in the areas of international capital markets, corporate finance and investment banking in Asia and elsewhere and his experience in doing business in the natural resource sector in China and Mongolia.

ROBERT A. PIRRAGLIA

Mr. Pirraglia has been a director of the Company since April 2005 and acted as the Chair of the Business Development Committee from August 2007 until May 2008. He is currently a member of the Audit Committee, Compensation and Benefits Committee and the Nominating and the Corporate Governance Committee. Mr. Pirraglia is an engineer and attorney with more than 25 years of experience in the development of energy projects and projects employing innovative technologies. He served on the board of Ensyn Group, Inc. starting in 1996, and was also Chief Operating Officer of Ensyn Group, Inc. from September 1998 to April 2005. He was appointed the President of Ensyn Corporation in June 2011 and was the Chief Operating Officer and Vice President of the company from April 2005 to October 2007 and Executive Vice President of the company from October 2007 to June 2011. Mr. Pirraglia has been a member of the Management Committee of Envergent Technologies LLC since October 2007. He is also a director of RAP Management Corporation. In addition to being a founder and manager of several energy and waste processing companies, Mr. Pirraglia has provided management and business consulting services to various US, Canadian and European companies. Mr. Pirraglia holds a Bachelor of Electrical Engineering degree from New York University and a J.D. from Fordham University School of Law. Mr. Pirraglia brings significant legal, technical and project management experience and expertise to our Board as well as governance experience from acting as a public company director.

DAVID A. DYCK

Mr. Dyck was appointed President and Chief Operating Officer of the Company in May 2010 and continues to serve as President and Chief Executive Officer of Ivanhoe Energy Canada Inc. Mr. Dyck was the Executive Vice President, Capital Markets from October 2009 to May 2010. Prior to his appointment with Ivanhoe Energy Canada Inc., Mr. Dyck served as President and Chief Executive Officer of LeaRidge Capital Inc. (January 2008 to October 2009) and as Senior Vice President Finance and Chief Financial Officer of Western Oil Sands Inc. (April 2000 to October 2007).

GERALD D. SCHIEFELBEIN

Mr. Schiefelbein has been the Chief Financial Officer of the Company since November 2009. Prior to his appointment as Chief Financial Officer, Mr. Schiefelbein served as Chief Financial Officer, Oil Americas – BP p.l.c. (September 2007 to February 2009), Controller, Oil Americas – BP p.l.c. (February 2006 to September 2007) and Controller, Other Businesses and Corporate (September 2003 to February 2006) for BP p.l.c., one of the world's largest energy companies.

K. C. PATRICK CHUA

Mr. Chua has been Executive Vice President of the Company since June 1999 and Chairman of the Company's subsidiary Sunwing Energy Ltd. since April 2004. From March 2000 to April 2004 he was President of Sunwing Energy Ltd.

GERALD G. MOENCH

Mr. Moench has been Executive Vice President of the Company since June 1999 and President of the Company's subsidiary Sunwing Energy Ltd. since April 2004.

GREG G. PHANEUF

Mr. Phaneuf was appointed Executive Vice President, Corporate Development of the Company in March 2011 and prior thereto, was Senior Vice President, Corporate Development since September 2010. Previous to his tenure with the Company, Mr. Phaneuf acted as Vice President, Corporate Development, for The Churchill Corporation from September 2009 to September 2010, Vice President and Chief Financial Officer of Seven Generations Energy, a private energy resource and development company, from January 2008 to June 2009 and Treasurer of Western Oil Sands Inc. from September 2004 to October 2007.

MICHAEL A. SILVERMAN

Mr. Silverman has been the Executive Vice President, Technology and Chief Technology Officer of the Company since September, 2007. From May, 2007 to September, 2007 he was Vice President, Technology of the Company. Prior to joining the Company, Mr. Silverman served as Vice President, Petrochemicals (May 2004 to May 2007) and Director, Technology Center (May 2000 to May 2004) for KBR, Inc.

EDWIN J. VEITH

Mr. Veith has been Executive Vice President, Upstream of the Company since September 2007. Mr. Veith has also been Vice President, HTL Technology of Ivanhoe Energy (USA) Inc. from November 2005 until June 2009. From June 2001 to November 2005, he was Chief Reservoir Engineer of Ivanhoe Energy (USA) Inc.

OTHER PUBLIC COMPANY DIRECTORSHIPS

The following is information respecting directorships held by our directors over the last five years at public and registered investment companies.

Messrs. Meredith and Friedland are directors of Ivanhoe Mines Ltd. and Ivanhoe Australia Limited. Mr. Balloch is a director of Methanex Corporation and was previously a director of Ivanhoe Mines Ltd., East Energy Corp., Canaccord Financial Inc. and Tiens Biotech Group USA Inc. Mr. Friedland was a director of Potash One Inc., a Canadian public company. Mr. Meredith is also a director of Entrée Gold Inc., SouthGobi Resources Ltd. and Great Canadian Gaming Corporation, and was previously a director of Jinshan Gold Mines Inc. (renamed China Gold International) and Olympus Pacific Minerals Inc. Mr. Molyneux is a director of SouthGobi Resources Ltd. Mr. Cabrera is also a director of GEVO, Inc.

BOARD COMMITTEES

As required under the Business Corporations Act (Yukon) and under section 3(a)(58)(A) of the Exchange Act, our Board of Directors has a separately designated standing Audit Committee. The members of the Audit Committee are Messrs. Brian F. Downey (Chair), A. Robert Abboud and Robert A. Pirraglia. Mr. Downey, one of our current independent directors, has been determined by the Board of Directors to be an Audit Committee financial expert. We believe that Mr. Downey's prior experience working as a Certified Management Accountant and significant financial and business experience at the executive levels of management qualifies him to be an Audit Committee financial expert.

We also have a Compensation and Benefits Committee, a Nominating and Corporate Governance Committee and an Executive Committee. The current members of the Compensation and Benefits Committee are Messrs. Howard R. Balloch (Chair), Robert A. Pirraglia and Brian F. Downey. The current members of the Nominating and Corporate Governance Committee are Messrs. Howard R. Balloch (Chair), Robert A. Pirraglia, Brian F. Downey and A. Robert Abboud. The current members of the Executive Committee are Messrs. Carlos A. Cabrera (Chair), Robert M. Friedland, A. Robert Abboud, Howard R. Balloch, David A. Dyck and Peter G. Meredith.

CODE OF BUSINESS CONDUCT AND ETHICS

We have a Code of Business Conduct and Ethics applicable to all employees, consultants, officers and directors regardless of their position in our organization, at all times and everywhere we do business. The Code of Business Conduct and Ethics provides that our employees, consultants, officers and directors will uphold our commitment to a culture of honesty, integrity and accountability and that we require the highest standards of professional and ethical conduct from our employees, consultants, officers and directors. The Code of Business Conduct and Ethics was amended in November 2007 to reflect our adoption of a whistleblower policy and to update our internal reporting process in connection with Code-related matters.

A copy of our Code of Business Conduct and Ethics, as amended, may be obtained, without charge, by request to Ivanhoe Energy Inc., Suite 654-999 Canada Place, Vancouver, British Columbia, Canada V6C 3E1, Attention: Corporate Secretary or by phone to 604-688-8323.

ITEM 11. EXECUTIVE COMPENSATION

We are a foreign private issuer that voluntarily files its annual reports on Form 10-K. As permitted by Item 402(a)(1) of Regulation S-K, we follow the disclosure requirements applicable in Canada with respect to executive compensation (Form 51-102 F6 of the CSA), which we believe address the requirements of, and require more detailed information than, Items 6.B and 6.E.2 of Form 20-F.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

- The purpose of the Company's compensation program for senior executives is to provide incentives to attract, motivate and retain qualified and experienced executives, to ensure their interests are aligned with shareholders and to provide fair transparent and defensible compensation.
- The Board, through its Compensation and Benefits Committee (the "Compensation Committee") is committed to the transparent presentation of its compensation program.
- The three principal elements that make up the compensation program are: base salary, performance bonus and long term incentives.
- Salary for senior executives is targeted at the median of the market while overall compensation, inclusive of salary, performance incentive bonus and long term incentives is targeted at the seventy-fifth percentile of the market.
- Overall incentive compensation is awarded based on both corporate objectives (compliance, financing and growth) and individual performance objectives.
- Long term incentives are comprised of incentive stock options and RSUs.
- In 2011 Mr. Friedland, Founder and Executive Co-Chairman, voluntarily waived a salary for acting as an executive of the Company and did not participate in the compensation program for executives. Although Mr. Friedland remains eligible to receive incentive compensation as determined by the Compensation Committee and the Board from time to time, he did not receive any such compensation in 2011.

In 2011, the individuals who served as our principal executive officer, our principal financial officer and the other three most highly compensated executive officers as of the end of 2011 (the "Named Executive Officers" or "NEOs") were:

| NEO | Position Held |
|------------------------|---|
| Carlos A. Cabrera | Executive Chairman |
| Robert M. Friedland | Founder and Executive Co-Chairman (formerly Executive Chairman and Chief Executive Officer) |
| David A. Dyck | President and COO |
| Gerald D. Schiefelbein | Chief Financial Officer |
| Michael A. Silverman | Executive Vice President and Chief Technology Officer |
| Edwin Veith | Executive Vice President, Upstream |

Compensation Committee

The Company's executive compensation program is administered by the Compensation Committee. The Compensation Committee's responsibilities include the following:

- reviewing and approving corporate goals and objectives for the principal executive officer's compensation, evaluating his performance and setting his compensation level;
- reviewing and making recommendations to the Board with respect to the adequacy and form of compensation and benefits of all executive officers and directors;
- administering and making recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- reviewing the Company's compensation program and the specific performance objectives and targets set to establish short term and long term incentive awards;
- recommending to the Board the principal executive officer's performance evaluation which takes into consideration the principal executive officer's annual objectives as established by the Board and input the Committee has received from other Board members with respect to the principal executive officer's performance; and

- determining the recipients of, and the nature and size of share compensation awards and bonuses granted from time to time.

All Compensation Committee members are independent directors. The Committee met five times during the year. All meetings of the Committee are documented in the form of meeting minutes. The Committee is made up of the following members, all of whom have experience in dealing with compensation matters:

- Mr. Howard Balloch has served as the Chair of the Company's Compensation and Nominating and Corporate Governance Committees since 2004 and 2003 respectively. Mr. Balloch has also served on the compensation committees of Ivanhoe Mines Ltd. and Methanex Corporation. He is the Chairman of Canaccord Genuity Asia Limited, a boutique investment banking firm that provides financial advisory services, and chairs its Compensation Committee (management level). In these various roles, Mr. Balloch has had frequent interaction with professional compensation advisors with matters pertaining to executive and director compensation;
- Mr. Brian Downey has served as a member of the Compensation Committee since May 2006. He was the President and Chief Executive Officer of the Credit Union Central of Canada from 1986 to 1995 and the Chief Executive Officer of Lending Solutions, Inc. from November 1995 to January 2002. During Mr. Downey's career in the financial services industry, he has had extensive experience with matters pertaining to senior management compensation; and
- Mr. Robert Pirraglia has served as a member of the Company's Compensation Committee since May 2008. He was appointed as the President of Ensyn Corporation in June 2011 and was the Chief Operating Officer and Vice President of the company from April 2005 to October 2007 and Executive Vice President of the company from October 2007 to June 2011. Mr. Pirraglia is an engineer and attorney with more than 25 years of experience in project development and has provided executive management and business consulting services to various U.S., Canadian and European companies. Mr. Pirraglia has been a member of the Management Committee of Envergent Technologies LLC since October 2007 and is also a director of a number of family-owned companies. In these roles, Mr. Pirraglia has regularly addressed executive and director compensation matters.

In addition, during 2011 until his appointment as an executive of the Company in December, 2011, Mr. Carlos A. Cabrera served on the Compensation Committee. Mr. Cabrera has experience with compensation matters from his career as a senior corporate executive.

In establishing policies covering base salaries, benefits, annual incentive bonuses and long term incentives, the Compensation Committee takes into consideration the recommendations of management. The Compensation Committee may seek compensation advice where appropriate from external consultants. When the Compensation Committee considers it necessary or advisable, it may retain, at the Company's expense, outside consultants or advisors to assist or advise the Committee on any matter within its mandate. The Committee has the sole authority to retain and terminate any such consultants or advisors.

In the second quarter of 2010 the Compensation Committee engaged the services of the consulting firm Mercer Canada Ltd. ("Mercer") to undertake a comprehensive review of executive compensation for executive positions and other senior management positions, including the development of a comparator group for the company to help the Company establish its compensation plan components with reference to its peers (the "Mercer Study"). No external consultants were hired during 2011, although the Company does review and participate in certain market studies as to compensation market standards, including the Mercer Total Compensation Survey for Energy Sector published in August of each year setting out reward levels as a general benchmark for industry in Canada (the "Mercer Annual Market Study"). In 2011 no fees were paid to compensation consultants, apart from nominal fees to participate in market studies, including the Mercer Annual Market Study.

Compensation and Benefits Philosophy and Goals

In determining the nature and quantum of compensation for the Company's executive officers the Company is seeking to achieve the following objectives, in approximately an equal level of importance:

- to provide a strong incentive to management to contribute to the achievement of Ivanhoe's short-term and long-term corporate goals;
- to ensure that the interests of Ivanhoe's executive officers and the interests of the Company's shareholders are aligned;
- to ensure that Ivanhoe is able to attract, retain and motivate executive officers of the highest caliber in light of the strong competition in the oil and gas industry for qualified personnel;

- to recognize that the successful implementation of Ivanhoe's corporate strategy cannot necessarily be measured, at this stage of its development, only with reference to quantitative measurement criteria of corporate or individual performance; and
- to provide fair, transparent, and defensible compensation.

In addition, the Company strives to follow guiding principles to be cost effective and competitive, to promote internal equity, to represent both value of the job and value of the person, to link compensation decisions to results, and to both be responsive to local factors within a global outlook.

NEOs and directors are not permitted to purchase financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or director in accordance with the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy.

Recent Developments Related to Executive Compensation

As part of a re-alignment of the Company's leadership team, effective December 12, 2011, Carlos A. Cabrera was appointed as Executive Chairman and Robert M. Friedland continued in his role as Founder and Executive Co-Chairman, but relinquished his role as Chief Executive Officer.

How the Company Makes Compensation Decisions

The Compensation Committee oversees and sets the general guidelines and principles for the implementation of the Company's executive compensation policies, assesses the individual performance of the Company's executive officers and makes recommendations to the Board of Directors. Based on these recommendations, the Board of Directors makes decisions concerning the nature and scope of the compensation to be paid to the Company's executive officers. The Compensation Committee bases its recommendations to the Board on Ivanhoe's compensation philosophy and on individual and corporate performance.

The Compensation Committee annually reviews, and recommends to the Board, the cash compensation, any annual performance bonus, long term incentive grants and overall compensation package for each of the Corporation's executive officers.

Decisions for base salary adjustments are usually made during the first quarter of the new fiscal year. In the normal course of business, corporate goals and certain individual goals upon which performance bonuses are, in part, made for a fiscal year are set at the beginning of the fiscal year, and decisions on actual bonuses and incentive awards are reviewed during the first quarter following the end of the fiscal year and awarded as soon as practicable thereafter. Management presents its compensation recommendations for consideration by the Compensation Committee. The Compensation Committee presents its recommendations for overall compensation for base pay, bonuses and incentives to the Board for its approval.

Notwithstanding the adoption of a more formalized approach following the development of the Company's compensation plan in 2010, based on the Mercer Study, the Compensation Committee and the Board retain a significant level of discretion in making compensation decisions, particularly in determining the satisfaction of broad performance criteria and overall personal performance in determining the percentage of target bonus and long term incentive that is ultimately awarded within the established bonus framework. The Compensation Committee and Board also retain flexibility in making compensation awards outside of the compensation plan framework where circumstances justify such awards.

In designing and implementing the Company's compensation policy the Compensation Committee and the Board regularly assess, as part of their respective deliberations, the risks associated with the Company's policies and practices. The structure of incentive compensation for executives is designed not to focus on a single metric, which in the Company's view could be distortive, but instead a combination of both corporate and personal objectives as well as discretion in the ultimate awards, that balance both long term and short term objectives and a subjective view of overall performance. The policies are designed to preserve cash to the extent practicable, with executives participating in the upside potential of the Company through stock options and RSUs that aim to mirror shareholder returns. Consideration of risk is also directly incorporated into the incentive compensation by including compliance as an important factor in corporate objectives for bonus and long term incentive awards.

Peer Comparator Group

The comparator group for the Company for purpose of developing the compensation program includes oil and gas companies with international operations, oil sands operations and similar market capitalization. The comparator group included Pacific Rubiales Energy Corporation, Black Pearl Resources Inc., Niko Resources Ltd., Connacher Oil & Gas Ltd., Athabasca Oil Sands Corporation, OPTI Canada Inc., Petrobank Energy & Resources Ltd., TransGlobe Energy Corporation, Bankers Petroleum Ltd., Ithaca Energy Inc., Gran Tierra Energy Inc., Calvalley Petroleum Inc., Paramount Resources Ltd., Pan Orient Energy Corporation, Southern Pacific Resources Corporation and Transatlantic Petroleum Ltd. For compensation decisions in 2010, specific reference was not made to this comparator group but rather benchmarking at the median (for salary) and seventy-fifth percentile (for overall compensation) was done with reference to appropriate data from the Mercer Annual Market Study, adjusted for inflation.

Elements of Total Compensation

The compensation package that the Company provides to its executive officers generally consists of base salary, annual performance bonuses and equity incentives. The Company's compensation policy reflects a belief that an element of total compensation for the Company's executive officers should be "at risk" and in the form of common shares or incentive stock options so as to create a strong link to build shareholder value. In setting compensation levels, the Compensation Committee takes into account an executive's past performance, future expectations for performance and also considers both the cumulative compensation being granted to executives as well as internal and external equity amongst the Company's executives. At this stage of the Company's development, the Company also considers the available cash resources of the Company.

The following summarizes the primary purpose of each compensation element and its emphasis:

- base salary – paid in cash as a fixed amount of compensation for performing the day to day responsibilities of the job;
- performance bonus – annual award, paid in cash and earned for the achievement of near term critical strategic corporate and project goals; and
- long term incentive awards – annual equity award, in the form of a combination of stock options and RSUs, granted to align the interests of the executive with longer term Company goals, the creation of shareholder value and the retention of key executives.

Base Salary

The base salaries of the Company's executive officers are determined at the commencement of employment as an executive officer by the terms of the executive officer's employment contract. The base salary is determined by a subjective assessment of each individual's performance, experience and other factors the Company believes to be relevant, including prevailing industry demand for personnel having comparable skills and performing similar duties, the compensation the individual could reasonably expect to receive from a competitor and the Company's ability to pay.

Under the Company's compensation program and onward, salary levels are to be assessed using a pay grade system that is consistent with industry practice. Each of the Company's employees, including the Company's executive officers, is placed in a pay grade based upon his or her position, knowledge, skills, relevant experience and credentials. Annual salary increases are made based on performance and the relative position within a pay grade. The Compensation Committee also considers retention risks, succession requirements and compensation changes in the market in determining salary changes. Salary targets for executives are generally targeted at a median salary determined, in 2011, with reference to the relevant ranges set out in the Mercer Annual Market Study.

Cash Performance Bonus

The annual bonus program is intended to align the performance of the Company's employees with the near term critical goals defined in the annual business plan. The program calls on the same pay grade system used to establish base salary to be used for determining the bonus targets for each employee.

Under the compensation plan for 2011 and onwards, cash bonuses are awarded to the Company's executive officers and senior non-executive management based on the performance of the Company, the success in meeting, or exceeding, defined corporate and individual performance targets and the discretionary assessment of the executive's performance by the Compensation Committee and the Board. For executive officers, potential bonus awards can range from 55% to 75% of base salary multiplied by a weighted achievement factor ranging from 0% to 200%.

Long Term Incentive Plan

Equity based compensation is granted to the Company's executive officers and management. This long term incentive portion of salary is meant to retain key employees over the long term and to focus the efforts of those individuals on shareholder return and the longer broader goals of the organization. To remain competitive within the industry, equity grants in the form of stock options and RSUs are used to enhance the overall total compensation package.

Equity based compensation is determined as a percentage of base pay and may have a combination of stock option grants and RSUs, the combination of which is determined by the pay grade level. The higher the grade level the higher the weighting towards "at risk" stock option grants.

All outstanding stock options that have been granted under the Company's Equity Incentive Plan were granted at prices not less than 100% of the fair market value of the Company's common shares on the dates such options were granted. In addition, the Board of Directors has traditionally taken an approach to vesting that is based on the passage of time and option exercise periods and vesting schedules for options granted to executive officers are determined by the Compensation Committee and the Board of Directors.

During 2011, the Company established a RSU Plan to provide a form of equity compensation that is less dilutive than options as the RSU Plan does not involve any issue of shares from treasury. The RSU Plan is administered by the Board which has the power make decisions about the awarding of RSUs. The awards under the RSU Plan consist of common shares of the Company purchased on the Toronto Stock Exchange through a Trustee. Generally RSUs vest in thirds on the first, second, and third anniversaries of the date of grant. On the date of vesting, in lieu of common shares, employees may receive a cash amount equal to the fair market value of the common shares then deliverable. If an employee voluntarily leaves the employment of the Company any unvested RSUs are forfeited by the employee under the terms of the RSU Plan. In the event of a termination without cause, as defined in the RSU Plan, all unvested RSUs are terminated six months after the date of termination; provided however that in the event such termination without cause occurs within six months following a change of control, all unvested RSUs vest on the earlier of the next vesting date for the applicable RSU award and the effective time of such termination.

While the Compensation Committee and the Board retain flexibility in apportioning long-term incentive compensation as between stock options and RSUs, the targeted allocation for NEOs is generally expected to be in the range of 60% to 80% weighting for stock options and 20% to 40% for RSUs for a given award.

Long term incentive awards granted under the compensation plan are awarded according to performance and the success in meeting or exceeding the annual established corporate and project targets. For NEOs, potential value of equity grants can range from 160% to 225% of base salary multiplied by a weighted achievement factor ranging from 0% to 200%.

EXECUTIVE COMPENSATION DECISIONS

Salary Compensation

Robert M. Friedland, Founder and Executive Co-Chairman, has voluntarily waived a cash salary from the Company. Mr. Carlos A. Cabrera, Executive Chairman, was hired December 2011 and his annual salary was set based on his experience, prevailing industry demand and other factors relevant to the negotiation for his hiring.

In 2011, the base salaries for the other NEOs were increased by 4.2% over the previous year. These increases were determined with reference to externally generated compensation data from the Canadian oil and gas industry upon which the Compensation Committee relied, including the Mercer Annual Market Study.

Short Term and Long Term Incentive Compensation Awards Made in 2011 Relating to 2010 Performance

The following chart sets out the value of bonus (short term incentive) and long term incentive compensation awarded during 2011 relating to 2010 performance for each of the NEOs receiving such compensation in 2011.

| Name | 2010 Salary (\$) | Target Bonus (% of Salary) | Target Bonus (\$) | Target Long Term Incentive (% of Salary) | Target Long Term Incentive (\$) | Percentage of Bonus and Long Term Incentive Awarded Based on | | Percentage of Target Awarded (between 0% and 200%) | Bonus Awarded (\$) | Long Term Incentive Awarded ⁽²⁾ (\$) |
|---------------------------------------|------------------|----------------------------|-------------------|--|---------------------------------|--|---------------------|--|--------------------|---|
| | | | | | | Corporate Objectives | Personal Objectives | | | |
| David A. Dyck ⁽¹⁾ | 353,921 | 75% | 265,440 | 225% | 796,322 | 100% | 0% | 70% | 197,831 | 487,557 ⁽³⁾ |
| Gerald D. Schiefelbein ⁽¹⁾ | 264,523 | 55% | 145,487 | 160% | 423,236 | 60% | 40% | 95% | 146,267 | 367,644 ⁽⁴⁾ |
| Michael A. Silverman | 283,687 | 55% | 156,027 | 160% | 453,896 | 60% | 40% | 95% | 148,225 | 384,942 ⁽⁵⁾ |
| Edwin J. Veith | 263,627 | 55% | 144,994 | 160% | 421,802 | 60% | 40% | 80% | 115,995 | 301,239 ⁽⁶⁾ |

(1) Amounts paid in Canadian dollars to Messrs. Dyck and Schiefelbein were converted to US currency based on the Bank of Canada monthly average exchange rate during the pay periods.

(2) The value of the stock options awarded is the estimated fair value on date of grant calculated using the Black-Scholes option pricing model, with the following assumptions: an estimated volatility equal to the historical volatility of the Company's common shares over a period equal to the expected life of the option, an estimated dividend yield of \$nil, a risk free rate of return equal to the rate currently available on federal government zero-coupon bonds with a term equal to the expected life of the option and an expected life approximating the term of the option. The value of stock options with a Canadian dollar exercise price was converted to US dollars using the Bank of Canada closing exchange rate on date of grant, for example, Cdn\$1.00 to US\$1.02 on May 24, 2011.

The value of the RSUs awarded is the estimated fair value on date of grant, which is calculated as the number of RSUs awarded multiplied by the weighted average price of the Company's common shares for the five trading days immediately preceding the date of grant, converted to US dollars using the Bank of Canada closing exchange rate on date of grant.

(3) Consists of 43,352 RSUs which vest as to one third on each of May 24 of 2012, 2013 and 2014, and options to purchase 239,337 common shares exercisable at Cdn\$2.65, expiring on May 24, 2018, and vesting as to 25% on each of May 24 of 2012, 2013, 2014 and 2015.

(4) Consists of 62,162 RSUs which vest as to one third on each of May 24 of 2012, 2013 and 2014, and options to purchase 128,695 common shares exercisable at Cdn\$2.65, expiring on May 24, 2018 and vesting as to 25% on each of May 24 of 2012, 2013, 2014 and 2015.

(5) Consists of 65,087 RSUs which vest as to one third on each of May 24 of 2012, 2013 and 2014, and options to purchase 134,750 common shares exercisable at Cdn\$2.65, expiring on May 24, 2018 and vesting as to 25% on each of May 24 of 2012, 2013, 2014 and 2015.

(6) Consists of 50,934 RSUs which vest as to one third on each of May 24 of 2012, 2013 and 2014, and options to purchase 105,450 common shares exercisable at Cdn\$2.65, expiring on May 24, 2018 and vesting as to 25% on each of May 24 of 2012, 2013, 2014 and 2015.

The following chart sets out the corporate performance objectives that contributed to the determination of NEOs receiving annual incentive compensation in 2011 in respect of 2010 performance. In determining the weighted achievement factor for incentive compensation as a percentage of targeted incentive compensation in the chart above, corporate objectives were weighted by the Compensation Committee and Board at approximately 60% in the case of Messrs. Schiefelbein, Silverman and Veith with the balance represented by a discretionary assessment of performance objectives for each such executive. The final percentage of target awarded was subject to a discretionary personal assessment of overall job performance by the Compensation Committee and the Board. Mr. Dyck's weighted achievement factor was weighted principally on corporate objectives as well as a discretionary assessment of overall job performance.

| Corporate Performance Objectives (Awarded in 2011 Based on 2010 Performance) | Performance Results | Weighting |
|---|--|-----------|
| Compliance: absence of environmental, health, safety, legal and regulatory violations | Exceeded: no material violations | 20% |
| Financing: raise sufficient capital to fund operations of the Company for current year | Met: raised sufficient capital to fund operations in current year | 50% |
| Growth: identify and secure new business opportunities beyond existing projects | Not Met: no new projects secured in 2010 | 30% |

The weighted assessment of the corporate performance, based on the items in the table above, was determined by the Board and Compensation Committee as having been 70% achieved.

For 2010 performance, Mr. Dyck was evaluated on the corporate performance criteria together with a discretionary assessment of his job performance, without reference to any individual performance objectives. The Board awarded Mr. Dyck an overall performance assessment for 2010 of 70% of target.

Mr. Silverman was given personal objectives to effectively run the Feedstock Test Facility, to defend and enhance the HTL intellectual property, and to effectively participate in road shows, capital raising and business development activities.

Mr. Silverman was determined to have achieved all significant personal objectives. The Board took particular note of his success in extending the patent protection for the HTL intellectual property. Based on the foregoing and a discretionary assessment as to overall job performance, Mr. Silverman was given an overall performance assessment for 2010 of 95% of target.

Mr. Schiefelbein was given personal objectives to successfully handle accounting, external reporting, tax, Sarbanes-Oxley compliance and securities filing responsibilities. Mr. Schiefelbein was rated as having achieved all his objectives as well as having successfully relocated the accounting activities and systems from Bakersfield to Calgary. Based on the foregoing and a discretionary assessment as to overall job performance, Mr. Schiefelbein was given an overall performance assessment for 2010 of 95% of target.

Mr. Veith was given personal objectives to complete delineation drilling for the Tamarack project, complete regulatory filings for Tamarack, as well as to support road shows, capital raising and A&D activities. Mr. Veith successfully completed the delineation drilling project, however the Tamarack regulatory filing was completed later in 2010 than originally scheduled. Based on the foregoing and a discretionary assessment to overall job performance, Mr. Veith was given a performance assessment for 2010 of 80% of target.

Short Term and Long Term Incentive Compensation Awards made in 2011 and 2012 Relating to 2011 Performance

The following chart sets out the value of bonus (short term incentive) and long term incentive compensation awarded in respect of 2011 performance for each of the NEOs receiving such compensation in 2011.

| Name | 2011 Salary (\$) | Target Bonus (% of Salary) | Target Bonus (\$) | Target Long Term Incentive (% of Salary) | Target Long Term Incentive (\$) | Percentage of Bonus and Long Term Incentive Awarded Based on | | Percentage of Target Awarded (between 0% and 200%) | Bonus Awarded (\$) | Long Term Incentive Awarded ⁽¹⁾ (\$) |
|------------------------|------------------------|----------------------------|------------------------|--|---------------------------------|--|---------------------|--|------------------------|---|
| | | | | | | Corporate Objectives | Personal Objectives | | | |
| David A. Dyck | 426,088 ⁽²⁾ | 75% | 319,566 ⁽³⁾ | 225% | 958,698 | 100% | 0% | 35% | 118,886 ⁽³⁾ | 356,658 |
| Gerald D. Schiefelbein | 287,567 ⁽²⁾ | 55% | 158,161 ⁽³⁾ | 160% | 460,107 | 60% | 40% | 61% | 95,148 ⁽³⁾ | 276,792 |
| Michael A. Silverman | 295,056 | 55% | 162,281 | 160% | 472,090 | 60% | 40% | 61% | 98,991 | 287,975 |
| Edwin J. Veith | 274,176 | 55% | 150,796 | 160% | 438,682 | 60% | 40% | 56% | 83,692 | 243,468 |

- (1) Represents the value of compensation, determined in the first quarter of 2012 with respect to 2011 performance, to be satisfied by a grant of options and/or RSUs to be specified and granted at a later date.
- (2) Amounts paid in Canadian dollars to Messrs. Dyck and Schiefelbein were converted to US currency based on the Bank of Canada monthly average exchange rate during the pay periods.
- (3) The 2011 cash bonuses have not yet been paid, therefore amounts awarded to Messrs. Dyck and Schiefelbein have been converted to US currency for disclosure purposes using the March 5, 2012 Bank of Canada noon exchange rate.

The following chart sets out the corporate performance objectives applicable to NEOs receiving annual incentive compensation in respect of 2011 performance. In determining the weighted achievement factor for incentive compensation as a percentage of targeted incentive compensation in the chart, these corporate objectives were weighted by the Compensation Committee and Board at approximately 60% in the case of Messrs. Schiefelbein, Silverman and Veith with the balance represented an assessment of performance objectives for each such executive as well as a discretionary assessment overall job performance. Mr. Dyck's weighted achievement factors were weighted principally on corporate objectives.

| Corporate Performance Objectives (In Respect of 2011 Performance) | Weighting | Performance | Achievement of Target |
|---|-----------|--|-----------------------|
| Compliance: absence of environmental, health, safety, legal and regulatory violations (based on a target and level of 1 incident and maximum goal of no incidents) | 20% | 50% - partially met (2 minor incidents) | 10% |
| Financing: raise sufficient capital to fund operation of the Company | 50% | 50% - partially met (activity financed during the year rather than at beginning of year) | 25% |
| Growth: determined by share price, based on target level of Cdn\$4.47 | 30% | 0% - not met | 0% |
| | 100% | | 35% |

The weighted assessment of corporate performance based on the items in the table above was determined by the Board and the Compensation Committee to have been 35% achieved.

For 2011 performance, Mr. Dyck was evaluated on the corporate performance criteria of having achieved 35% of target.

Mr. Silverman was rated 100% on having exceeded his personal project objectives in respect of the development and further efficiencies related to the Feedstock Test Facility and to defend and enhance the HTL intellectual property. Mr. Silverman was accordingly given an overall weighted achievement factor of 61%.

Mr. Schiefelbein was rated 100% upon having exceeded his personal objectives to successfully handle accounting, external reporting, tax, Sarbanes-Oxley compliance, and securities filings and human resources issues including the development of the RSU plan. Mr. Schiefelbein was accordingly given an overall weighted achievement factor of 61%.

Mr. Veith was rated 86% on achievement of his personal objectives largely related to the further development of the Tamarack project, as well as his contributions to corporate finance activities of the Company. Mr. Veith was accordingly given an overall weighted achievement factor of 56%.

In connection with the management restructuring in December 2011, Mr. Dyck was granted an extraordinary grant of options to purchase 250,000 common shares exercisable at Cdn\$0.92, expiring on December 16, 2018 and vesting as to 25% on each of December 16 of 2012, 2013, 2014 and 2015. In connection with his hiring in December, 2011 Mr. Cabrera was awarded stock options to purchase 650,000 common shares exercisable at Cdn\$0.92, expiring on December 16, 2018 and vesting as to 25% on each of May 24 of 2012, 2013, 2014 and 2015.

Other Compensation

In 2011, Mr. Dyck received an annual retirement allowance benefit of \$21,123 and Company paid parking of \$5,326.

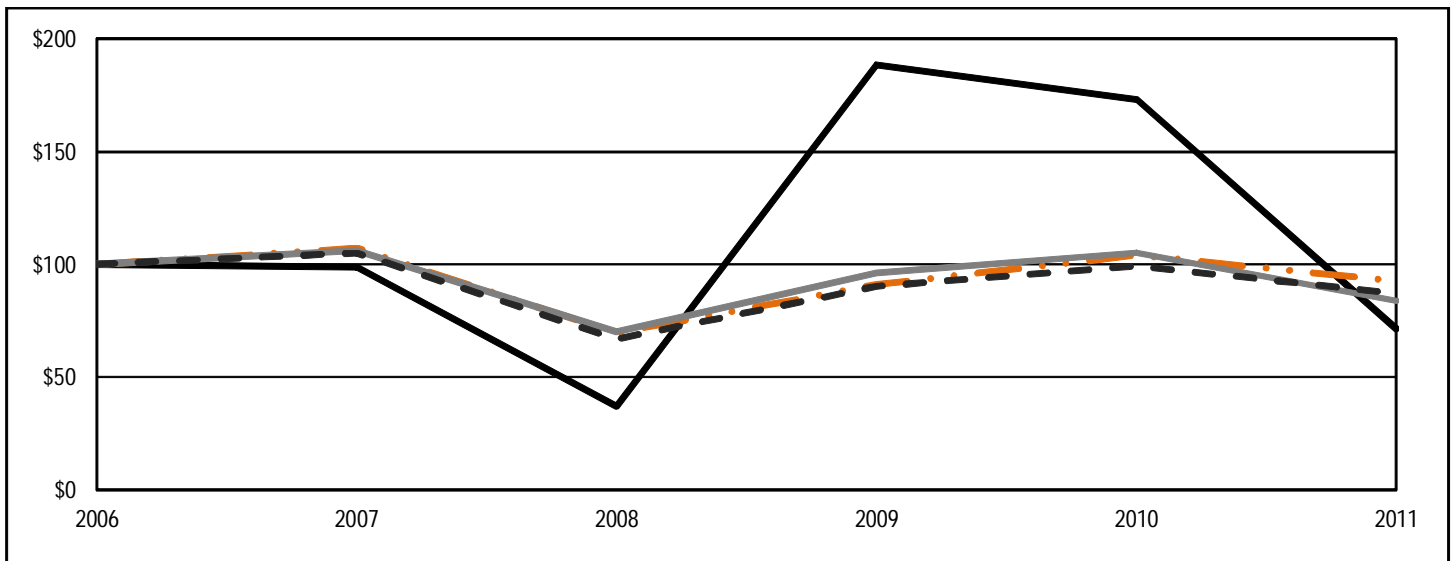
Employees of Ivanhoe Energy Holdings Inc. may participate in Ivanhoe's 401(k), a defined contribution plan that includes Employee and Company contributions. See also "Pension Plan" below. In 2011, the Company paid Mr. Silverman \$22,000 for the purpose of contributing to his 401(k) retirement plan. In 2011, Mr. Veith was paid \$20,400 for the purpose of contributing to his 401(k) retirement plan as well as \$66,328 as an expatriate housing allowance.

All NEOs participate in insurance plans offered to all employees, including group life insurance, accidental death and dismemberment, Business Travel Accidental coverage and Supplemental Business Travel Medical coverage calendar year.

In the first quarter of 2012, the Compensation Committee and the Board determined the quantum of long-term incentive compensation relating to 2011 compensation for certain executive officers, to be awarded in the future by the grant of combination of stock options and RSUs. As these awards have not yet been granted, the quantum of these awards is included in "All Other Compensation" in the Summary Compensation table below. See also "Short Term and Long Term Incentive Compensation Awards made in 2011 and 2012 relating to 2011 Performance" above.

Performance Graph

The following graph shows the change in a Cdn\$100 investment in Ivanhoe common shares over the past five years, compared to the S&P/TSX Composite Index, the S&P/TSX Oil & Gas Exploration & Production and the S&P/TSX Energy Sector Index as at December 30, 2011. The Company's common shares were part of the S&P/TSX Composite Index from March 22, 2010 until December 9, 2011.



| (Cdn\$) | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|--------|--------|-------|--------|--------|-------|
| Ivanhoe Energy Inc. | 100.00 | 98.73 | 36.94 | 188.54 | 173.25 | 71.34 |
| S&P/TSX Composite Index | 100.00 | 107.16 | 69.63 | 91.00 | 104.14 | 92.61 |
| S&P/TSX Oil & Gas Exploration & Production Index | 100.00 | 106.04 | 70.03 | 96.13 | 105.13 | 83.82 |
| S&P/TSX Energy Sector Index | 100.00 | 105.00 | 66.85 | 90.23 | 99.25 | 87.07 |

The trend in overall compensation paid to the Company's executive officers over the past five years has not specifically tracked the performance of the market price of the Company's common shares, or the S&P/TSX Composite Index, particularly since 2007. Overall compensation for NEOs increased during the period.

Option-Based Awards

Please see the section "Incentive Compensation" in the Compensation Discussion and Analysis for a discussion of the Company's approach to option-based awards.

In 2011, the Company issued option-based awards under its Equity Incentive Plan to executive officers as described under the heading "2011 Executive Compensation Decisions."

COMPENSATION TABLE

The following table sets forth all compensation earned by the individuals who served as our NEOs. Our NEOs may change from year to year due to fluctuations in our executive officers' annual compensation.

| Name and Principal Position | Year | Salary ⁽¹⁾ (\$) | Share-Based Awards ⁽²⁾ (\$) | Option-Based Awards ⁽³⁾ (\$) | Non-Equity Incentive Plan Compensation - Annual Incentive Awards ⁽⁴⁾ (\$) | Pension Value (\$) | All Other Compensation (\$) | Total Compensation (\$) |
|---|----------------------|-------------------------------|---|--|--|--------------------|-----------------------------|-------------------------|
| Carlos A. Cabrera Executive Chairman | 2011 ⁽⁵⁾ | 27,237 | - | 421,316 ⁽⁶⁾ | - | - | 99,870 ⁽⁶⁾ | 548,423 |
| | 2010 | - | - | 408,504 ⁽⁶⁾ | - | - | 53,667 ⁽⁶⁾ | 462,171 |
| | 2009 | - | - | - | - | - | - | - |
| Robert M. Friedland Founder and Executive Co-Chairman | 2011 ⁽⁷⁾ | - | - | - | - | - | - | - |
| | 2010 | - | - | 1,497,797 | - | - | - | 1,497,797 |
| | 2009 | - | - | - | - | - | - | - |
| David A. Dyck President & COO | 2011 | 426,088 | - | 126,920 | 118,886 | - | 383,107 ⁽⁸⁾⁽⁹⁾ | 1,055,001 |
| | 2010 | 353,921 | 117,697 | 669,419 ⁽¹⁰⁾ | 197,831 | - | 24,917 | 1,363,785 |
| | 2009 ⁽¹¹⁾ | 82,842 | - | 982,223 | 42,424 | - | 5,463 | 1,112,952 |
| Gerald D. Schiefelbein CFO | 2011 | 287,567 | - | - | 95,148 | - | 276,792 ⁽⁹⁾ | 659,507 |
| | 2010 | 264,523 | 168,765 | 393,593 ⁽¹²⁾ | 146,267 | - | - | 973,148 |
| | 2009 ⁽¹³⁾ | 61,750 | - | 392,889 | 29,874 | - | - | 484,513 |
| Michael A. Silverman Executive VP, Technology & CTO | 2011 | 295,056 | - | - | 98,991 | 22,000 | 292,175 ⁽⁹⁾ | 708,222 |
| | 2010 | 283,687 | 176,706 | 402,950 ⁽¹⁴⁾ | 148,225 | 22,000 | - | 1,033,568 |
| | 2009 | 272,250 | - | 228,623 | 134,942 | 22,000 | - | 657,815 |
| Edwin J. Veith Executive VP, Upstream | 2011 | 274,176 | - | - | 83,692 | 20,400 | 315,122 ⁽⁹⁾⁽¹⁵⁾ | 693,390 |
| | 2010 | 263,627 | 138,282 | 357,671 ⁽¹⁶⁾ | 115,995 | 22,000 | 122,715 ⁽¹⁷⁾ | 1,020,290 |
| | 2009 | 253,000 | - | 228,623 | 128,936 | 21,083 | - | 631,642 |

(1) Amounts paid in Canadian dollars to Messrs. Dyck and Schiefelbein were converted to US currency based on the Bank of Canada monthly average closing exchange rate during the pay periods.

(2) The value of the RSUs awarded is the estimated fair value on date of grant, which is calculated as the number of RSUs awarded multiplied by the weighted average price of the Company's common shares for the five trading days immediately preceding the date of grant, converted to US dollars using the Bank of Canada exchange rate on date of grant. Share-based awards in the form of RSUs in respect of 2010 compensation (awarded in May 2011) were not previously disclosed as they were not finalized by the filing date of our 2010 10K report.

(3) The value of the stock options awarded is the estimated fair value on date of grant calculated using the Black-Scholes option pricing model, with the following assumptions: an estimated volatility equal to the historical volatility of the Company's common shares over a period equal to the expected life of the option, an estimated dividend yield of \$nil, a risk free rate of return equal to the rate currently available on federal government zero-coupon bonds with a term equal to the expected life of the option and an expected life approximating the term of the option. The value of stock options with a Canadian dollar exercise price was converted to US dollars using the Bank of Canada closing exchange rate on date of grant. Stock options awarded in May 2011, in respect of 2010 compensation, were not previously disclosed as they were not finalized by the filing date of our 2010 10K report.

(4) Cash bonuses were paid in 2011 and 2010 in connection with the NEOs performance in the prior year. The 2010 bonuses, awarded in 2011, were not previously disclosed as the amounts had not yet been finalized by the filing date of our 2010 10K report. Cash bonuses paid to Messrs. Dyck and Schiefelbein were converted to US currency based on the Bank of Canada monthly average closing exchange rate during the pay period.

The 2011 cash bonuses have not yet been paid; any cash bonuses awarded in respect of 2011 performance have been accrued with the expectation that they will be dispensed to the recipient of the award during 2012, either incrementally or in a lump sum, at the Company's discretion. Amounts awarded to Messrs. Dyck and Schiefelbein have been converted to US currency for disclosure purposes using the March 5, 2012 Bank of Canada noon exchange rate.

(5) Mr. Cabrera was appointed as Executive Chairman, effective December 12, 2011, and was employed for approximately one half month in 2011.

(6) Mr. Cabrera is also a director of the Company. Pursuant to the Company's policies regarding management directors, Mr. Cabrera did not receive compensation from the Company for acting as a director subsequent to his appointment as Executive Chairman. Prior to his appointment, Mr. Cabrera earned \$91,323 in option-based awards and \$99,870 in fees for his service as a director in 2011. In 2010, Mr. Cabrera earned \$408,504 in option-based awards and \$53,667 in fees for his service as a director.

(7) Mr. Friedland relinquished his role as Chief Executive Officer of the Company, effective December 12, 2011, but continues to serve as Founder and Executive Co-Chairman. Mr. Friedland is also a director of the Company. Pursuant to the Company's policies regarding management directors, Mr. Friedland does not receive compensation from the Company for acting as a director.

(8) Mr. Dyck received an annual retirement allowance of \$21,123, which was paid in Canadian dollars and converted to US currency using the Bank of Canada monthly average closing exchange rate during the pay periods.

(9) Includes the estimated value of compensation to be satisfied by a grant of stock options and/or RSUs, to be specified and granted at a later date, as follows: Mr. Dyck \$356,658, Mr. Schiefelbein \$276,792, Mr. Silverman \$287,975 and Mr. Veith \$243,468. Such options and/or RSUs may have a

materially different value depending upon the date of award and option pricing model used for valuation purposes.

- (10) Includes \$369,860 of option-based awards granted to Mr. Dyck in 2011, in connection with his performance in 2010, and \$299,559 of previously disclosed option-based awards granted in 2010.
- (11) Mr. Dyck joined the Company effective October 21, 2009, and was employed for approximately two months during 2009.
- (12) Includes \$198,879 of option-based awards granted to Mr. Schiefelbein in 2011, in connection with his performance in 2010, and \$194,714 of previously disclosed option-based awards granted in 2010.
- (13) Mr. Schiefelbein joined the Company effective October 1, 2009, and was employed for three months during 2009.
- (14) Includes \$208,236 of option-based awards granted to Mr. Silverman in 2011, in connection with his performance in 2010, and \$194,714 of option-based awards granted in 2010.
- (15) Mr. Veith received \$66,328 as an expatriate housing allowance. The amount of income taxes payable by Ivanhoe in connection with Mr. Veith's 2011 compensation was not finalized by the filing date of the 2011 10K report.
- (16) Includes \$162,957 of option-based awards granted to Mr. Veith in 2011, in connection with his performance in 2010, and \$194,714 of previously disclosed option-based awards granted in 2010.
- (17) Mr. Veith was paid \$28,570 as an expatriate housing allowance upon his relocation to Canada in July 2010. The Company paid \$90,800 on behalf of Mr. Veith for the difference between the income taxes that he was required to pay in Canada, on account of amounts paid to him by the Company in 2010, and the income taxes that Mr. Veith would otherwise have been required to pay had he remained in the US.

(18)

INCENTIVE PLAN AWARDS

To value stock options awarded to our NEOs, we used the Black-Scholes option pricing model. The actual value realized on exercises may be higher or lower depending on our common share price at the time of exercise.

Outstanding option-based awards at December 31, 2011

| Name | Option Awards | | | Share-Based Awards | | |
|------------------------|---|----------------------------|------------------------|--|---|---|
| | Number Of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Total Value of Unexercised Options ⁽¹⁾ (US\$) | Number of RSUs That Have Not Vested (#) | Market Value of RSUs That Have Not Vested (US\$) ⁽²⁾ |
| Carlos A. Cabrera | 650,000 | Cdn\$0.92 | Dec 16, 2018 | 127,829 | - | - |
| | 50,000 | Cdn\$2.65 | Apr 28, 2018 | - | - | - |
| | 200,000 | Cdn\$2.00 | Jul 28, 2017 | - | - | - |
| | 100,000 | Cdn\$2.63 | May 18, 2017 | - | - | - |
| Robert M. Friedland | 1,000,000 | Cdn\$2.28 | Oct 28, 2017 | - | - | - |
| | 2,500,000 | Cdn\$1.61 | Mar 5, 2013 | - | - | - |
| David A. Dyck | 250,000 | Cdn\$0.92 | Dec 16, 2018 | 49,165 | 43,352 | 47,743 |
| | 239,337 | Cdn\$2.65 | May 24, 2018 | - | - | - |
| | 200,000 | Cdn\$2.28 | Oct 28, 2017 | - | - | - |
| | 500,000 | Cdn\$2.51 | Oct 15, 2016 | - | - | - |
| Gerald D. Schiefelbein | 128,695 | Cdn\$2.65 | May 24, 2018 | - | 62,162 | 68,459 |
| | 130,000 | Cdn\$2.28 | Oct 28, 2017 | - | - | - |
| | 200,000 | Cdn\$2.51 | Oct 1, 2016 | - | - | - |
| Michael A. Silverman | 134,750 | Cdn\$2.65 | May 24, 2018 | - | 65,087 | 71,680 |
| | 130,000 | Cdn\$2.28 | Oct 28, 2017 | - | - | - |
| | 150,000 | Cdn\$2.22 | Sept 17, 2014 | - | - | - |
| | 54,000 | US\$1.92 | Oct 4, 2012 | - | - | - |
| | 30,000 | US\$1.92 | Sept 19, 2012 | - | - | - |
| | 20,000 | US\$2.06 | May 28, 2012 | - | - | - |
| Edwin J. Veith | 105,450 | Cdn\$2.65 | May 24, 2018 | - | 50,934 | 56,093 |
| | 130,000 | Cdn\$2.28 | Oct 28, 2017 | - | - | - |
| | 150,000 | Cdn\$2.22 | Sept 17, 2014 | - | - | - |
| | 158,000 | US\$1.92 | Oct 4, 2012 | - | - | - |

- (1) Calculated as the difference between the December 30, 2011, closing market price of the Company's common shares and the exercise price of the options, multiplied by the number of unexercised options. The value of options with a US dollar exercise price is calculated using the NASDAQ closing price of \$1.12 per common share. The value of options with a Canadian dollar exercise price is calculated using the TSX closing price of Cdn\$1.12 per common share and converted to US dollars using the December 30, 2011, Bank of Canada closing rate. Where the exercise price exceeds the market value per common share, the value is zero.
- (2) Calculated as the December 30, 2011, closing market price of the Company's common shares multiplied by the number of unexercised RSUs and converted to US dollars using the December 30, 2011, Bank of Canada closing rate.

Incentive plan awards – value vested in 2011

| Name | Option-Based Awards | Share-Based Awards |
|------------------------|---|--|
| | Value Vested During the Year ⁽¹⁾ (US\$) | Value Vested During the Year (US\$) |
| Carlos A. Cabrera | - | - |
| Robert M. Friedland | 899,413 | - |
| David A. Dyck | - | - |
| Gerald D. Schiefelbein | - | - |
| Michael A. Silverman | 42,552 | - |
| Edwin J. Veith | 111,485 | - |

(1) Calculated as the difference between the closing market price of the Company's common shares on the vesting date and the exercise price of the options, multiplied by the number of options vesting in the current year. The value of options with a Canadian dollar exercise price were converted to US dollars using the Bank of Canada closing rate on the vesting date. Where the exercise price exceeds the market price per common share, the value is zero.

PENSION PLAN

Employees of Ivanhoe Energy Holdings Inc. (the "Employees") may participate in Ivanhoe's 401(k) (the "Plan"). The Plan is a defined contribution plan that includes Employee and Company contributions. Employees may contribute up to the maximum amount established by the Internal Revenue Code and the Company may elect to make annual discretionary matching and profit sharing contributions. Employee contributions vest immediately and Company contributions vest after two years of service. Investment decisions are made by the Employee from a variety of investment options.

The following table represents the value of accumulated pension assets within the Plan for Messrs. Veith and Silverman. There were no above-market or preferential earnings provisions.

| Name | Accumulated Value at January 1, 2011 | Compensatory ⁽¹⁾ | Non-compensatory ⁽²⁾ | Accumulated Value at December 31, 2011 |
|----------------------|---|-----------------------------|---------------------------------|---|
| | (\$) | (\$) | (\$) | (\$) |
| Edwin J. Veith | 354,792 | (31,058) | (44,436) | 279,298 |
| Michael A. Silverman | 152,970 | 15,935 | 18,264 | 187,169 |

(1) Represents employer contributions, distributions and earnings.

(2) Represents employee contributions, distributions and earnings.

TERMINATION AND CHANGE OF CONTROL BENEFITS

The Company has written contracts of employment with Messrs. Cabrera, Dyck, Schiefelbein and Silverman. In the case of termination for cause or voluntary resignation, the employment contracts do not result in incremental payments, payables or benefits, and therefore have been excluded from the following discussion. Perquisites and other personal benefits totalling less than \$50,000 have also been omitted.

Estimated incremental payments are based on the individual's annual salary as at December 31, 2011. Any amounts payable in Canadian dollars have been translated to US dollars using the December 30, 2011, Bank of Canada closing rate. Unexercised stock options were valued using the December 30, 2011, closing market price of the Company's common shares and stock options with a Canadian dollar exercise price were converted to US dollars using the December 30, 2011, Bank of Canada closing rate.

Carlos A. Cabrera

Mr. Cabrera's employment contract provides that:

- (a) in the case of termination without cause or termination upon disability, the Company must pay twelve months wages in a lump sum, cause all of the unvested stock options that would vest in the succeeding twelve months to vest immediately and generally remain exercisable for six months;
- (b) in the case of termination of the employment contract by the Company within twelve months of a change of control, the Company must pay a lump sum equal to two times the sum of i) Mr. Cabrera's current salary, and ii) the average of the two highest value aggregate annual performance bonuses paid to Mr. Cabrera by the Company during the two completed fiscal years of the Company in which Mr. Cabrera was employed by the Company that preceded the date of such termination. All stock options will vest immediately and generally remain exercisable for six months;

- (c) Mr. Cabrera is bound by a non-competition clause effective until the later of twelve months after the termination of active employment or the date he no longer receives compensation of any kind under the employment contract;
- (d) Mr. Cabrera is bound by a non-solicitation clause effective for twelve months after the termination of active employment; and
- (e) Mr. Cabrera is bound by a confidentiality clause that is effective for three years after the termination of active employment.

The estimated incremental payments to Mr. Cabrera in the above scenarios are (a) a lump sum of US\$550,000 and accelerated vesting of stock options valued at US\$31,957; and (b) a lump sum of US\$1,100,000 and accelerated vesting of stock options valued at US\$127,829.

David A. Dyck

Mr. Dyck's employment contract provides that:

- (a) in the case of termination without cause or termination upon disability, the Company must pay twelve months wages in a lump sum, cause all of the unvested stock options that would vest in the succeeding twelve months to vest immediately and generally remain exercisable for six months;
- (b) in the case of termination of the employment contract by the Company within twelve months of a change of control, the Company must pay twelve months wages in a lump sum and cause all stock options to vest immediately and generally remain exercisable for six months; and
- (c) Mr. Dyck is bound by a confidentiality clause that is effective for three years after the termination of active employment.

The estimated incremental payments to Mr. Dyck in the above scenarios are (a) a lump sum of US\$442,485 and accelerated vesting of stock options valued at US\$12,291; and (b) a lump sum of US\$442,485 and accelerated vesting of stock options valued at US\$49,165.

Gerald D. Schiefelbein

Mr. Schiefelbein's employment contract provides that:

- (a) in the case of termination without cause or termination upon disability, the Company must pay twelve months wages in a lump sum, cause all of the unvested stock options that would vest in the succeeding twelve months to vest immediately and generally remain exercisable for six months;
- (b) in the case of termination of the employment contract by the Company within twelve months of a change of control, the Company must pay twelve months wages in a lump sum and cause all of the unvested stock options to vest immediately and remain generally exercisable for six months;
- (c) Mr. Schiefelbein is bound by a non-competition clause effective until the later of twelve months after the termination of active employment or the date he no longer receives compensation of any kind under the employment contract;
- (d) Mr. Schiefelbein is bound by a non-solicitation clause effective for twelve months after the termination of active employment; and
- (e) Mr. Schiefelbein is bound by a confidentiality clause that is effective for three years after the termination of active employment.

The estimated incremental payments to Mr. Schiefelbein in the above scenarios are (a) a lump sum of US\$281,325 and accelerated vesting of stock options valued at US\$nil; and (b) a lump sum of US\$281,325 and accelerated vesting of stock options valued at US\$nil.

Michael A. Silverman

Mr. Silverman's employment contract provides that

- (a) in the case of termination without cause: (i) during the fourth or fifth year of employment, the Company must pay six months wages in a lump sum, and (ii) beyond the fifth anniversary of employment, the Company must pay three months wages in a lump sum, and in both cases the Company must cause all of the unvested stock options that would vest in the succeeding twelve months to vest immediately and generally remain exercisable for six months;
- (b) in the case of termination of the employment contract by the Company within twelve months of a change of control, the Company must pay twelve months wages in a lump sum and cause all of the unvested stock options to vest immediately and remain generally exercisable for six months;

- (c) Mr. Silverman is bound by a non-competition clause effective until the later of six months after the termination of active employment or the date he no longer receives compensation of any kind under the employment contract;
- (d) Mr. Silverman is bound by a non-solicitation clause effective for twelve months after the termination of active employment; and
- (e) Mr. Silverman is bound by a confidentiality clause that is effective for three years after the termination of active employment.

The estimated incremental payments to Mr. Silverman in the above scenarios are (a) a lump sum of (i) US\$147,528 or (ii) US\$73,764, and accelerated vesting of stock options valued at US\$nil; and (b) a lump sum of US\$295,056 and accelerated vesting of stock options valued at US\$nil.

RSU Plan

If a NEO is terminated without cause within six months of a change of control, all of his unvested RSUs shall vest on the earlier of the original vesting date or upon termination.

| Name | Value of RSUs Upon Change of Control (\$) ⁽¹⁾ |
|------------------------|--|
| Carlos A. Cabrera | - |
| Robert M. Friedland | - |
| David A. Dyck | 47,743 |
| Gerald D. Schiefelbein | 68,459 |
| Michael A. Silverman | 71,680 |
| Edwin J. Veith | 56,093 |

(1) Calculated as the December 30, 2011, closing market price of the Company's common shares multiplied by the number of unexercised RSUs and converted to US dollars using the December 30, 2011, Bank of Canada closing exchange rate.

DIRECTOR COMPENSATION

Each non-management director other than Mr. Abboud, the Independent Lead Director, receives US\$40,000 per annum for acting as a director of the Company. Mr. Abboud, Independent Lead Director, receives US\$80,000 per annum.

Mr. Cabrera, as Chairman and Lead Director of the Company's wholly owned subsidiaries, Ivanhoe Energy Latin America Inc. and Ivanhoe Energy Ecuador Inc., received US\$80,000 per annum, prior to his appointment as Executive Chairman of the Company. Pursuant to the Company's policies regarding management directors, Mr. Cabrera will not receive compensation from the Company for acting as a director subsequent to his appointment on December 12, 2011 as Executive Chairman.

Mr. Balloch receives an additional \$5,000 each for his duties as Chairman of the Nominating and Corporate Governance and Compensation and Benefits Committees. Mr. Downey receives an additional \$10,000 for his duties as Chairman of the Audit Committee. In addition, directors receive \$1,000 for each board meeting and committee meeting attended in person or by conference telephone.

NON-MANAGEMENT DIRECTOR COMPENSATION TABLE

The following compensation was earned by non-management directors in 2011.

| Name | Fees Earned (\$) | Option-Based Awards ⁽¹⁾ (US\$) | Total (\$) |
|-----------------------|------------------|---|------------|
| A. Robert Abboud | 102,000 | 91,323 | 193,323 |
| Howard R. Balloch | 74,000 | 142,091 | 216,091 |
| Brian F. Downey | 78,000 | 91,323 | 169,323 |
| Robert G. Graham | 53,000 | 91,323 | 144,323 |
| Peter G. Meredith | 51,000 | 91,323 | 142,323 |
| Alexander A. Molyneux | 49,000 | 91,323 | 140,323 |
| Robert A. Pirraglia | 63,000 | 91,323 | 154,323 |

(1) Estimated fair value of stock options on date of grant calculated using the Black-Scholes option pricing model. Key assumptions are outlined in Note 17 to the Financial Statements. The value of stock options with a Canadian dollar exercise price was converted to US dollars using the Bank of Canada exchange rate on date of grant.

Outstanding option-based awards at December 31, 2011

| Name | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Total Value of Unexercised in-the-Money Options ⁽¹⁾ (US\$) |
|-----------------------|---|----------------------------|------------------------|---|
| A. Robert Abboud | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 50,000 | Cdn\$3.26 | Apr 29, 2017 | – |
| | 50,000 | US \$2.69 | May 29, 2013 | – |
| Howard R. Balloch | 100,000 | Cdn\$0.92 | Dec 16, 2018 | 19,666 |
| | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 50,000 | Cdn\$3.26 | Apr 29, 2017 | – |
| | 50,000 | Cdn\$1.51 | Apr 29, 2016 | – |
| | 50,000 | Cdn\$2.66 | May 29, 2013 | – |
| | 50,000 | Cdn\$2.30 | May 3, 2012 | – |
| Brian F. Downey | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 50,000 | Cdn\$3.26 | Apr 29, 2017 | – |
| | 50,000 | Cdn\$1.51 | Apr 29, 2016 | – |
| Robert G. Graham | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 50,000 | Cdn\$3.26 | Apr 29, 2017 | – |
| | 50,000 | Cdn\$1.51 | Apr 29, 2016 | – |
| | 50,000 | Cdn\$2.66 | May 29, 2013 | – |
| | 200,000 | Cdn\$2.29 | Mar 8, 2012 | – |
| Peter G. Meredith | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 50,000 | Cdn\$3.26 | Apr 29, 2017 | – |
| | 50,000 | Cdn\$1.51 | Apr 29, 2016 | – |
| | 50,000 | Cdn\$2.66 | May 29, 2013 | – |
| | 100,000 | Cdn\$1.68 | Mar 11, 2013 | – |
| | 150,000 | Cdn\$1.52 | Dec 19, 2012 | – |
| Alexander A. Molyneux | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 100,000 | Cdn\$2.63 | May 18, 2017 | – |
| | 80,000 | Cdn\$2.22 | Sep 17, 2014 | – |
| Robert A. Pirraglia | 50,000 | Cdn\$2.65 | Apr 28, 2018 | – |
| | 50,000 | Cdn\$3.26 | Apr 29, 2017 | – |
| | 50,000 | Cdn\$1.51 | Apr 29, 2016 | – |
| | 50,000 | US \$2.69 | May 29, 2013 | – |
| | 50,000 | US \$2.06 | May 3, 2012 | – |

(1) Calculated as the difference between the December 30, 2011, closing market price of the Company's common shares and the exercise price of the options, multiplied by the number of unexercised options. The value of options with a US dollar exercise price is calculated using the NASDAQ closing price of \$1.12 per common share. The value of options with a Canadian dollar exercise price is calculated using the TSX closing price of Cdn\$1.12 per common share and converted to US dollars using the December 30, 2011, Bank of Canada closing rate. Where the exercise price exceeds the market value per common share, the value is zero

Incentive plan awards – value vested in 2011

| Name | Option-Based Awards Value Vested During the Year ⁽¹⁾ (US\$) |
|-----------------------|--|
| A. Robert Abboud | – |
| Howard R. Balloch | – |
| Brian F. Downey | – |
| Robert G. Graham | 18,735 |
| Peter G. Meredith | 28,628 |
| Alexander A. Molyneux | – |
| Robert A. Pirraglia | – |

(1) Calculated as the difference between the closing market price of the Company's common shares on the vesting date and the exercise price of the options, multiplied by the number of options vesting in the current year. The value of options with a Canadian dollar exercise price were converted to US dollars using the Bank of Canada closing rate on the vesting date. Where the exercise price exceeds the market price per common share, the value is zero.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Ivanhoe's common shares are the only class of voting securities. The following table shows each person or group who beneficially owns (pursuant to SEC Regulations) more than 5% of our voting securities as at March 5, 2012. With the exception of Mr. Friedland, the information below is based solely on filing under Regulation 13D under the Exchange Act.

| Name and Address of Beneficial Owner | Number of Shares Beneficially Owned ⁽¹⁾ | Percentage of Class |
|--|--|---------------------|
| Robert M. Friedland 150 Beach Road #25-03 The Gateway West Singapore 189720 | 54,045,058 ⁽²⁾ | 15.49 |
| Manulife Asset Management (US) LLC 101 Huntington Avenue Boston, Massachusetts USA 02199 | 32,287,826 | 9.38 |
| Caisse de dépôt et placement du Québec 1000 place Jean-Paul-Riopelle Montreal, Quebec, H2Z 2B3 | 19,442,822 | 5.60 |

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unissued common shares subject to options, warrants or other convertible securities currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for the purpose of computing the beneficial ownership of common shares of the person holding such convertible security but are not deemed outstanding for computing the beneficial ownership of common shares of any other person.
- (2) Includes 48,794,620 issued common shares held indirectly through Newstar Securities SRL ("Newstar"), Premier Mines SRL and Evershine SRL, companies controlled by Mr. Friedland. Also includes 2,750,000 unissued common shares issuable upon the exercise of stock options, 2,083,333 unissued common shares issuable upon the exercise of convertible debentures held indirectly through Newstar and 417,105 common shares held directly by Mr. Friedland.

Security Ownership of Management

The following table sets forth the beneficial ownership, pursuant to SEC Regulations, as at March 5, 2012, of our common shares by each of our directors, our executive officers and by all of our directors and executive officers as a group:

| Name of Beneficial Owner | Amount And Nature of Beneficial Ownership ⁽¹⁾ (a) | Percentage of Class (b) | Incentive Stock Options Included in (a) (c) |
|--|---|----------------------------|--|
| A. Robert Abboud | 959,028 | 0.28 | 150,000 |
| Robert M. Friedland | 54,045,058 ⁽²⁾ | 15.49 | 2,750,000 |
| Howard R. Balloch | 344,642 | 0.10 | 250,000 |
| Carlos A. Cabrera | 350,000 | 0.10 | 350,000 |
| Brian F. Downey | 304,468 | 0.09 | 150,000 |
| Robert G. Graham | 4,746,726 | 1.38 | 400,000 |
| Peter G. Meredith | 517,261 | 0.15 | 450,000 |
| Alexander A. Molyneux | 227,761 | 0.07 | 198,000 |
| Robert A. Pirraglia | 565,929 | 0.16 | 250,000 |
| David A. Dyck | 660,000 | 0.19 | 300,000 |
| Gerald D. Schiefelbein | 132,500 | 0.04 | 132,500 |
| Patrick Chua | 259,318 | 0.08 | 205,000 |
| Gerald Moench | 262,651 | 0.08 | 172,500 |
| Greg G. Phaneuf | 66,000 | 0.02 | 50,000 |
| Michael A. Silverman | 249,759 | 0.07 | 226,500 |
| Edwin J. Veith | 348,626 | 0.10 | 280,500 |
| All directors and executive officers as a group (16 persons) | 64,039,727 | 18.39 | 6,315,000 |

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unissued common shares subject to options, warrants or other convertible securities currently exercisable or convertible, or exercisable or convertible within 60 days, are deemed outstanding for the purpose of computing the beneficial ownership of common shares of the person holding such convertible security but are not deemed outstanding for computing the beneficial ownership of common shares of any other person.

(2) Includes 48,794,620 issued common shares held indirectly through Newstar Securities SRL ("Newstar"), Premier Mines SRL and Evershine SRL, companies controlled by Mr. Friedland. Also includes 2,750,000 unissued common shares issuable upon the exercise of stock options, 2,083,333 unissued common shares issuable upon the exercise of convertible debentures held indirectly through Newstar and 417,105 common shares held directly by Mr. Friedland.

Securities Authorized for Issuance under Equity Compensation Plans

All of the incentive stock options and equity compensation awards the Company granted in 2011 were made under the Company's Equity Incentive Plan. The Equity Incentive Plan is the only equity compensation plan the Company has in effect and is intended to further align the interests of the Company's directors and management with the Company's long term performance and the long term interests of the Company's shareholders. The Company's shareholders have approved the Equity Incentive Plan and all amendments thereto. The following information is as at December 31, 2011:

| Plan category | Number of Securities to be Issued Upon Exercise of Outstanding Options | Weighted-Average Exercise Price of Outstanding Options (Cdn\$) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|---|--|--|--|
| Equity compensation plans approved by Security holders | 15,727,827 | 2.14 | 6,423,581 |
| Equity compensation plans not approved by Security holders ⁽¹⁾ | 20,000 | 2.15 | - |
| Total | 15,747,827 | 2.14 | 6,423,581 |

(1) 20,000 stock options were granted as employment inducements and therefore were not granted under the Company's stock option plan.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

RELATED TRANSACTIONS

Ivanhoe is party to cost sharing agreements with other companies, some of which are wholly or partially owned by Mr. Friedland. Through these agreements, we share office space, furnishings, equipment, air travel and communications facilities in various international locations. We also share the costs of employing administrative and non-executive management personnel at these offices. In 2011, our share of these costs was \$1.5 million. In 2008, we agreed, as part of our cost sharing arrangements and in connection with Mr. Friedland's position as Founder and Executive Co-Chairman, to share the costs of operating an aircraft owned by a private company of which Mr. Friedland is the sole shareholder. Ivanhoe paid \$1.2 million towards aircraft operating costs in 2011. A director of the Company, Dr. Robert Graham, was engaged to provide services through his private consulting company. In 2011, the Company paid \$44,000 to his firm.

Ivanhoe entered into a \$10.0 million unsecured loan agreement on December 30, 2011 with Ivanhoe Capital Finance Ltd. ("ICFL"), a company wholly owned by Mr. Friedland. The funds were advanced to the Company on January 3, 2012. Interest on the loan is 13.33% 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 amount of the loan may be converted into common shares of the Company at Cdn\$0.96 per share.

Our Board of Directors recognizes that related party transactions present a heightened risk of conflicts of interest and therefore has a written policy that is part of our Code of Business Conduct and Ethics. This policy prohibits activities that could give rise to conflicts of interest, unless they are specifically approved by the Board of Directors. Directors and officers are obligated to inform us of any related party transactions and any proposed related party transactions. In addition, we present a summary of related party transactions to the Audit Committee on a quarterly basis for its review and approval.

DIRECTOR INDEPENDENCE

We undertook a review of the independence of our directors and, using the definitions and independence standards for directors established under NASDAQ and CSA's National Instrument 58-101, "Disclosure of Corporate Governance Practices." As a result of this review, we determined that each of Messrs. Abboud, Balloch, Downey, Graham and Pirraglia is considered to be an independent director.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

In considering the nature of the services provided by Deloitte & Touche LLP ("Deloitte"), the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Deloitte and our management to determine that they were permitted in accordance with the rules and regulations concerning auditor independence under the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta, the rules and standards of the Public Company Accounting Oversight Board and the securities laws and regulations administered by the SEC. In accordance with our policy, all of the services outlined below were pre-approved by our Audit Committee.

| (US\$000s) | 2011 | 2010 |
|--------------------|------|-------|
| Audit fees | 599 | 535 |
| Audit related fees | 92 | 89 |
| Tax fees | 141 | 217 |
| Other fees | 104 | 236 |
| | 936 | 1,077 |

Audit fees in 2011 and 2010 include services related to the audit of our annual consolidated financial statements and the review of our interim consolidated financial statements. Fees were also incurred in 2011 and 2010 for the audit of internal controls related to requirements under the United States Sarbanes-Oxley Act of 2002 and similar Canadian regulatory compliance.

Audit related fees include services performed to translate the annual and quarterly consolidated financial statements into French as well as the reimbursement of the pro-rata share of annual fees charged to each audit firm by the Canadian Public Accountability Board.

Tax services performed by Deloitte, outside of normal audit procedures, consisted of tax compliance and tax planning and advice. Tax compliance services consisted of federal, state and local income tax return assistance, preparation of expatriate tax returns and assistance with tax return filings in certain foreign jurisdictions. Tax planning and advice was rendered in connection with the structuring of intercompany transactions as well as proposed mergers, acquisitions and disposals.

Other fees in 2011 and 2010 relate to services provided in connection with the issuance of the Convertible Debentures and in connection with a common share prospectus respectively. Both 2011 and 2010 include fees related to services provided in support for the Company's transition to IFRS on January 1, 2011, and for a subscription to an accounting research tool and human capital salary information.

AUDIT COMMITTEE PRE-APPROVAL POLICY

The Audit Committee has adopted a pre-approval policy for non-audit services that may be provided by the Company's auditors. A description of the services expected to be performed by Deloitte in the following fiscal year is presented to the Audit Committee for approval. If services that were not pre-approved are required, approval may be granted by the Chairman of the Audit Committee. However, the Chairman must inform the Audit Committee, at the next regularly scheduled meeting, of any services that were pre-approved by him. Additionally, the Audit Committee generally requests a range of fees associated with each proposed service. On a quarterly basis, the Audit Committee reviews the status of services and fees incurred year-to-date against the original estimates and the forecast of remaining services and fees.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

We refer you to the Financial Statements and Supplementary Data in Item 8 of this Annual Report where these documents are listed. The following exhibits are filed as part of this Annual Report:

| Exhibit Number | Description of Document | Form | Incorporated by Reference | |
|----------------|--|------|---------------------------------|----------------------------------|
| | | | Filing Date/ Period End Date | Exhibit Number (if different) |
| 3.1 | Articles of Ivanhoe Energy Inc. as amended to May 3, 2007 | 10-K | March 17, 2008 | – |
| 3.2 | Bylaws of Ivanhoe Energy Inc. as amended May 15, 2001 and further amended March 8, 2007 | 10-K | March 17, 2008 | – |
| 4.1 | Debenture Indenture dated June 9, 211 between Ivanhoe Energy Inc. and BNY Trust Company of Canada | 10-Q | August 9, 2011 | 4.1 |
| 10.1 | Petroleum Contract for Kongnan Block, Dagang Oilfield of the People's Republic of China dated September 8, 1997 between China National Petroleum Corporation and Pan-China Resources Ltd., as amended June 11, 1999 | 20-F | February 28, 2000 | 3.15 |
| 10.2 | Petroleum Contract dated September 19, 2002 between China National Petroleum Corporation and Pan-China Resources Ltd. for Zitong Block, Sichuan Basin of the People's Republic of China | 10-K | March 20, 2003 | 10.12 |
| 10.3 | Amended and Restated License Agreement dated December 8, 1997 between Ensyn Technologies Inc. and Ensyn Group, Inc. and as amended on February 12, 1999 | 10-K | March 15, 2006 | 10.12 |
| 10.4 | Indemnification Agreements entered into during the first quarter of 2008 between Ivanhoe Energy Inc. and its executive officers and directors | 10-K | March 17, 2008 | 10.16 |
| 10.5 | Employment Agreement, dated May 2, 2007 between Ivanhoe Energy Inc. and Michael Silverman | 10-K | March 17, 2008 | 10.17 |
| 10.6 | Asset Transfer Agreement dated July 11, 2008 between Ivanhoe Energy Inc. and Talisman Energy Canada | 10-Q | August 11, 2008 | 10.1 |
| 10.7 | Back-In Agreement dated July 11, 2008 between Ivanhoe Energy Inc. and Talisman Energy Canada | 10-Q | August 11, 2008 | 10.2 |
| 10.8 | Fixed and Floating Charge Debenture of Ivanhoe Energy Inc. in favour of Talisman Energy Canada dated July 11, 2008 in the principal sum of Cdn\$67.5 million | 10-Q | November 10, 2008 | 10.3 |
| 10.9 | Pledge Agreement dated July 11, 2008 between Ivanhoe Energy Inc. and Talisman Energy Canada | 10-Q | November 10, 2008 | 10.4 |
| 10.10 | English translation of Specific Services Contract dated October 8, 2008 between Ivanhoe Energy Ecuador Inc., Empresa Estatal de Petroleos del Ecuador, Petroecuador and Empresa Estatal de Exploracion y Produccion de Petroleos del Ecuador, Petroproduccion | 10-K | March 16, 2009 | 10.24 |
| 10.11 | English translation of Contract Modification to the Specific Services Contract dated February 13, 2009 between Ivanhoe Energy Ecuador Inc., Empresa Estatal de Petroleos del Ecuador, Petroecuador and Empresa Estatal de Exploracion y Produccion de Petroleos del Ecuador, Petroproduccion | 10-K | March 16, 2009 | 10.25 |
| 10.12 | Employment Agreement dated October 1, 2009 between Ivanhoe Energy Inc. and Gerald D. Schiefelbein | 8-K | November 17, 2009 | 10.1 |
| 10.13 | Employment Agreement dated October 1, 2009 between Ivanhoe Energy Inc. and David A. Dyck | 10-K | March 16, 2010 | 10.20 |

| Exhibit Number | Description of Document | Form | Incorporated by Reference | |
|----------------|---|------|---------------------------------|----------------------------------|
| | | | Filing Date/ Period End Date | Exhibit Number (if different) |
| 10.14 | Indemnification Agreement dated May 18, 2010 between Ivanhoe Energy Inc. and Carlos A. Cabrera | 10-K | March 16, 2011 | 10.20 |
| 10.15 | Indemnification Agreement dated May 18, 2010 between Ivanhoe Energy Inc. and Alexander A. Molyneux | 10-K | March 16, 2011 | 10.21 |
| 10.16 | Amended and Restated Employees' and Directors' Equity Incentive Plan dated April 28, 2010 | | | |
| 10.17 | Warrant Indenture Amendment Agreement dated January 26, 2011, among Ivanhoe Energy Inc. and TD Securities Inc., Macquarie Capital Markets Canada Ltd., RBC Dominion Securities Inc., UBS Securities Canada Inc., CIBC World Markets Inc. and Byron Capital Markets Ltd. | 10-Q | May 10, 2011 | 10.1 |
| 10.18 | Warrant Indenture Amendment Agreement dated January 26, 2011, among Ivanhoe Energy Inc. and TD Securities Inc., Macquarie Capital Markets Canada Ltd., RBC Dominion Securities Inc., UBS Securities Canada Inc., CIBC World Markets Inc. and Byron Capital Markets Ltd. | 10-Q | May 10, 2011 | 10.2 |
| 10.19 | Underwriting Agreement, dated May 18, 2011, among Ivanhoe Energy Inc. and TD Securities Inc., Macquarie Capital Markets Canada Ltd., RBC Dominion Securities Inc., UBS Securities Canada Inc., CIBC World Markets Inc. and Byron Capital Markets Ltd. | 10-Q | August 9, 2011 | 1.1 |
| 10.20 | Debenture Indenture dated June 9, 2011 between Ivanhoe Energy Inc. and BNY Trust Company of Canada | 10-Q | August 9, 2011 | 4.1 |
| 10.21 | Restricted Share Unit Plan | 10-Q | August 9, 2011 | 10.1 |
| 10.22 | Employment Agreement dated December 12, 2011 between Ivanhoe Energy Inc. and Carlos A. Cabrera | 8-K | December 16, 2011 | 10.1 |
| 10.23 | Supplementary Agreement dated December 30, 2011, for the Petroleum Contract for Zitong Block, Sichuan Oilfield of the People's Republic of China, with China National Petroleum Corporation and Mitsubishi Gas Chemical Company, Inc. | | | |
| 10.24 | Memorandum of Understanding dated January 12, 2012 with Shell China Exploration and Production Company Limited | | | |
| 21.1 | Subsidiaries of Ivanhoe Energy Inc. | | | |
| 23.1 | Consent of GLJ Petroleum Consultants Ltd., Petroleum Engineers | | | |
| 23.2 | Consent of Deloitte & Touche LLP | | | |
| 31.1 | Certification by the Executive Chairman 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 Executive Chairman 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 | | | |
| 99.1 | GLJ Petroleum Consultants Ltd., Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor as of December 31, 2011 | | | |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2012.

IVANHOE ENERGY INC.

By: /s/ Carlos A. Cabrera
Carlos A. Cabrera
Executive Chairman
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2012.

/s/ Carlos A. Cabrera
Carlos A. Cabrera
Executive Chairman
(Principal Executive Officer)

/s/ Gerald D. Schiefelbein
Gerald D. Schiefelbein
Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ Robert M. Friedland
Robert M. Friedland
Founder and Executive Co-Chairman

/s/ A. Robert Abboud
A. Robert Abboud
Independent Lead Director

/s/ Howard R. Balloch
Howard R. Balloch, Director

/s/ Brian F. Downey
Brian F. Downey, Director

/s/ Robert G. Graham
Robert G. Graham, Director

/s/ Peter G. Meredith
Peter G. Meredith, Director

/s/ Alexander A. Molyneux
Alexander A. Molyneux, Director

/s/ Robert A. Pirraglia
Robert A. Pirraglia, Director

IVANHOE ENERGY INC.
EMPLOYEES' AND DIRECTORS' EQUITY INCENTIVE PLAN
AMENDED AND RESTATED
April 28, 2010

PART 1 – INTRODUCTION

1.1 Purpose

The purpose of the Plan is to secure for the Company and its shareholders the benefits of incentive inherent in share ownership by the directors and key employees of the Company and its Affiliates who, in the judgment of the Board, will be largely responsible for its future growth and success. It is generally recognized that share plans of the nature provided for herein aid in retaining and encouraging employees and directors of exceptional ability because of the opportunity offered to them to acquire a proprietary interest in the Company.

1.2 Definitions

- (a) "Affiliate" has the meaning set forth in Section 1(2) of the Ontario Securities Act, as amended, and includes those issuers that are similarly related, whether or not any of the issuers are corporations, companies, partnerships, limited partnerships, trusts, income trusts or investment trusts or any other organized entity issuing securities.
- (b) "Associate" has the meaning assigned to it in the Ontario Securities Act, as amended.
- (c) "Board" means the board of directors of the Company.
- (d) "Blackout Period" means a period in which the trading of Shares or other securities of the Company is restricted under the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy, or under an insider trading policy or other policy of the Company then in effect.
- (e) "Code" means the United States Internal Revenue Code of 1986, as amended.
- (f) "Company" means Ivanhoe Energy Inc., a company incorporated under the laws of the Yukon Territory.
- (g) "Committee" has the meaning attributed thereto in Section 6.1.
- (h) "Eligible Directors" means the directors of the Company or any Affiliate thereof who are, as such, eligible for participation in the Plan.
- (i) "Eligible Employees" means full time and part time employees (including employees who are officers and directors) of the Company or any Affiliate thereof, whether or not they have a written employment contract with the Company, determined by the Board, upon recommendation of the Committee, to be employees, eligible for participation in the Plan. "Eligible Employees" shall include Service Providers eligible for participation in the Plan as determined by the Board.

- (j) "Exchange Act" means the United States Securities Exchange Act of 1934, as amended.
- (k) "Fair Market Value" means, with respect to a Share subject to Option, the weighted average price of the Shares on the Stock Exchange for the five days on which Shares were traded immediately preceding the date in respect of which Fair Market Value is to be determined. If the Shares are not listed and posted for trading on a Stock Exchange on such day, the Fair Market Value shall be such price per Share as the Board, acting in good faith, may determine.
- (l) "Foreign Private Issuer" has the meaning assigned to it in the rules promulgated under the Exchange Act.
- (m) "Insider" has the meaning assigned to it in the Ontario Securities Act, as amended, and also includes an Associate or Affiliate of any person who is an Insider.
- (n) "Option" means an option granted under the terms of the Share Option Plan.
- (o) "Option Period" means the period during which an Option may be exercised.
- (p) "Optionee" means an Eligible Employee or Eligible Director to whom an Option has been granted under the terms of the Share Option Plan.
- (q) "Participant" means, in respect of any Plan, an Eligible Employee or Eligible Director who participates in such Plan.
- (r) "Plan" means, collectively the Share Option Plan, the Share Bonus Plan and the Share Purchase Plan and "Plan" means any such plan as the context requires.
- (s) "Service Provider" means a person or company engaged to provide ongoing management or consulting services for the Company or for any entity controlled by the Company.
- (t) "Share Bonus Plan" means the plan established and operated pursuant to Part 3 and Part 5 hereof.
- (u) "Share Option Plan" means the plan established and operated pursuant to Part 2 and Part 5 hereof.
- (v) "Share Purchase Plan" means the plan established and operated pursuant to Part 4 and Part 5 hereof.
- (w) "Shares" means the common shares of the Company.
- (x) "Stock Exchange" means the principal stock exchange upon which the Shares are listed or upon which the Shares have been approved for listing.
- (y) "U.S. Optionee" has the meaning assigned to it in Section 2.14 of this Plan.

PART 2 - SHARE OPTION PLAN

2.1 Participation

Options shall be granted only to Eligible Employees and Eligible Directors.

2.2 Administration of Share Option Plan

The Share Option Plan shall be administered by the Committee.

2.3 Price

The exercise price per Share of any Option shall be not less than one hundred per cent (100%) of the Fair Market Value on the date of grant.

2.4 Grant of Option

The Board, on the recommendation of the Committee, may at any time authorize the granting of Options to such Eligible Employees and Eligible Directors as it may select for the number of Shares that it shall designate, subject to the provisions of the Share Option Plan. The date of grant of an Option shall be (i) the date such grant was approved by the Committee for recommendation to the Board, provided the Board approves such grant; or (ii) for a grant of an Option not approved by the Committee for recommendation to the Board, the date such grant was approved by the Board.

Each Option granted to an Eligible Employee or to an Eligible Director shall be evidenced by a stock option agreement with terms and conditions consistent with the Share Option Plan and as approved by the Board on the recommendation of the Committee (which terms and conditions need not be the same in each case and may be changed from time to time, subject to section 5.7 of the Plan and the approval of any material changes by the Stock Exchange).

2.5 Terms of Options

The Option Period shall be ten years from the date such Option is granted or such lesser duration as the Board, on the recommendation of the Committee, may determine at the date of grant, and may thereafter be reduced with respect to any such Option as provided in Section 2.8 hereof covering termination of employment or death of the Optionee; provided, however, that at any time the expiry date of the Option Period in respect of any outstanding Option under this Plan (either before or after its amendment or restatement on May 3, 2007) should be determined to occur either during a Blackout Period or within ten business days following the expiry of the Blackout Period, the expiry date of such Option Period shall be deemed to be the date that is the tenth business day following the expiry of the Blackout Period.

Unless otherwise determined from time to time by the Board, on the recommendation of the Committee, Options may be exercised (in each case to the nearest full Share) during the Option Period as follows:

- (a) at any time during the first year of the Option Period, the Optionee may purchase up to 33 1/3% of the total number of Shares reserved for issuance pursuant to his or her Option; and
- (b) at any time during each additional year of the Option Period the Optionee may purchase an additional 33 1/3% of the total number of Shares reserved for issuance pursuant to

his or her Option plus any Shares not purchased in accordance with the preceding subsection (a) until, in the third year of the Option Period, 100% of the Option will be exercisable.

Notwithstanding the foregoing, Options shall become exercisable at the rate of at least 20% per year over five years from the date the Option is granted, subject to reasonable conditions such as continued employment. However, in the case of an Option granted to officers, directors or consultants of the Company or any of its Affiliates, the Option may become fully exercisable, subject to reasonable conditions such as continued employment, at any time or during any period established by the Company or any of its Affiliates.

Except as set forth in Section 2.8, no Option may be exercised unless the Optionee is at the time of such exercise:

- (a) in the case of an Eligible Employee, in the employ of the Company or an Affiliate and shall have been continuously so employed since the grant of his Option, but absence on leave, having the approval of the Company or such Affiliate, shall not be considered an interruption of employment for any purpose of the Share Option Plan; or
- (b) in the case of an Eligible Director, a director of the Company or an Affiliate and shall have been such a director continuously since the grant of his Option.

The exercise of any Option will be contingent upon receipt by the Company of cash payment of the full purchase price of the Shares being purchased. No Optionee or his legal representatives or legatees will be, or will be deemed to be, a holder of any Shares subject to an Option, unless and until certificates for such Shares are issued to him or them under the terms of the Share Option Plan.

2.6 Share Appreciation Right

Participant have the right (the "Right"), in lieu of the right to exercise an Option, to terminate such Option in whole or in part (the "Terminated Option") by notice in writing delivered by the Participant to the Company electing to exercise the Right, in lieu of receiving the Shares (the "Option Shares") to which the Terminated Option relates, to receive the number of Shares, disregarding fractions, which is equal to the quotient obtained by:

- (a) subtracting the Option exercise price per Share from the Fair Market Value per Share on the day immediately prior to the exercise of the Right and multiplying the remainder by the number of Option Shares; and
- (b) dividing the product obtained under Section 2.6(a) by the Fair Market Value per Share on the day immediately prior to the exercise of the Right.

If a Participant exercises a Right in connection with an Option, it is exercisable only to the extent and on the same conditions that the related Option is exercisable under the Plan.

2.7 Lapsed Options

If Options are surrendered, terminated or expire without being exercised in whole or in part, new Options may be granted covering the Shares not purchased under such lapsed Options, subject, in the case of the cancellation of an Option in connection with the grant of a new Option to the same person on different terms, to the consent of the Stock Exchange.

2.8 Effect of Termination of Employment or Death

If an Optionee:

- (a) dies while employed by or while a director of the Company or its Affiliate, any Option held by him at the date of death shall become exercisable in whole or in part, but only by the person or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or applicable laws of descent and distribution. Unless otherwise determined by the Board, on the recommendation of the Committee, all such Options shall be exercisable only to the extent that the Optionee was entitled to exercise the Option at the date of his death and only for six months after the date of death or prior to the expiration of the Option Period in respect thereof, whichever is sooner;
- (b) ceases to be employed by or act as a director of the Company or its Affiliate for cause, no Option held by such Optionee will, unless otherwise determined by the Board, on the recommendation of the Committee, be exercisable following the date on which such Optionee ceases to be so employed or ceases to be a director, as the case may be; or
- (c) ceases to be employed by or act as a director of the Company or its Affiliate for any reason other than cause then, unless otherwise determined by the Board, on the recommendation of the Committee, any Option held by such Optionee at the effective date thereof shall become exercisable in whole or in part for a period of up to six months thereafter, but in no event less than 30 days, subject to the earlier expiration of the Option Period.

2.9 Effect of Takeover Bid

If a bona fide offer (the "Offer") for Shares is made to the Optionee or to shareholders generally or to a class of shareholders which includes the Optionee, which Offer, if accepted in whole or in part, would result in the offeror exercising control over the Company within the meaning of subsection 1(3) of the Ontario Securities Act (as amended from time to time), then the Company shall, immediately upon receipt of notice of the Offer, notify each Optionee currently holding an Option of the Offer, with full particulars thereof, whereupon, notwithstanding Section 2.5 hereof, such Option may be exercised in whole or in part by the Optionee so as to permit the Optionee to tender the Shares received upon such exercise (the "Optioned Shares") pursuant to the Offer.

2.10 Effect of the Amalgamation or Merger

If the Company amalgamates or merges with or into another corporation, any Shares receivable on the exercise of an Option shall be converted into the securities, property or cash which the Participant would have received upon such amalgamation or merger if the Participant had exercised his Option immediately prior to the record date applicable to such amalgamation or merger, and the option price shall be adjusted appropriately by the Board and such adjustment shall be binding for all purposes of the Share Option Plan. Any such adjustment shall be in accordance with regulatory policies.

2.11 Adjustment in Shares Subject to the Plan

If there is any change in the Shares through the declaration of stock dividends of Shares or consolidations, subdivisions or reclassification of Shares, or otherwise, the number of Shares available under the Share Option Plan, the Shares subject to any Option, and the Option price thereof shall be adjusted appropriately by the Board and such adjustment shall be effective and binding for all purposes of the Share Option Plan.

2.12 Loans to Employees

Subject to applicable law, the Board may at any time authorize the Company to loan money to an Eligible Employee (which for the purpose of this section 2.12 excludes any director or executive officer (or equivalent thereof) of the Company), on such terms and conditions as the Board may reasonably determine, to assist such Eligible Employee to exercise an Option held by him or her. Such terms and conditions shall include, in any event, interest at prevailing market rates, a term not in excess of one year, and security in favour of the Company represented by that number of Shares issued pursuant to the exercise of an Option in respect of which such loan was made or equivalent security which equals the loaned amount divided by the Fair Market Value of the Shares on the date of exercise of the Option, which security may be granted on a non-recourse basis.

2.13 Transfer of Options

Options are non-transferable except by will or by the laws of descent and distribution. Notwithstanding the foregoing, and to the extent permitted by Section 422 of the Code, the Board, in its discretion, may permit distribution of an Option to an inter vivos or testamentary trust in which the Option is to be passed to beneficiaries upon the death of the trustor (settlor).

2.14 United States Residents

Subject to Sections 2.14(b), (c) and (d) of this Plan, any Option granted under this Plan to an Optionee who is a citizen or resident of the United States (including its territories, possessions and all areas subject to its jurisdiction) (a "U.S. Optionee") shall be an "incentive stock option" within the meaning of Section 422 of the Code (provided, for purposes of this Section 2.14 only, a U.S. Optionee who is a director is then also an officer or employee of the Company or one of its Affiliates). In addition, no provision of this Plan, as it may be applied to a U.S. Optionee, shall be construed so as to be inconsistent with any provision of Section 422 of the Code.

Notwithstanding anything in this Plan to the contrary, the following provisions shall apply to each U.S. Optionee:

- (a) any director of the Company or one of its Affiliates who is a U.S. Optionee shall be ineligible to vote upon the granting of such Option to themselves;
- (b) subject to Section 2.14(d), any Option granted under this Plan to a U.S. Optionee shall be an incentive stock option within the meaning of Section 422 of the Code provided that the aggregate Fair Market Value (determined as of the time the Option is granted) of the Shares with respect to which incentive stock options are exercisable for the first time by such U.S. Optionee during any calendar year under this Share Option Plan and all other stock option plans of the Company or its Affiliates does not exceed US\$100,000;
- (c) to the extent the aggregate Fair Market Value (determined as of the time the Option is granted) of the Shares with respect to which incentive stock options are exercisable for

the first time by such U.S. Optionee during any calendar year under this Share Option Plan and all other stock option plans of the Company or its Affiliates exceeds US\$100,000, such Options shall be treated as nonqualified stock options (i.e. Options which fail to qualify as incentive stock options within the meaning of Section 422 of the Code) in accordance with Section 422(d) of the Code;

- (d) any U.S. Optionee who is a Service Provider or director (and who is not also an officer or employee) of the Company or one of its Affiliates will be ineligible to receive incentive stock options but will be permitted to receive nonqualified stock options pursuant to this Plan;
- (e) the purchase price for Shares under each Option granted to a U.S. Optionee pursuant to this Plan shall be not less than the Fair Market Value of such Shares at the time the Option is granted;
- (f) if any U.S. Optionee to whom an Option is to be granted under this Plan is at the time of the grant of such Option the owner of Shares possessing more than 10% of the total combined voting power of all classes of shares of the Company or any of its Affiliates, then the following special provisions shall be applicable to the Option granted to such individual:
 - (i) the purchase price per Share subject to such Option shall not be less than 110% of the Fair Market Value of one Share at the time of grant, provided however that this requirement will not apply with respect to any Option granted under the Plan that is subject to Section 2.14(c);
 - (ii) for the purpose of this Section 2.14 only, the exercise period shall not exceed five years from the date of grant, provided however that this requirement will not apply with respect to any Option granted under the Plan that is subject to Section 2.14(c);
 - (iii) notwithstanding Section 2.14(f)(i), in respect of California citizens or residents, the purchase price per Share subject to such Option shall in no event be less than 110% of the Fair Market Value of one Share at the time of grant;
- (g) no Option may be granted hereunder to a U.S. Optionee following the expiry of 10 years after the date on which this Plan is adopted by the Board or the date this Plan is approved by the shareholders of the Company, whichever is earlier; and
- (h) no Option granted to a U.S. Optionee under this Plan shall become exercisable unless and until this Plan shall have been approved by the shareholders of the Company.

PART 3 - SHARE BONUS PLAN

3.1 Participants

The Board on the recommendation of the Committee, shall have the right, subject to Section 3.2, to issue or reserve for issuance, for no cash consideration, to any Eligible Employee or Eligible Director any number of Shares as a discretionary bonus subject to such provisos and restrictions as the Board may determine.

3.2 Number of Shares

The aggregate maximum number of shares that may be issued pursuant to Section 3.1 will be limited to 3,400,000 Shares. Shares reserved for issuance and issued under the Share Bonus Plan shall be subject to the limitations set out in Section 5.1.

The Board, on the recommendation of the Committee, in its absolute discretion, shall have the right to reallocate any of the Shares reserved for issuance under the Share Bonus Plan for future issuance under the Share Option Plan or the Share Purchase Plan and, in the event that any Shares specifically reserved under the Share Bonus Plan are reallocated to the Share Option Plan or the Share Purchase Plan, as the case may be, the aggregate maximum number of Shares reserved under the Share Bonus Plan will be reduced to that extent. In no event will the number of Shares allocated for issuance under the Share Bonus Plan exceed 3,400,000 Shares.

3.3 Necessary Approvals

The obligation of the Company to issue and deliver any Shares pursuant to an award made under the Share Bonus Plan will be subject to all necessary approvals of any securities regulatory authority having jurisdiction over the Shares.

PART 4 - SHARE PURCHASE PLAN

4.1 Participants

Participants in the Share Purchase Plan will be Eligible Employees who have been continuously employed by the Company or any of its Affiliates on a full-time basis for at least 12 consecutive months and who have been designated by the Board, on the recommendation of the Committee, as participants in the Share Purchase Plan ("Share Purchase Plan Participants"). The Board, on the recommendation of the Committee, shall have the right, in its absolute discretion, to waive such 12-month period or to refuse any Eligible Employee or group of Eligible Employees the right of participation or continued participation in the Share Purchase Plan.

4.2 Election to Participate in the Share Purchase Plan and Participant's Contribution

Any Share Purchase Plan Participant may elect to contribute money (the "Participant's Contribution") to the Share Purchase Plan in any calendar year if the Share Purchase Plan Participant delivers to the Company a written direction in form and substance satisfactory to the Company authorizing the Company to deduct from the Share Purchase Plan Participant's salary, in equal instalments, the Participant's Contribution. Such direction will remain effective until revoked in writing by the Share Purchase Plan Participant or until the Board terminates or suspends the Share Purchase Plan, whichever is earlier.

The Share Purchase Plan Participant's Contribution as determined by the Board, on the recommendation of the Committee, shall not exceed 10% of the Share Purchase Plan Participant's basic annual salary from the Company and its Affiliates at the time of delivery of the direction, before deductions, exclusive of any overtime pay, bonuses or allowances of any kind whatsoever (the "Basic Annual Salary"). In the case of a Share Purchase Plan Participant for whom the Board, on the recommendation of the Committee, has waived the 12-month employment requirement, the Share Purchase Plan Participant's Contribution shall not exceed 10% of his Basic Annual Salary from the Company and its Affiliates at the time of delivery of the direction, prorated over the remainder of the calendar year, before deductions and exclusive of any overtime pay, bonuses or allowances of any kind whatsoever.

4.3 Company's Contribution

Immediately prior to the date any Shares are issued to a Share Purchase Plan Participant in accordance with Section 4.4, the Company will credit the Share Purchase Plan Participant with, and thereafter hold in trust for the Share Purchase Plan Participant, an amount (the "Company's Contribution") equal to the Participant's Contribution then held in trust by the Company.

4.4 Issue of Shares

On March 31, June 30, September 30 and December 31 in each calendar year the Company will issue to each Share Purchase Plan Participant fully paid and non-assessable Shares, disregarding fractions, which is equal to the aggregate amount of the Participant's Contribution and the Company's Contribution divided by the Issue Price. For the purposes of this Section 4.4, "Issue Price" means the weighted average price of the Shares on the Stock Exchange, for the 90-day period immediately preceding the date of issuance. If the Shares are not traded on a Stock Exchange on the date of issuance, the Issue Price shall be such price per Share as the Board, acting in good faith, may determine.

The Company shall hold any unused balance of the Participant's Contribution for a Share Purchase Plan Participant until used in accordance with the Share Purchase Plan.

4.5 Delivery of Shares

As soon as reasonably practicable following each issuance of Shares to a Share Purchase Plan Participant pursuant to Section 4.4, the Company will cause to be delivered to the Share Purchase Plan Participant a certificate in respect of such Shares provided that, if required by applicable law or the rules and policies of the Stock Exchange, a restrictive legend shall be inscribed on the certificate, which legend shall state that the Shares shall not be transferable for such period as may be prescribed by law or by any regulatory authority or Stock Exchange.

4.6 Effect of Termination of Employment or Death

If a Participant ceases to be employed by the Company or any of its Affiliates for any reason or receives notice from the Company of the termination of his or her employment, the Share Purchase Plan Participant's participation in the Share Purchase Plan will be deemed to be terminated and any portion of the Participant's Contribution then held in trust shall be paid to the Share Purchase Plan Participant or his estate or successor as the case may be.

4.7 Effect of Amalgamation or Merger

If the Company amalgamates or merges with or into another corporation, each Share Purchase Plan Participant to whom Shares are to be issued will receive, on the date on which any Shares would otherwise have been delivered to the Share Purchase Plan Participant in accordance with Section 4.5, the securities, property or cash to which the Share Purchase Plan Participant would have been entitled on such amalgamation, consolidation or merger had the Shares been issued immediately prior to the record date of such amalgamation or merger.

PART 5 – GENERAL

5.1 Number of Shares

The aggregate number of Shares that may be reserved for issuance under this Plan (together with any other securities – based on compensation arrangements of the Company in effect from time to time) shall not exceed 7% of the issued and outstanding Shares from time to time. This prescribed maximum may be subsequently increased to any other specified amount, provided the increase is authorized by a vote of the shareholders of the Company. In addition, the aggregate number of Shares reserved for issuance under the Plan:

- (a) that may be reserved for issuance to Insiders for options granted under the Plan (or when combined with all of the Company's other security based compensation arrangements) shall not exceed 10% of the Company's outstanding issue from time to time;
- (b) that may be issued to Insiders for options granted under the Plan (or when combined with all of the Company's other security based compensation arrangements) within any one-year period shall not exceed 10% of the Company's outstanding issue from time to time; and
- (c) that may be issued to any one Insider and his or her Associates for options granted under the Plan within any one-year period shall not exceed 5% of the Company's outstanding issue from time to time.

In no event will the number of Shares at any time reserved for issuance to any Participant exceed 5% of the Company's outstanding issue from time to time.

For the purposes of this Section 5.1, "outstanding issue" means the total number of Shares, on a non-diluted basis, that are issued and outstanding immediately prior to the date that any Shares are issued or reserved for issuance pursuant to an award under the Plan.

For greater certainty, as this Plan is a rolling plan, the reloading of Options is permitted under the Plan and Options that are exercised, surrendered, terminated or expire without being exercised no longer represent Shares reserved for issuance under this Plan and do not decrease the number of Shares issuable under this Section 5.1 as determined from time to time, subject to the provisions of Section 2.7.

5.2 Transferability

Any benefits, rights and options accruing to any Participant in accordance with the terms and conditions of the Plan shall not be transferable unless specifically provided herein. Except as otherwise provided in Section 2.13, during the lifetime of a Participant, all benefits, rights and options may only be exercised by the Participant.

5.3 Employment

Nothing contained in any Plan shall confer upon any Participant any right with respect to employment or continuance of employment with the Company or any Affiliate, or interfere in any way with the right of the Company or any Affiliate to terminate the Participant's employment at any time. Participation in any Plan by a Participant is voluntary.

5.4 Record Keeping

The Company shall maintain a register in which shall be recorded:

- (a) the name and address of each Participant;
- (b) the Plan or Plans in which the Participant participates;
- (c) any Participant's Contributions;
- (d) the number of unissued Shares reserved for issuance pursuant to an Option or pursuant to an award made under the Share Bonus Plan in favour of a Participant; and
- (e) such other information as the Board may determine.

5.5 Necessary Approvals

The Plan shall be effective only upon formal adoption by the Board following the approval of the shareholders of the Company. Any Option exercised before shareholder approval is obtained shall be rescinded if shareholder approval is not obtained within 12 months before or after the Plan is adopted. Such shares shall not be counted in determining whether such approval is obtained.

The obligation of the Company to sell and deliver Shares in accordance with the Plan is subject to the approval of any Stock Exchange or governmental authority having jurisdiction in respect of the Shares which may be required in connection with the authorization, issuance or sale of such Shares by the Company. If any Shares cannot be issued to any Participant for any reason including, without limitation, the failure to obtain such approval, the obligation of the Company to issue such Share shall terminate and any Participant's Contribution or option price paid to the Company shall be returned to the Participant.

5.6 Income Taxes

As a condition of, and prior to participation in, the Plan, a Participant shall, at the Company's request, authorize the Company in writing to withhold from any remuneration or consideration whatsoever payable to such Participant hereunder, any amounts required by any taxing authority to be withheld for taxes of any kind as a consequence of such participation in the Plan.

5.7 Amendments to Plan

The Board shall have the power to, at any time and from time to time, either prospectively or retrospectively, amend, suspend or terminate the Plan or any Option or other award granted under the Plan without shareholder approval, including, without limiting the generality of the foregoing: changes of a clerical or grammatical nature, changes regarding the persons eligible to participate in the Plan, changes to the exercise price, vesting, term and termination provisions of Options, changes to the share appreciation right provisions, changes to the share bonus plan provisions (other than the maximum number of Shares issuable under the Bonus Plan in Section 3.2 of the Plan), changes to the authority and role of the Compensation Committee under the Plan, changes to the acceleration and vesting of Options in the event of a takeover bid, and any other matter relating to the Plan and the Options and awards granted thereunder, provided however that:

- (a) such amendment, suspension or termination is in accordance with applicable laws and the rules of any stock exchange on which the Shares are listed;
- (b) no amendment to the Plan or to an Option granted hereunder will have the effect of impairing, derogating from or otherwise adversely affecting the terms of an Option which is outstanding at the time of such amendment without the written consent of the holder of such Option;
- (c) the expiry date of an Option Period in respect of an Option shall not be more than ten years from the date of grant of an Option except as expressly provided in Section 2.5;
- (d) the Directors shall obtain shareholder approval of:
 - (i) any amendment to the aggregate maximum number of Shares specified in subsection 3.2 (Share Bonus Plan);
 - (ii) any amendment to the aggregate percentage of Shares specified in subsection 5.1;
 - (iii) any amendment to the limitation on Shares that may be reserved for issuance, or issued, to Insiders under subsection 5.1(a) and (c); or
 - (iv) any amendment that would reduce the exercise price of an outstanding Option of an Insider other than pursuant to section 2.11;
 - (v) any amendment that would extend the expiry date of the Option Period in respect of any Option granted under the Plan to an Insider except as expressly contemplated in subsection 2.5; and
 - (vi) any amendment to the amending provision set out in subsection 5.7 (Amendments to Plan).

If the Plan is terminated, the provisions of the Plan and any administrative guidelines and other rules and regulations adopted by the Board and in force on the date of termination will continue in effect as long as any Option or any rights pursuant thereto remain outstanding and, notwithstanding the termination of the Plan, the Board shall remain able to make such amendments to the Plan or the Options as they would have been entitled to make if the Plan were still in effect.

5.8 Foreign Private Issuer Status

If, and for so long as, the Company is not a Foreign Private Issuer or if the directors and officers of the Company otherwise become subject to Section 16 of the Exchange Act, then notwithstanding any provision of the Plan to the contrary:

- (a) the Plan shall be administered by a committee consisting of two or more persons (the "Committee") appointed by the Board, each of whom is a director qualifying as a "disinterested" person, as such term is defined, from time to time, in Rule 16b-3 under the Exchange Act;
- (b) the Committee shall determine and designate, from time to time, the individuals to whom awards shall be made hereunder, the amount of the awards and the other terms and conditions of such awards;

- (c) each member of the Committee shall, upon his appointment or election to the Committee for the first time, automatically be granted an immediately exercisable Option to purchase 10,000 Shares at a price per share equal to the Fair Market Value at the date of grant for an Option Period of ten years but shall not otherwise be eligible to participate in the Plan;
- (d) no Option granted to a director or officer under the Plan may be exercised during the first six months following the date of grant;
- (e) directors and officers of the Company will be required to hold Shares acquired under the Share Purchase Plan for a period of six months, provided that no such hold period will be required in respect of any such director or officer who makes an irrevocable election to waive his right to withdraw from the Share Purchase Plan or to change his Participant's Contribution at least six months prior to his acquisition of such Shares;
- (f) Subsections 5.8(c), (d) and (e) may only be amended or modified by the Board or the shareholders of the Company once in any six month period; and
- (g) the Board may, subject to Subsection 5.8(f) and Section 5.7, amend or modify the Plan to the extent that the Board, based upon the advice of legal counsel, considers necessary or desirable to bring the Plan into compliance with Rule 16b-3 under the Exchange Act.

5.9 No Representation or Warranty

The Company makes no representation or warranty as to the future market value of any Shares issued in accordance with the provisions of the Plan.

5.10 Audited Financial Statements

The Company shall provide annual financial statements of the Company to each Participant holding an outstanding award under the Plan. Such financial statements need not be audited and need not be issued to key employees whose duties at the Company assure them access to equivalent information.

5.11 Compliance with Applicable Law, etc

If any provision of the Plan or any agreement entered into pursuant to the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body or Stock Exchange having authority over the Company or the Plan then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

PART 6 - ADMINISTRATION OF THE PLAN

6.1 Administration by the Committee

- (a) Unless otherwise determined by the Board, the Plan shall be administered by the Compensation Committee (the "Committee") appointed by the Board and constituted in accordance with such Committee's charter. The members of the Committee serve at the pleasure of the Board and vacancies occurring in the Committee shall be filled by the Board.

- (b) The Committee shall have the power, where consistent with the general purpose and intent of the Plan and subject to the specific provisions of the Plan, to:
 - (i) adopt and amend rules and regulations relating to the administration of the Plan and make all other determinations necessary or desirable for the administration of the Plan. The interpretation and construction of the provisions of the Plan and related agreements by the Committee shall be final and conclusive. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency; and
 - (ii) otherwise exercise the powers delegated to the Committee by the Board and under the Plan as set forth herein.

6.2 Board Role

- (a) The Board, on the recommendation of the Committee, shall determine and designate from time to time the individuals to whom awards shall be made, the amounts of the awards and the other terms and conditions of the awards.
- (b) The Board may delegate any of its responsibilities or powers under the Plan to the Committee, provided that the grant of all Shares, Options or other awards under the Plan shall be subject to the approval of the Board. No Option shall be exercisable in whole or in part unless and until such approval is obtained.
- (c) In the event the Committee is unable or unwilling to act in respect of a matter involving the Plan, the Board shall fulfill the role of the Committee provided for herein.

中华人民共和国四川盆地梓潼区块石油合同
补充协议

SUPPLEMENTARY AGREEMENT
FOR
PETROLEUM CONTRACT
FOR ZITONG BLOCK, SICHUAN OILFIELD OF
THE PEOPLE'S REPUBLIC OF CHINA

中国 北京
BEIJING, CHINA

SUPPLEMENTARY AGREEMENT
FOR
PETROLEUM CONTRACT
FOR ZITONG BLOCK, SICHUAN OILFIELD OF
THE PEOPLE'S REPUBLIC OF CHINA
中华人民共和国四川盆地梓潼区块石油合同补充协议

This Supplementary Agreement is entered into in Beijing on this 30th day of December, 2011 by and among China National Petroleum Corporation (hereinafter referred to as “CNPC”), Sunwing Energy Zitong Ltd. (hereinafter referred to as “Sunwing”) and Mitsubishi Gas Chemical Company, Inc. (hereinafter referred to as “MGC”); Sunwing and MGC are hereinafter referred to collectively as the “Contractor”, CNPC and the Contractor are hereinafter referred to collectively as the “parties” and individually as a “party”

本补充协议由中国石油天然气集团公司（以下简称“集团公司”），皇朝梓潼能源有限公司（以下简称“皇朝公司”）和三菱瓦斯化学株式会社（以下简称“三菱公司”）于 2011 年 12 月 30 日在北京签订。皇朝公司和三菱公司合称为“合同者”，集团公司与合同者称为“双方”，单独称为“一方”。

WHEREAS

鉴于：

WHEREAS, CNPC and Pan-China Resources Ltd. (hereinafter referred to as “Pan-China”) entered into the 《Contract for Exploration, Development and Production in Zitong Block, Sichuan Basin of the People’s Republic of China 》 (hereinafter referred to as “Contract”) in Beijing on 19 September, 2002;

鉴于集团公司和泛华能源有限公司（以下称“泛华公司”）2002 年 9 月 19 在北京签订了《中华人民共和国四川盆地梓潼区块勘探、开发和生产合同》（以下简称“合同”）；

WHEREAS, the Contract was approved by the Ministry of Foreign Trade and Economic Cooperation of the People’s Republic of China in December, 2002;

鉴于合同已于 2002 年 12 月获得中华人民共和国对外贸易经济合作部的批准；

WHEREAS, Pan-China has transferred its rights, interests and obligations under the Contract to Sunwing, and such transfer agreement has been approved by Ministry of Commerce of the People’s Republic of China (“MOFCOM”) on March 21, 2005;

鉴于泛华公司已将其在合同项下的权利，利益和义务转让给皇朝梓潼有限公司（以下称“皇朝公司”），且该转让已于 2005 年 3 月 21 日获得中华人民共和国商务部的批准；

WHEREAS, Sunwing has assigned ten percent (10%) of its participating interest under the Petroleum Contract to Mitsubishi Gas Chemical Company, Inc. (hereinafter referred to as “MGC”), and such assignment has been approved by Ministry of Commerce of the People’s Republic of China on May 16, 2006;

鉴于皇朝公司已将其在合同项下百分之十（10%）权益转让给三菱瓦斯化学株式会社（以下称“三菱公司”），且该转让已于2006年5月16日获得中华人民共和国商务部的批准；

WHEREAS, PetroChina Company Ltd. (hereinafter referred to as “PetroChina”) has been authorized to implement the Contract by CNPC according to the Article 23 of the Contract;

鉴于，根据合同中的第23条，中国石油天然气股份有限公司（以下简称“中国石油”）已被集团公司授权执行本合同；

WHEREAS, the second phase of Exploration Period has been extended to 30 June, 2011 based on the agreement between Sunwing and CNPC on January 30, 2011, and now the second phase of Exploration Period has expired;

鉴于根据皇朝公司和集团公司于2011年1月30日达成的一致意见，合同的勘探期第二阶段被延长至2011年6月30日，且目前合同勘探期第二阶段已到期；

WHEREAS, the Contractor has drilled Zitong 1 well and Yixin 2 well in 2010 and there is potential commercial discovery from these two wells;

鉴于合同者已于2010年钻探梓潼1井和义新2井并且已获得潜在工业发现；

WHEREAS, the Contractor has submitted an appraisal program on Zitong block to JMC before the end of the second phase;

鉴于合同者于勘探期第二阶段期满前向联管会提交了梓潼区块评价计划；

WHEREAS, the Contractor has submitted the framework of the Overall Development Programme to JMC before the end of the second phase;

鉴于合同者已于勘探期第二阶段期满前向联管会递交了概念总体开发方案；

WHEREAS, both parties have agreed to conduct further necessary evaluation work to appraise the potential resource and reserve of Zitong block;

鉴于双方同意对梓潼区块进行进一步评价工作以评价区块内潜在的资源储量；

NOW, THEREFORE, CNPC, Sunwing and MGC agree on the modifications to the Petroleum Contract as follows:

为此，双方经协商一致达成如下协议：

1.The Evaluation Phase评价阶段

1.1 The Contractor will be granted an evaluation phase which will last consecutively thirty-six (36) months beginning with 1st July of 2011 for the Contractor to do the evaluation work based on the evaluation program approved by JMC and CNPC. For the purpose of this agreement, such evaluation phase will be only used to conduct the evaluation work based on the approved evaluation/appraisal program by CNPC, including but not limited to drill appraisal wells, prepare the report of oil and/or gas in place of Oil Field and/or Gas Field, prepare ODP and other necessary relevant documents for the approval of Overall Development Program (ODP).

集团公司同意给予合同者自2011年7月1日起连续36个月时间的评价阶段，用于合同者根据联管会通过的和集团公司批准的评价计划，实施评价工作。为本协议之目的，该评价阶段只能用于合同者执行集团公司批准的评价计划，包括但不限于钻评价井、编制油（气）田的油（气）地质储量报告、编制总体开发方案以及与此相关为报批总体开发方案所需的其他工作。

1.2 The evaluation phase mentioned in clause 1.1 shall be deemed as a part of exploration period of the Contract. The Contract term, development period and production period stipulated in the Contract shall not be extended accordingly with such evaluation phase granted by CNPC.

本条第1.1款提及的评价阶段被视为合同勘探期的一部分。合同中的合同期限、开发期或生产期不因此而延长。

1.3 Costs and Expenses 费用与支出

All the petroleum operations conducted by the Contractor in evaluation phase in accordance with the Work Program Budget adopted by JMC and approved by CNPC shall be deemed as part of the exploration operation. All the costs and expenses incurred for such exploration operations shall be deemed as exploration costs and recorded into joint account.

合同者在评价阶段根据联管会采纳并且集团公司批准的工作计划和预算所进行的石油作业将被视为勘探作业。为实施该勘探作业所发生的费用和支出被视为勘探费用记入联合账簿。

2 Relinquishment of the Contract Area 合同区面积撤销

2.1 The Contractor shall relinquish all the contract area except for those of 1001.45 square kilometers. The areas to be remained continually by the Contractor is marked out by the geographic location and the coordinates of the connecting points of the boundary lines shown on Annex 1 attached hereto.

合同者除保留1001.45平方公里的合同区面积外，向集团公司归还其他剩余合同区面积。合同者继续保留的合同区面积的地理位置和边界线折点坐标见本协议附件一。

2.2 After the Department or Unit approves the report of oil and/or gas in place stipulated in clause 3.4 of this agreement, the Contractor shall relinquish all the contract

area except for those areas in relation to the approved reserve in the said report of oil and/or gas in place.

待国务院授权的部门或者单位批准了本协议第3.4条规定的油气地质储量报告后，除保留该储量报告中所指定的含气面积外，合同者应向集团公司归还其他剩余合同区面积。

3. Evaluation Work and the Schedule评价工作和时间表

Both parties agree that the Contractor shall do and complete the following work at least in the evaluation phase:

双方同意合同者在评价阶段至少完成以下工作：

3.1 The Contractor shall acquire and complete 160 square kilometers 3D seismic lines during the evaluation phase; and

合同者在评价阶段应采集和完成 160 平方公里的三维地震；

3.2 The Contractor shall drill and complete three (3) horizontal wells during the first thirty months of the evaluation period;

合同者将在评价阶段开始的三十（30）个月内完成 3 口水平井的钻井和完井工作；

3.3 The work described in the above clause 3.1 and clause 3.2 of this agreement shall be the minimum evaluation work commitment of the evaluation phase and it is also deemed as a part of the minimum exploration work commitment.

本协议第 3.1 款和 3.2 款所述的工作量为评价阶段最低限度评价义务，也被视为是勘探期最低限度勘探工作义务的一部分。

At the expiration of evaluation phase, if the evaluation work actually fulfilled by the Contractor is less than the minimum evaluation work commitment for evaluation phase or less than the new minimum exploration work commitment based on Article 6.7 of the Contract, the Contractor shall, within thirty(30) days from the date of the expiration of the evaluation phase, pay CNPC only any unfulfilled balance of the minimum exploration work commitment in US dollars after it has been converted into a cash equivalent using the method provided in Annex II of the Contract, or pay CNPC such cash equivalent of the unfulfilled balance in US dollars from the performance bond which should have been provided to CNPC or PetroChina by the Contractor in accordance with the clause 7 under this agreement.

在评价阶段结束时，如果合同者实际完成的评价工作少于评价阶段最低限度评价工作义务或少于根据合同第 6.7 款所述的新的最低限度勘探工作义务时，合同者应在评价阶段期满之日起三十（30）天内，将仅限于最低限度勘探工作义务未完成部分按照本合同附件二（会计程序）的规定的办法折算成等值的现金，以美元支付给集团公司，或者从合同者根据本协议第 7 条向集团公司或中国石油提供的履约保函中向集团公司支付该等值现金；

If the total amount in the performance bond provided by the Contractor to CNPC or PetroChina is not enough to pay CNPC the above cash equivalent of unfulfilled balance of minimum exploration work commitment converted using the method provided in Annex II of the Contract, the Contractor should make up the gap and pay CNPC within thirties (30) days the balance in US dollars between the performance bond and the total cash equivalent of unfulfilled balance of the minimum exploration work commitment using the method provided in Annex II of the Contract. But if the amount under the performance bond has exceeded the above cash equivalent of unfulfilled balance of the minimum exploration work commitment, CNPC has no obligation to return any remained amount of the performance bond to the Contractor.

如果合同者提供给集团公司或中国石油的履约保函的金额不足以向集团公司支付最低勘探工作义务未完成部分按照本合同附件二（会计程序）的规定的办法折算成的等值现金，合同者应弥补履约保函和该等值现金之间的差额并在三十（30）天内将该不足部分以美元支付给集团公司。但是，如果履约保函中的金额已超出合同者应向集团公司赔付的未完成部分的金额，集团公司则无义务将履约保函中的剩余金额归还合同者。

For the convenience of calculation, both parties agree the unfulfilled footage of a unfulfilled evaluation well is the average depth of the previous evaluation wells drilled by the Contractor in the evaluation phase.

为了计算方便，双方同意未完成的评价井的未完成进尺是合同者在评价阶段所钻的井的平均深度。

3.4 The Contractor shall:

合同者应:

(1) complete and submit to CNPC the report of oil and/or gas in place no later than six (6) months prior to the expiration of the evaluation phase, which should be qualified to the standards, rules and criteria made by the Department or Unit for preparing the report of oil and/or gas in place of Oil Field and/or Gas Field; and

不迟于评价阶段结束前的六(6)个月，完成并向集团公司提交符合国务院授权的部门或者单位关于油(气)田的油(气)地质储量报告编制规定标准的油(气)田的油(气)地质储量报告；

(2) complete and submit to CNPC the Overall Development Program(ODP) no later than three (3) months prior to the expiration of evaluation phase, which should be qualified to the national oil and gas industry standards, rules and criteria of China for preparing the ODP, as well as the requirements of the Contract on ODP.

不迟于评价阶段结束前的三(3)个月，完成并向集团公司提交符合中国国家油气行业标准及合同关于总体开发方案规范要求的总体开发方案。

3.5 The detail evaluation work and the schedule have been attached to this agreement as the Annex 2.

详细的评价计划和时间表列明在本协议的附件 2 中；

4、 Determination of Commerciality and Non-associated Natural Gas **油田商业价值的确定和非伴生天然气**

4.1 Modifying the Article 11.3 of the Contract as the following:
将合同 11.3 款修改为：

“11.3 No later than three (3) months prior to the expiration of evaluation phase, the Operator shall submit to JMC a detailed report on the appraisal of the commerciality of the discovered Petroleum-bearing trap.

11.3 不迟于评价阶段期满前的三(3)个月,作业者应向联合管理委员会提交一份关于该发现的含石油圈闭有无商业价值的详细评价报告。

The appraisal report shall include the evaluation on geology, development, engineering and economics and the Overall Development Program to be approved, and the Overall Development Program shall include, but not be limited to, the Maximum Efficient Rate (MER) and the estimated duration of the production period determined in accordance with the international Petroleum industry practice, as well as the Delivery Point, a plan for utilization of Associated Natural Gas, and the basket of internationally traded Crude Oils referred to in Article 14.4.4.5 hereof.

评价报告应包括地质、开发、工程和经济评价以及待批准的总体开发方案。在该总体开发方案中应包括,但不限于,按照国际石油工业惯例确定的最大有效采油速度和估计的生产期年限,以及交货点、伴生天然气的利用方案以及本合同第 14.4.4.5 款所述的进行国际交易的“一篮子”原油。

No later than three (3) months prior to the submission of the Overall Development Program, the Operator shall:

(a) submit to CNPC the report of oil and/or gas in place of Oil Field and/or Gas Field; and

(b) entrust a qualified organization to prepare the Environmental Impact Statements.

不迟于总体开发方案提交前的三(3)个月,作业者应向集团公司提交:(1)油(气)田的油(气)地质储量报告;(2)委托有资格的单位编写的《环境影响报告书》。

The reports and statements mentioned in (a) and (b) above shall be submitted to the competent authorities of the Chinese Government through CNPC for review and approval.

上述地质储量报告和《环境影响报告书》均由集团公司报送中国政府主管部门审查批准。

If the Contractor doesn't submit the Overall Development Program within three (3) months after the end of the evaluation phase, the Contractor shall be deemed to have abandoned the right of the said Petroleum discovery. The area in relation with the said Petroleum discovery shall be relinquished by the Contract from the Contract Area.

在评价阶段结束后三(3)个月内, 如果合同者未就梓潼区块的石油或天然气发现提交符合合同规定的总体开发方案, 合同者将被视为已经放弃了对该石油发现的权利。该石油发现的面积应从合同区中撤除。

If the parties can not reach agreement on the Overall Development Program within three (3) months after the submission of such Overall Development Program by the Contractor, the said Overall Development Program shall be submitted to an expert for review, who will be appointed according to the provisions of the Article 27 hereof.

如果合同者递交了总体开发方案后三(3)个月内, 双方不能就合同者提交的总体开发方案达成一致, 则该总体开发方案应被提交给一个根据本合同第二十七条的规定指定的专家进行审查。

4.2 Modified the Article 18. 2. 1. 4 of the Contract as the following:

将合同第 18. 2. 1. 4 款修改为:

“18.2.1.4 No later than six (6) months prior to the expiration of evaluation phase, the Operator shall submit to JMC a detailed appraisal report on the oil and/or gas in place of the Gas Reservoir. The appraisal report shall include, but not be limited to, the Gas Reservoir properties, the depth of the gas-bearing reservoir, the reserves in place, the recoverable reserves, the recovery factor, the estimated production periods, the estimated production profile and the constituent analysis of the Natural Gas.

不迟于评价阶段结束前的六(6)个月, 作业者应提交一份详细的关于该气藏地质储量的评价报告, 报联合管理委员会。该评价报告应包括但不限于, 气藏性质、储气层深度、地质储量、可采储量、采收率、预计的生产期、预计的生产曲线和天然气组分分析。”

4.3 In spite of content in Article 18 of the Contract, regarding the report of gas in place and the Overall Development Program in relation with the Non-associated Natural Gas field, both parties agree hereby that the Contractor shall:

尽管有合同中第十八条之规定, 关于非伴生气气田的天然气地质储量报告和总体开发方案, 双方在此同意, 合同者应:

(1) complete and submit to CNPC the report of oil and/or gas in place of Oil Field and/or Gas Field which should be qualified to the standards, rules and criteria made by

the Department or Unit for preparing such report early than six (6) months prior to the expiration of the evaluation phase; and

在评价阶段结束的六（6）个月前，向集团公司提交符合国家关于油（气）田的油（气）地质储量报告编制规定的非伴生气田的石油/天然气地质储量报告；

(2) complete and submit to CNPC the ODP which should be qualified to the national oil and gas industry standards, rules and criteria of China for preparing the ODP, as well as the requirements of the Contract on ODP early than three (3) months prior to the expiration of evaluation phase.

在评价阶段结束的三（3）个月前，完成并向集团公司提交符合国家油气行业标准及合同规定的总体开发方案要求的非伴生气田总体开发方案。

4.4 In spite of the Article 18.2.1.8, both parties agree hereby that there will be no “Market Development Period” due to the lack of the market or the consuming facilities after the expiration of evaluation phase.

尽管有合同中之第 18.2.1.8 款之规定，双方在此同意，在评价阶段结束之后不再有因“缺乏市场或消费设施”而导致的“市场开发期”。

5. Costs 成本与费用

All the costs and expenses incurred by the Contractor depends on the Work Program and Budget adopted by JMC and approved by the CNPC in evaluation phase shall be deemed as the Exploration Cost, and shall be born and recovered by the Contractor and recorded in exploration cost account base on the Annex II of the Contract, subject to Article 19 of the Contract.

评价阶段依据联管会通过和集团公司批准的工作计划和预算发生的费用视为勘探费用；受限于合同第十九条之规定，该费用与支出由合同者承担和回收，并按照合同附件二的规定记入联合帐簿。

6. Confidentiality 保密

Modified the Article 22.2 (b) of the Contract as the following:

将合同第 22.2 (2) 款修改为：

(b) original data and information and their interpretations covered by any discovery at the end of the second exploration phase if the Contractor has an option under Article 6.4 (a) hereof, or at the end of the appraisal work or evaluation phase if the Contractor has an option under Article 6.4 (b) hereof.

(2) 如果合同者做出本合同第 6.4 款第(1)项的选择，则在勘探期第二阶段结束时；或如果合同者做出本合同第 6.4 款第(2)项的选择，则在评价工作结束时或评价阶段结束时，任一发现上的原始数据、资料和其解释。

7. Performance Bond 履约保函

The Contractor shall provide a performance bond to CNPC phase by phase based on

the evaluation program for the evaluation phase adopted by JMC and approved by CNPC, and the requirement on issue time and amount for the performance bond provided by the Contractor has been described in the annex 3 attached to this agreement.

基于联管会通过并且经集团公司批准的评价阶段的评价计划，合同者应分阶段向集团公司提供履约保函。关于提供履约保函的时间要求和金额列在本协议附件三中。

8. Termination of the Contract

合同的终止

8.1 In spite of the Article 11 and Article 18 under the Contract, both parties agree hereby that in order to complete the ODP and get the approval from the Department or Unit on ODP, the Contractor shall submit to CNPC the report of oil and/or gas in place qualified to the standards, rules and criteria made by the Department or Unit for preparing the report of oil and/or gas in place no later than six (6) months prior to the end of the evaluation phase. If the Contractor fails to submit the above report to CNPC on time as the requirement of this agreement, or the said report does not get the approval from the Department or Unit or its authorized reviewing organization after CNPC submitting the above report to the Department or Unit, the Contract shall be terminated automatically at any time without the consent of the any Party.

尽管合同第十一条、第十八条之规定以及本协议第 4 条之规定，双方在此确认，为完成总体开发方案并获得国务院授权的部门或单位对其的批准，合同者应该不迟于评价阶段期满前的六（6）个月，向集团公司提交符合国家关于油气地质储量报告编制规定的油气地质储量报告。如果合同者没有按时向集团公司提交该储量报告，或者集团公司将合同者提交该储量报告上交该国务院授权的部门或单位后，国务院授权的部门或单位或者其授权的评审机构没有通过该储量报告，则无需任何一方的同意，合同将自动终止。

8.2 In spite of the Article 11, Article 18 and Article 28.7(3) under the Contract and the clause 4 of this agreement, both parties agree hereby that the Contract shall be terminated automatically at any time without the consent of any Party as any of the following conditions incurred:

尽管有合同第十一条、第十八条以及第 28.7（3）款之规定以及本协议第 4 条之规定，双方在此同意，在下列任何一种情况发生时，无需任何一方的同意，合同将自动终止：

(1) the Contractor fails to submit to CNPC the ODP qualified to the National oil and gas industry standards, rules and criteria for preparing ODP, as well as the requirements of the Contract on ODP within three (3) months after the expiration of evaluation phase; or

评价阶段期满后三（3）个月内，如果合同者没有向集团公司提交符合国家关于油气行业标准及合同规定的总体开发方案规范要求的总体开发方案；或者

(2) both parties can not reach agreement on the ODP submitted by the Contractor within six (6) months after the end of evaluation phase; or

在评价阶段期满后的六（6）个月内，如果双方不能就合同者提交的总体开发方案达成一致意见；或

(3) the Contractor fails to provide the performance bond to CNPC on time as the requirement of this agreement.

如果合同者不能按时按照本协议提供履约保函。

9. Liability 责任

By the termination of the Contract, any party should not leave any responsibility or liability born by such party according to the Contract to the other party, including but not limited to any liability of paying abandonment costs as well as environment recover responsibilities.

合同终止时任何一方不应将其在合同项下的责任与义务转移给另一方，包括但不限于支付放弃费和环境恢复的责任。

10. Others 其他

Except any expression and description in this agreement, any rights and obligations of the Contractor under the Contract shall be applied to evaluation phase, including but not limited to the training fee and assistant fee to CNPC.

除本协议明文规定外，合同者根据合同在勘探期内应享受的权利和应承担的义务应继续适用于评价阶段，包括但不限于向集团公司支付培训费、协助费等义务。

11. All definitions and the provisions under the Contract shall be applied to this agreement except of any expression and description in this agreement.

除本协议有明文规定，否则合同中的定义和规定仍然适用于本协议。

12. This Supplementary Agreement shall be written in both Chinese and English, and both versions shall have equal force and effect.

本协议以中英文写就，具有同等效力。

13. This Supplementary Agreement, as a supplementary document to the Contract, shall be an integral part of the Contract.

本修改协议作为合同的补充文件，构成合同不可分割的组成部分。

14. This Supplementary Agreement is executed in seven originals and CNPC will hold three originals and Sunwing and MGC will retain two originals respectively.

本补充协议一式七份，集团公司执三份，皇朝公司和三菱公司各执二份。

15. The Supplementary Agreement shall be effective upon the approval of the Ministry of Commerce of the People's Republic of China (MOFCOM) to this agreement.

本修改协议从中华人民共和国商务部批准之日起生效。

IN WITNESS WHEREOF, this Agreement is signed on 30th December, 2011 by the authorized representatives of each Party hereto.

双方委派各方下述代表于 2011 年 12 月 30 日签署本协议。

By: /s/ Mr. Yan Cunzhang

Mr. Yan Cunzhang / 阎存章先生

For and on Behalf of

China National Petroleum Corporation / 代表中国石油天然气集团公司

By: /s/ Mr. Patrick Chua

Mr. Patrick Chua / 蔡金锵先生

For and on Behalf of

Sunwing Energy Zitong Ltd. / 代表皇朝梓潼能源有限公司

By: /s/ Mr. Shinichi Mitsuda

Mr. Shinichi Mitsuda / 满田 信一

For and on Behalf of

Mitsubishi Gas Chemical Company, Inc. / 代表三菱瓦斯化学株式会社

Annex 1: The geographic location and the coordinates of the connecting points of the boundary lines of the remained contract area

附件一：保留的合同区面积的地理位置和边界线折点坐标

Annex 2: The detail evaluation work and the schedule

附件二：评价工作计划包括预计的工作时间表

Annex 3: The schedule and requirements for the Contractor providing performance bond to CNPC

附件三：合同者向集团公司提供履约保函的时间表及要求

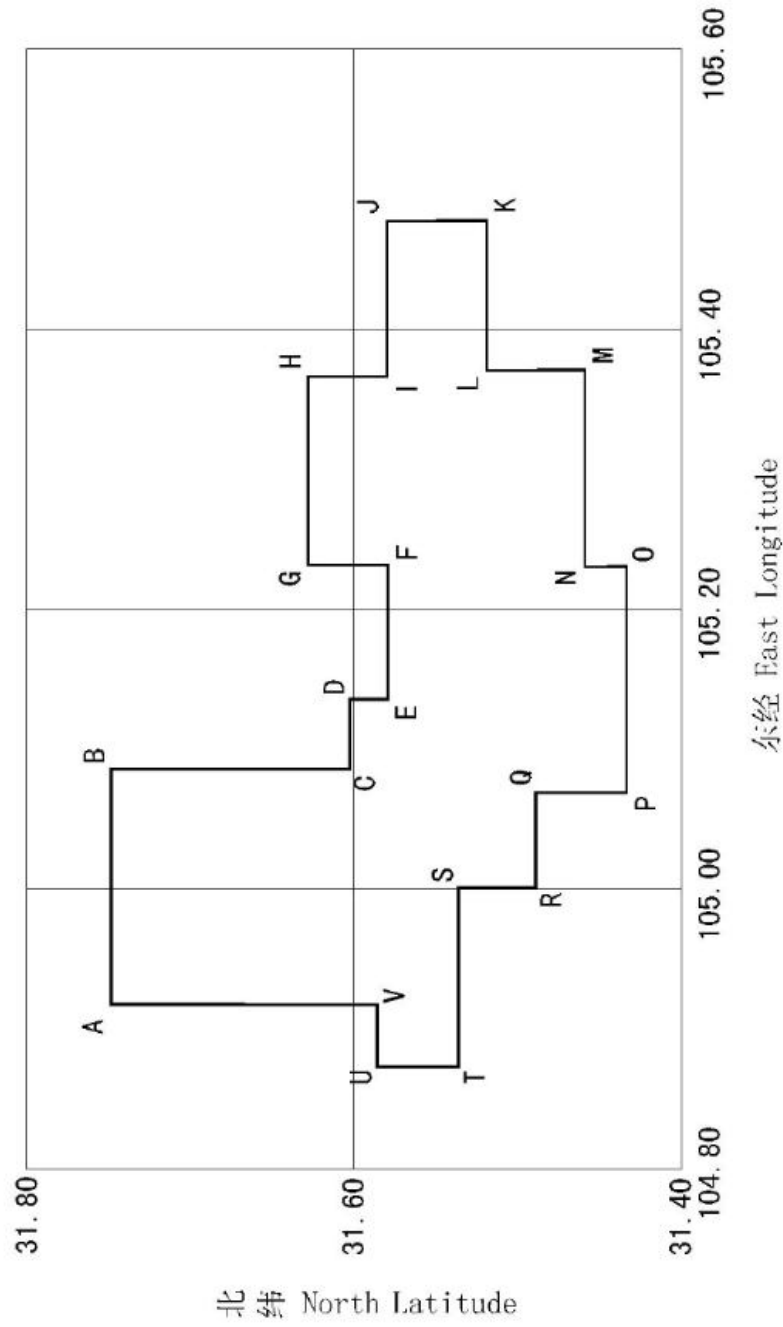
Annex 1: The geographic location and the coordinates of the connecting points of the boundary lines of the remained contract area

附件一：保留的合同区面积的地理位置和边界线折点坐标

保留的合同区面积为：1001.45 平方千米，地理位置和边界线折点坐标如下：

| 拐点 | 北纬 | | | 东经 | | |
|----|----|----|----|-----|----|----|
| | 度 | 分 | 秒 | 度 | 分 | 秒 |
| A | 31 | 45 | 0 | 104 | 54 | 45 |
| B | 31 | 45 | 0 | 105 | 4 | 50 |
| C | 31 | 36 | 15 | 105 | 4 | 50 |
| D | 31 | 36 | 15 | 105 | 7 | 50 |
| E | 31 | 34 | 50 | 105 | 7 | 50 |
| F | 31 | 34 | 50 | 105 | 13 | 35 |
| G | 31 | 37 | 45 | 105 | 13 | 35 |
| H | 31 | 37 | 45 | 105 | 21 | 40 |
| I | 31 | 34 | 50 | 105 | 21 | 40 |
| J | 31 | 34 | 50 | 105 | 28 | 20 |
| K | 31 | 31 | 10 | 105 | 28 | 20 |
| L | 31 | 31 | 10 | 105 | 21 | 55 |
| M | 31 | 27 | 35 | 105 | 21 | 55 |
| N | 31 | 27 | 35 | 105 | 13 | 30 |
| O | 31 | 26 | 5 | 105 | 13 | 30 |
| P | 31 | 26 | 5 | 105 | 3 | 50 |
| Q | 31 | 29 | 25 | 105 | 3 | 50 |
| R | 31 | 29 | 25 | 104 | 59 | 45 |
| S | 31 | 32 | 15 | 104 | 59 | 45 |
| T | 31 | 32 | 15 | 104 | 52 | 5 |
| U | 31 | 35 | 15 | 104 | 52 | 5 |
| V | 31 | 35 | 15 | 104 | 54 | 45 |

保留的合同区面积的地理位置和边界折点坐标
 The Geographic Location and The Coordinates of The Connecting
 Points of The Boundary Lines of The Remained Contract Area



Annex 3: The schedule and requirements for the Contractor providing performance bond to CNPC
 附件三：合同者向集团公司提供履约保函的时间表及要求

CNPC and Sunwing agree that the Contractor shall provide performance bond to CNPC, and/or PetroChina in accordance with the following table in order to implement the evaluation work described in main body of this Supplementary Agreement and other exploration work stipulated in the Contract:

集团公司和皇朝公司同意，为履行本协议规定的评价工作以及合同中规定的其他勘探工作，合同者将按照下表的要求向集团公司和/或中国石油提供履约保函：

| The Requirement on Time and Amount for the Contractor to Provide Performance Bond to CNPC | | |
|--|-------------------------|--|
| 关于合同者提供履约保函的时间和金额要求 | | |
| issue time | amount | valid period |
| Prior to December 31, 2011 2011年12月31日之前 | 20 million USD 两千万美元 | December 31, 2011 to June 30, 2012 2011年12月31日至2012年6月30日 |
| Prior to July 1, 2012 2012年7月1日之前 | 20 million USD 两千万美元 | July 1, 2012 to June 30, 2013 2012年7月1日至2013年6月30日 |
| Prior to July 1, 2013 2013年7月1日之前 | 20 million USD 两千万美元 | July 1, 2013 to June 30, 2014 2013年7月1日至2014年6月30日 |

Memorandum of Understanding

This Memorandum of Understanding (“**MOU**”) is made on January 11, 2012 by and between:

Sunwing Zitong Energy Ltd., a company incorporated and existing under the laws of the British Virgin Islands and having its registered office at MidOcean Management and Trust Services (BVI) Limited, 9 Columbia Centre, Road Town, Tortola, British Virgin Islands (hereinafter “**SZE**”); and

Shell China Exploration and Production Company Limited, a company organised and existing under the laws of England, and having a registered office in 3rd Floor, East Wing, China World Trade Center, No. 1 Jian Guo Men Wai Dajie, Beijing, China (hereinafter “**Shell**”).

(SZE and Shell are hereinafter also referred to individually as a “**Party**” and collectively as the “**Parties**”).

Whereas

- A) China National Petroleum Corporation (“**CNPC**”), SZE and Mitsubishi Gas Chemical Company Inc. (“**MGC**”) are parties to the Contract for Exploration, Development and Production in Zitong Block, Sichuan Basin of the People’s Republic of China dated September 19, 2002 (as amended and supplemented from time to time in accordance with its terms) (the “**Petroleum Contract**”);
- B) SZE and MGC comprise the Contractor under the Petroleum Contract and hold 90% and 10% respectively of the participating interests of the Contractor in and under the Petroleum Contract and of the participating interests in the Joint Operating Agreement dated November 25, 2005 entered into between SZE and MGC (the “**JOA**”);
- C) On December 30, 2011 SZE, MGC and CNPC executed a supplementary agreement to the Petroleum Contract setting forth the terms and conditions upon which SZE and MGC shall undertake an evaluation phase on the Zitong Block (the “**Supplementary Agreement**”);
- D) SZE wishes to sell and assign and Shell wishes to purchase and take assignment of all of the participating interests of SZE (including as Operator) in and under the Petroleum Contract and JOA together with SZE’s interest in all assets, data, reports, contracts and all other interests relating to such participating interests (collectively, the “**Transferred Interests**”); and
- E) The Parties wish to record their understanding with regard to the discussions and negotiations in respect of the potential sale and purchase of the Transferred Interests (the “**Transaction**”).

Therefore it is hereby agreed as follows:

1. Sale and Purchase of Transferred Interest

Subject to each of the Conditions being satisfied (or if capable of waiver, waived by the Party in whose favour they have been written) in accordance with the definitive and binding Purchase and Sale Agreement to be agreed and entered into by the Parties (the “PSA”), together with deeds for the assignment of the participating interests of SZE in and under the Petroleum Contract and the JOA (the “Assignment Deeds”), SZE shall sell and assign to Shell, and Shell shall purchase and take assignment from SZE, with effect on the Completion Date, the Transferred Interests, free from any and all charges, liens, pledges and other encumbrances, subject to the terms of the Petroleum Contract, the JOA and any applicable laws of China.

The date on which the Conditions are satisfied or waived in accordance with the PSA shall be the “Condition Date”. “Completion” will take place within ten (10) business days following the Condition Date and the date on which Completion takes place shall be the “Completion Date”.

The Parties shall use all reasonable efforts to complete the PSA as expeditiously as possible following execution of this MOU and no later than the commencement of Chinese New Year in January 2012 (or such later date as the Parties may agree).

2. Consideration

In consideration for the sale and assignment of the Transferred Interest by SZE to Shell, Shell shall make the following cash payments to SZE:

- (a) Past Costs Amount - reimbursement to SZE of SZE’s share of the costs and expenses incurred by the Contractor under the Petroleum Contract (“Past Costs”) from the Date of Commencement of the Implementation of the Contract (as defined in the Petroleum Contract) up to the Completion Date) that have been audited and allowed for cost recovery under the Petroleum Contract by CNPC/PetroChina (the “Past Costs Amount”), which shall be determined in accordance with Clause 3, up to a maximum amount of US\$85,000,000 (the “Past Costs Cap”); *plus*
- (b) Bonus Payment - an additional bonus amount based on the timing of receipt of all required approvals and the Condition Date (the “Bonus Payment”), which shall be determined in accordance with Clause 4 and paid on the Completion Date.

In addition, as of Completion Date, Shell will assume the performance bond obligations in accordance with the provisions of the Supplementary Agreement and will use all reasonable endeavours to procure that CNPC shall release the performance bond provided pursuant to and in accordance with the Supplementary Agreement by SZE, Ivanhoe Energy Inc. (“Ivanhoe”) or any entity on their behalf.

3. Determination of Past Costs Amount

On Completion Date, and subject to the Past Costs Cap, Shell shall pay to SZE the portion of the Past Costs Amount that relates to Past Costs incurred in: (i) the period from the Date of Commencement of the Implementation of the Contract (as defined in the Petroleum Contract) through 2010; and (ii) any period after 2010 but prior to the Completion Date for which CNPC/PetroChina has completed its audit and allowed for cost recovery under the Petroleum Contract.

If by the Completion Date CNPC/PetroChina has not audited and allowed for cost recovery any of the Past Costs incurred in 2011 and/or 2012 under the Joint Account (as defined in the Petroleum Contract) or has audited and allowed for cost recovery any such Past Costs but the result of such audit or CNPC/PetroChina's approval has not been made available to Shell at least 10 business days prior to the Completion Date, then the Past Cost Amount reimbursement on the Completion Date will not comprise such portion of the Past Costs (but rather such portion will be paid within 10 business days from the date on which the result of such audit or CNPC/PetroChina's approval is provided to Shell). The Parties will use reasonable efforts to have any outstanding CNPC/PetroChina audits of Past Costs incurred up to the Completion Date completed as quickly as possible. Upon completion of each relevant audit and allowance of such Past Cost for cost recovery by CNPC/PetroChina, Shell shall make an additional Past Cost Amount payment (as required) to SZE to reflect the audited amount allowed for cost recovery by CNPC/PetroChina, subject always to the Past Costs Cap, and such payment shall be made within 10 business days.

In any event, and in accordance with the provisions of Clause 19.2.1 of the Petroleum Contract, if any of the Joint Account is not finally audited within a 24-month period from the Completion Date or no written notice of any exception to the final auditing results is given by CNPC/PetroChina within such 24-month period, the relevant Past Costs under the Joint Account shall be deemed correct and Shell shall pay the corresponding portion of the Past Costs Amount to SZE, and such payment shall be made within 10 business days.

4. Determination of Bonus Payment

The amount of the Bonus Payment payable under Clause 2(b) shall depend on the timing of receipt of all required approvals and the Condition Date, as follows:

- (a) If the Condition Date is on or before April 14, 2012, the Bonus Payment will be US\$75 million;
- (b) If the Condition Date is after April 14, 2012 but on or before June 30, 2012, the Bonus Payment will be US\$65 million;
- (c) If the Condition Date is after June 30, 2012 but on or before September 30, 2012, the Bonus Payment will be US\$50 million; and
- (d) If the Condition Date is after September 30, 2012 but on or before December 31, 2012, the Bonus Payment will be US\$20 million.

5. Conditions

The Completion of the Transaction is subject to the satisfaction of the following conditions (the “**Conditions**”):

- (a) the approval by Ministry of Commerce of the Supplementary Agreement, and the performance bond required under the Supplementary Agreement having been posted in accordance therewith;
- (b) negotiation and execution of the PSA (including the Assignment Deeds);
- (c) execution of a legally binding Amendment Agreement to the Petroleum Contract between Shell, CNPC and MGC and a legally binding JOA Amendment Agreement between Shell and MGC, provided that the amendments will be only those required to effect the assignments to Shell, and Shell will not propose other substantive changes to those contracts for the purpose of Completion of the Transaction;
- (d) Shell completing its due diligence (which shall be completed prior to the PSA being executed) on the Transferred Interests including without limitation, a review of contractual, financial, commercial, technical, legal and taxation aspects of the Transaction to the reasonable satisfaction of Shell;
- (e) the board of directors of Ivanhoe, SZE and Shell approving the Transaction, which approvals shall be obtained prior to execution of the PSA;
- (f) receipt by each relevant Party of all government and other approvals or consents required for entering into the PSA (including the Assignment Deeds), the Amendment to the Petroleum Contract and the JOA Amendment Agreement, and the Completion of the Transaction; and
- (g) receipt of waivers in writing of all rights of first refusal, priority rights or other pre-emption rights that exist under the Petroleum Contract, the JOA or otherwise and are triggered by the Transaction.

Given the Parties’ desire to complete the Transaction as expeditiously as possible, the Parties shall cooperate and shall use all reasonable endeavours to satisfy the Conditions as soon as reasonably possible after execution of this MOU. The parties agree that the PSA will provide that Completion must occur on or before December 31, 2012 (the “**Longstop Date**”) and that failure to achieve Completion by the Longstop Date will give rise to the right of termination by either Party.

6. Exclusivity

The Parties hereby agree to an exclusive dealing period (the “**Exclusivity Period**”) commencing on the date of signing of this MOU and ending at 5:00 p.m. (Calgary, Alberta time) on March 1, 2012.

During the Exclusivity Period, SZE shall not, and procure that Ivanhoe does not, directly or indirectly (through any officer, trustee, director, agent, affiliate or otherwise) solicit, initiate, encourage or entertain any inquiries, proposals or offers from any person (other than Shell or any affiliate of Shell) relating to any sale, farm-out, assignment, joint venture or exchange of or involving any interest in SZE or the Transferred Interests and shall not provide any documents or data, or access to the electronic data room, in respect of SZE or the Transferred Interests to any third party, except as required to satisfy the Conditions.

7. Confidentiality

Neither Party, nor any representative of either Party, shall disclose any information relating to this MOU or the terms herein (including the fact that this MOU has been entered into) to any third party (other than: (i) any of its affiliates on a reasonable need to know-basis; (ii) its advisors who have a need to know for the purposes of evaluating a possible Transaction; and (iii) as required to satisfy the Conditions provided that Shell may contact CNPC/PetroChina and/or MGC for such purposes only with the consent of SZE which shall not be unreasonably withheld), and subject to any requirement of either Party to make such disclosure as may be required by applicable law or the rules of any applicable stock exchange. For greater certainty, any information relating to this MOU or the terms hereof (including the fact that this MOU has been entered into) shall be considered "Confidential Information" for the purposes of the Confidentiality Agreement recently entered into by the Parties.

8. Press Release

No public announcement or statement may be made or press release issued by a Party regarding this MOU or matters arising in relation to this MOU without prior written approval of the other Party, except as may be necessary, in the opinion of its legal counsel, to comply with the requirements of any stock exchange on which the shares of such Party or its affiliate are listed or with any law, governmental regulation or order with which that Party is bound to comply.

9. Assignment

Neither Party shall be permitted to assign any of its interests hereunder without the prior written consent of the other Party.

10. Governing Law And Arbitration

This MOU shall be governed by and construed in accordance with the laws of England without giving effect to the principles of conflicts of law.

Any dispute arising out of or in connection with this MOU including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the LCIA Rules which Rules are deemed to be incorporated by reference into this Clause 10. The number of arbitrators shall be three. The seat, or legal place, of arbitration shall be London, England, and the language to be used in the arbitration shall be English.

11. Effect of MOU

Except as otherwise stated herein, (i) references in this MOU to a 'Clause' shall be to a clause of this MOU, and (ii) each Party shall bear its own expenses in connection with the Transaction.

This MOU shall constitute binding and legally enforceable terms between SZE and Shell, subject to the conditions stated herein.

SIGNED

For **Sunwing Zitong Energy Ltd.**

For **Shell China Exploration and
Production Company Limited**

/s/ Patrick Chua

/s/ HK Lim

Name: Patrick Chua

Name: HK Lim

Title: Director

Title: Shell China Executive Country Chair

Date: January 11, 2012

Date: January 11, 2012

Subsidiaries of Registrant

| Name of Subsidiary | Jurisdiction of Incorporation or Formation |
|--|---|
| Dagang Resources Ltd. | British Virgin Islands |
| IELA Colombia Inc. | Barbados |
| IELA Mexico Pte. Ltd. | Singapore |
| IELA Singapore Pte. Ltd. | Singapore |
| Ivanhoe Energy (Latin America) Inc. | British Virgin Islands |
| Ivanhoe Energy (Middle East) Inc. | British Virgin Islands |
| Ivanhoe Energy Advisory Inc. | British Virgin Islands |
| Ivanhoe Energy Canada Inc. | Alberta |
| Ivanhoe Energy Canadian Holdings Inc. | Alberta |
| Ivanhoe Energy Colombia Inc. | Barbados |
| Ivanhoe Energy Ecuador Inc. | British Columbia |
| Ivanhoe Energy Holdings Inc. | Nevada |
| Ivanhoe Energy HTL (USA) Inc. | Nevada |
| Ivanhoe Energy HTL Inc. | Nevada |
| Ivanhoe Energy International Inc. | British Virgin Islands |
| Ivanhoe Energy International Ventures Inc. | British Virgin Islands |
| Ivanhoe Energy Latin America Inc. | British Columbia |
| Ivanhoe Energy MENA Inc. | British Columbia |
| Ivanhoe Energy Mexico IELA, S.A. de C.V. | Mexico |
| Ivanhoe Energy Mexico Inc. | British Columbia |
| Ivanhoe Energy Mongolia Inc. | Alberta |
| Ivanhoe Energy Petroleum Projects Inc. | Nevada |
| Ivanhoe Energy Services Mexico IELA S.A. de C.V. | Mexico |
| Ivanhoe HTL Petroleum Ltd | Nevada |
| Panasian Energy Ltd. | Nevis |
| Pan-China Resources Ltd. | British Virgin Islands |
| Shaman LLC | Mongolia |
| Sunwing Energy Ltd. | Bermuda |
| Sunwing Holding Corporation | Barbados |
| Sunwing Management Limited | Hong Kong |
| Sunwing Zitong Energy Ltd. | British Virgin Islands |



Principal Officers:

Harry Jung, P. Eng.
President, C.E.O.
Dana B. Laustsen, P. Eng.
Executive V.P., C.O.O.
Keith M. Braaten, P. Eng.
Executive V.P.

Officers / Vice Presidents:

Terry L. Aarsby, P. Eng.
Jodi L. Anhorn, P. Eng.
Leonard L. Herchen, P. Eng.
Myron J. Hladyshevsky, P. Eng.
Bryan M. Joa, P. Eng.
Mark Jobin, P. Geol.
John E. Keith, P. Eng.
John H. Stilling, P. Eng.
Douglas R. Sutton, P. Eng.
James H. Willmon, P. Eng.

LETTER OF CONSENT

We hereby consent to the filing as an exhibit to the annual report on Form 10-K of Ivanhoe Energy Inc. of our report dated January 18, 2012 on oil and gas reserves of Pan-China Resources Ltd., and our report dated February 7, 2012 on the oil reserves of Ivanhoe Energy Inc. relating to the Tamarack Project.

Yours very truly,

GLJ PETROLEUM CONSULTANTS LTD.

“Originally Signed by”

Bryan M. Joa, P. Eng.
Vice-President

Dated: February 21, 2012
Calgary, Alberta
CANADA

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statements No. 333-113054, 333-143029, 333-151943 and 333-168964 on Form S-8 of our reports dated March 15, 2012, relating to the consolidated financial statements of Ivanhoe Energy Inc. (which report expressed an unqualified opinion and includes an explanatory paragraph regarding conditions and events that cast substantial doubt on the Company's ability to continue as a going concern) and the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Ivanhoe Energy Inc. for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Calgary, Canada
March 15, 2012

**CERTIFICATION BY THE EXECUTIVE CHAIRMAN
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlos A. Cabrera, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ivanhoe Energy Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

* * *

By: /s/ Carlos A. Cabrera
Carlos A. Cabrera
Executive Chairman

Date: March 15, 2012

**CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerald D. Schiefelbein, certify that:

1. I have reviewed this Annual Report on Form 10-K of Ivanhoe Energy Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (e) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (f) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

* * *

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

Date: March 15, 2012

**CERTIFICATION BY THE EXECUTIVE CHAIRMAN
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlos A. Cabrera, Executive Chairman, of Ivanhoe Energy Inc., hereby certify that:

- (a) our periodic report on Form 10-K for the year ended December 31, 2011 (the "Form 10-K"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and related interpretations; and
- (b) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and our results of operations.

* * *

By: /s/ Carlos A. Cabrera
Carlos A. Cabrera
Executive Chairman

Date: March 15, 2012

**CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerald D. Schiefelbein, Chief Financial Officer, of Ivanhoe Energy Inc., hereby certify that:

- (a) our periodic report on Form 10-K for the year ended December 31, 2011 (the "Form 10-K"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and related interpretations; and
- (b) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and our results of operations.

* * *

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

Date: March 15, 2012

THIRD PARTY REPORT ON RESERVES

By GLJ Petroleum Consultants Ltd. – (Independent Qualified Reserves Evaluator)

This report is provided to satisfy the requirements contained in Item 1202(a)(8) of U.S. Securities and Exchange Commission Regulation S-K.

The numbering of items below corresponds to the requirements set out in Item 1202(a)(8) of Regulation S-K. Terms to which a meaning is ascribed in *Regulation S-K* and *Regulation S-X* have the same meaning in this report.

- i. We have prepared an independent evaluation of the oil and gas reserves of Ivanhoe Energy Inc. (the "Company") for the management and the board of directors of the Company. The primary purpose of our evaluation report was to provide estimates of reserves information in support of the Company's year-end reserves reporting requirements under US Securities Regulation S-K and for other internal business and financial needs of the Company.
- ii. We have evaluated the reserves of the Company as at December 31, 2011. The completion date of our report is January 18, 2012 for the properties in China and February 7, 2012 for the properties in Canada.
- iii. The following table sets forth the geographic area covered by our reports, proved, proved plus probable and proved plus probable plus possible reserves estimated using constant prices and costs, and the proportion of the total company that we have evaluated.

| Location of Reserves Country | Company Net Proved Reserves | | | Company Net P+Pb Reserves | | | Company Net 3P Reserves | | |
|---------------------------------|-----------------------------|----------|----------------|---------------------------|----------------|----------------|-------------------------|----------------|----------------|
| | Crude Oil | Bitumen | Oil Equivalent | Crude Oil | Bitumen | Oil Equivalent | Crude Oil | Bitumen | Oil Equivalent |
| | Mbbl | Mbbl | Mbbl | Mbbl | Mbbl | Mbbl | Mbbl | Mbbl | Mbbl |
| Canada | 0 | 0 | 0 | 0 | 138,987 | 138,987 | 0 | 171,851 | 171,851 |
| China | 1,635 | 0 | 1,635 | 2,416 | 0 | 2,416 | 2,416 | 0 | 2,416 |
| Total Company | 1,635 | 0 | 1,635 | 2,416 | 139,987 | 141,403 | 2,416 | 171,851 | 174,267 |

Our report covers 100% of the Company's proved plus probable oil and natural gas reserves.

- iv. As noted in item iii., our evaluation covered all of the Company's proved plus probable reserves. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") with the necessary modifications to reflect definitions and standards under the U.S. Financial Accounting Standards Board policies (the "FASB Standards") and the legal requirements under the U.S. Securities and Exchange Commission ("SEC requirements").

Data used in our evaluation were obtained from regulatory agencies, public sources and from Company personnel and Company files. In the preparation of our report we have accepted as presented, and have relied, without independent verification, upon a variety of information furnished by the Company such as interests and burdens, recent production, product transportation and marketing and sales agreements, historical revenue, capital costs, operating expense data, budget forecasts and capital cost estimates and well data for recently drilled wells. If in the course of our evaluation, the validity or sufficiency of any material information was brought into question, we did not rely on such information until such concerns were satisfactorily resolved.

The Company has warranted in a representation letter to us that, to the best of the Company's knowledge and belief, all data furnished to us was accurate in all material respects, and no material data relevant to our evaluation was omitted.

A field examination of the evaluated properties was not performed nor was it considered necessary for the purposes of our report.

In our opinion, estimates provided in our report have, in all material respects, been determined in accordance with the applicable industry standards, and results provided in our report and summarized herein are appropriate for inclusion in filings under Regulation S-K.

- v. As required under SEC Regulation S-K, reserves are those quantities of oil and gas that are estimated to be economically producible under existing economic conditions. As specified, in determining economic production, constant product reference prices have been based on a 12-month average price, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the effective date of our report. As the project in Canada has not commenced production, the above described prices are based on posted benchmark prices and estimates of quality and transportation differences to the field. In our economic analysis, operating and capital costs are those costs estimated as applicable at the effective date of our report, with no future escalation. Where deemed appropriate, the capital costs and revised operating costs associated with the implementation of committed projects designed to modify specific field operations in the future may be included in economic projections.
- vi. Our report has been prepared assuming the continuation existing regulatory and fiscal conditions subject to the guidance in the COGE Handbook and SEC regulations. Notwithstanding that the Company currently has regulatory approval to produce the reserves identified in our report, there is no assurance that changes in regulation will not occur; such changes, which cannot reliably be predicted, could impact the Company's ability to recover the estimated reserves.
- vii. Oil and gas reserves estimates have an inherent degree of associated uncertainty the degree of which is affected by many factors. Reserves estimates will vary due to the limited and imprecise nature of data upon which the estimates of reserves are predicated. Moreover, the methods and data used in estimating reserves are often necessarily indirect or analogical in character rather than direct or deductive. Furthermore, the persons involved in the preparation of reserves estimates and associated information are required, in applying geosciences, petroleum engineering and evaluation principles, to make numerous unbiased judgments based upon their educational background, professional training, and professional experience. The extent and significance of the judgments to be made are, in themselves, sufficient to render reserves estimates inherently imprecise. Reserves estimates may change substantially as additional data becomes available and as economic conditions impacting oil and gas prices and costs change. Reserves estimates will also change over time due to other factors such as knowledge and technology, fiscal and economic conditions, contractual, statutory and regulatory provisions.
- viii. In our opinion, the reserves information evaluated by us have, in all material respects, been determined in accordance with all appropriate industry standards, methods and procedures applicable for the filing of reserves information under U.S. SEC Regulation S-K.
- ix. A summary of the Company reserves evaluated by us is provided in item iii.

GLJ Petroleum Consultants Ltd.

4100, 400 - 3rd Avenue S.W.

Calgary, Alberta CANADA T2P 4H2

Dated: February 16, 2012

"Originally Signed by"

Bryan M. Joa, P. Eng.

Vice President