BANK OF MONTREAL /CAN/
Form 424B2
June 30, 2014
Table of Contents

**Filed Pursuant to Rule 424(b)(2)**
**File No. 333-196387**

**Common Shares**

**Class A Preferred Shares**

**Class B Preferred Shares**

**Senior Debt Securities**

**Subordinated Debt Securities**

***up to an aggregate initial offering price of US$18,000,000,000***

***or the equivalent thereof in other currencies.***

We may offer from time to time common shares, class A preferred shares, class B preferred shares, senior debt securities or subordinated debt securities. We may offer the securities separately or together, in separate series or classes and in amounts, at prices and on terms described in one or more supplements to this prospectus.

This prospectus provides information about us and describes some of the general terms that may apply to these securities. The specific terms of any securities to be offered, and any other information relating to a specific offering, will be set forth in one or more supplements to this prospectus, which may be filed separately or included in a post-effective amendment to the Registration Statement, or may be set forth in one or more documents incorporated by reference in this prospectus.

We may offer and sell these securities to or through one or more underwriters, dealers or agents, or directly to purchasers, on a continuous or delayed basis. The supplements to this prospectus will provide the specific terms of the plan of distribution. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

Our common shares are listed on the New York Stock Exchange and the Toronto Stock Exchange under the trading symbol *BMO* . On June 26, 2014, the last reported sales price of our common shares on the New York Stock Exchange was US$72.81 per share and the last reported sales price of our common shares on the Toronto Stock Exchange was CD$77.87 per share.

You should read this prospectus and any applicable prospectus supplement carefully before you invest in any of our securities.

**Investing in these securities involves certain risks. To read about certain factors you should consider before buying any of the Securities, see the *Risk Factors* section on page 7 of this prospectus and in our most recent annual report on Form 40-F, which is incorporated by reference herein, as well as any other reports on Form 6-K that are specifically incorporated by reference herein and, if any, in an applicable prospectus supplement.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

Prospective investors should be aware that the acquisition of the securities described herein may have tax consequences both in the United States and in Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein or in any applicable prospectus supplement.

The enforcement by investors of civil liabilities under the United States federal securities laws may be affected adversely by the fact that Bank of Montreal is a Canadian bank, that many of its officers and directors are residents of Canada, that some or all of the underwriters or experts named in the Registration Statement may be residents of Canada, and that all or a substantial portion of the assets of Bank of Montreal and said persons may be located outside the United States.

The senior debt securities and subordinated debt securities will be our unsecured obligations and will not be savings accounts or deposits that are insured by the Federal Deposit Insurance Corporation, the Bank Insurance Fund or any other governmental agency or under the Canada Deposit Insurance Corporation Act or any other deposit insurance regime.

We may use this prospectus in the initial sale of any securities. In addition, we or any of our affiliates, including BMO Capital Markets Corp., may use this prospectus in a market-making or other transaction in any security after its initial sale. ***Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.***

**This prospectus is dated June 27, 2014**

## TABLE OF CONTENTS


| | Page |
|---|---|
| About This Prospectus | 1 |
| Presentation of Financial Information | 3 |
| Caution Regarding Forward-Looking Statements | 4 |
| Where You Can Find More Information | 4 |
| Incorporation of Certain Information by Reference | 5 |
| Risk Factors | 7 |
| Bank of Montreal | 8 |
| Consolidated Capitalization of the Bank | 11 |
| Consolidated Earnings Ratios | 12 |
| Comparative Per Share Market Price | 13 |
| Use of Proceeds | 14 |
| Description of Common Shares and Preferred Shares | 15 |
| Description of Debt Securities We May Offer | 24 |
| United States Federal Income Taxation | 42 |
| Canadian Taxation | 55 |
| Employee Retirement Income Security Act | 58 |
| Plan of Distribution (Conflicts of Interest) | 60 |
| Limitations on Enforcement of U.S. Laws Against the Bank, Our Management and Others | 63 |
| Experts | 64 |
| Other Expenses of Issuance and Distribution | 64 |


## ABOUT THIS PROSPECTUS

### General

This document is called a prospectus and is part of a registration statement that we filed with the U.S. Securities and Exchange Commission (the *SEC*) using a *shelf* registration or continuous offering process. Under this shelf registration, we may from time to time sell any combination of the common shares, class A preferred shares, class B preferred shares (together with the class A preferred shares, the *preferred shares*), senior debt securities or subordinated debt securities described in this prospectus in one or more offerings, and which we collectively refer to herein as the *securities*. The Registration Statement containing this prospectus, including exhibits to the Registration Statement, provides additional information about us and the securities offered under this prospectus. The Registration Statement can be read at the SEC web site or at the SEC office mentioned under the heading *Where You Can Find More Information*.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities under this shelf registration statement we will provide one or more supplements to this prospectus containing specific information about the terms of the securities being offered. Any such supplements, which we refer to in this prospectus as the *applicable supplements*, may include a discussion of any additional risk factors or other special considerations that apply to those securities and may also add to, update or change the information in this prospectus. The applicable supplements relating to each series of debt securities will be attached to the front of this prospectus. If there is any inconsistency between the information in this prospectus and any applicable supplement, you should rely on the information in the most recent applicable supplement. We urge you to read carefully both this prospectus and any applicable supplement accompanying this prospectus, together with the information incorporated herein and in any applicable supplement by reference under the heading *Where You Can Find More Information*, before deciding whether to invest in any of the securities being offered.

-1-

Table of Contents

We are responsible for the information provided in this prospectus and the applicable supplements, including the information incorporated by reference. We have not authorized anyone to give you any other information or to make any representation different from or in addition to that contained or incorporated by reference in this prospectus and any applicable supplement and take no responsibility for any other information that others may give you. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this prospectus are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this prospectus does not extend to you. The information contained in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies. Therefore, you should not assume that the information contained in this prospectus or applicable supplement is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus and any applicable supplement is delivered or securities are sold on a later date.

We may sell securities to underwriters who will sell the securities to the public on terms fixed at the time of sale. In addition, the securities may be sold by us directly or through dealers or agents designated from time to time, some of which may be our affiliates. If we, directly or through dealers or agents, solicit offers to purchase the securities, we reserve the sole right to accept and, together with the applicable dealers or agents, to reject, in whole or in part, any of those offers. An applicable supplement will contain the names of the underwriters, dealers or agents, if any, together with the terms of the offering, the compensation of those persons and the net proceeds to us. Any underwriters, dealers or agents participating in the offering may be deemed to be *underwriters* within the meaning of the United States Securities Act of 1933, as amended (the *Securities Act* ). In addition, one or more of our subsidiaries, including BMO Capital Markets Corp., may buy and sell any of the securities after the securities are issued as part of their business as a broker-dealer. Those subsidiaries may use this prospectus and the applicable supplements in those transactions. Any sale by a subsidiary will be made at the prevailing market price at the time of sale. Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus to the *Bank* , *we* , *us* , *our* or similar references mean Bank of Montreal and its consolidated subsidiaries.

-2-

Table of Contents

## PRESENTATION OF FINANCIAL INFORMATION

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ( *IFRS* ) as issued by the International Accounting Standards Board (the *IASB* ), which replaced Canadian generally accepted accounting principles ( *GAAP* ) for publicly accountable enterprises beginning in 2011. IFRS became effective for the Bank for its interim and annual periods commencing November 1, 2011 (adoption date), and includes the preparation and reporting of one year of comparative figures, including an opening balance sheet as of November 1, 2010 (transition date).

Additionally, we publish our consolidated financial statements in Canadian dollars. In this prospectus and any applicable supplement, currency amounts are stated in Canadian dollars ( ***$*** ), unless specified otherwise. As indicated in the table below, the Canadian dollar has fluctuated in value compared to the U.S. dollar over time.

The tables below set forth the high and low daily noon exchange rates, the average yearly rate and the rate at period end between Canadian dollars and U.S. dollars (in U.S. dollars per Canadian dollar) for the five-year period ended October 31, 2013 and the high and low daily noon exchange rates for the three months ended January 31, 2014, the three months ended April 30, 2014 and for the period May 1 through June 26, 2014. On June 26, 2014, the noon exchange rate was US$0.9340 = $1.00. Our reference to the *noon exchange rate* is the noon exchange rate as reported by the Bank of Canada.

| Year Ended October 31 | High | Low | Average Rate[(1)] | At Period End |
|---|---|---|---|---|
| 2009 | 0.9716 | 0.7692 | 0.8603 | 0.9282 |
| 2010 | 1.0039 | 0.9278 | 0.9605 | 0.9815 |
| 2011 | 1.0583 | 0.9430 | 1.0164 | 1.0065 |
| 2012 | 1.0299 | 0.9536 | 0.9968 | 1.0004 |
| 2013 | 1.0164 | 0.9455 | 0.9777 | 0.9589 |

| Additional Periods | High | Low |
|---|---|---|
| Three Months Ended January 31, 2014 | 0.9602 | 0.8952 |
| Three Months Ended April 30, 2014 | 0.9172 | 0.8888 |
| May 1, 2014 through June 26, 2014 | 0.9340 | 0.9113 |

(1) The average of the noon exchange rates on the last business day of each full month during the relevant period.

Table of Contents

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our public communications often include written or oral forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the SEC, or in other communications. All such statements are made pursuant to the *safe harbor* provisions of, and are intended to be forward-looking statements under, the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may involve, but are not limited to, comments with respect to our objectives and priorities for 2014 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; weak, volatile or illiquid capital and/or credit markets; interest rate and currency value fluctuations; changes in monetary, fiscal or economic policy; the degree of competition in the geographic and business areas in which we operate; changes in laws or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; operational and infrastructure risks; changes to our credit ratings; general political conditions; global capital markets activities; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; natural disasters and disruptions to public infrastructure, such as transportation, communications, power or water supply; technological changes; and our ability to anticipate and effectively manage risks associated with all of the foregoing factors.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion in our Annual Report on Form 40-F, which is incorporated by reference herein and which outlines in detail certain key factors that may affect our future results. When relying on forward-looking statements to make decisions with respect to the Bank, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. We do not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law.

The forward-looking information contained or incorporated by reference into this prospectus is presented for the purpose of assisting investors in understanding our operations, prospects, risks and other extreme factors that impact us specifically as of and for the periods ended on the dates presented, as well as certain strategic priorities and objectives, and may not be appropriate for other purposes.

## WHERE YOU CAN FIND MORE INFORMATION

In addition to our continuous disclosure obligations under the securities laws of the Provinces and Territories of Canada, we are subject to the information reporting requirements of the United States Securities Exchange Act of 1934, as amended (the *Exchange Act*), and in accordance therewith file or furnish reports and

Table of Contents

other information with the SEC. Under the multijurisdictional disclosure system adopted by the United States, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. These reports and other information, when filed or furnished by us in accordance with such requirements, can be inspected and copied by you at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. You can get further information about the SEC s Public Reference Room by calling 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC s website at www.sec.gov. Our common shares are listed on the New York Stock Exchange, and reports and other information concerning us can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Information about us can be located at our website at www.bmo.com. All Internet references in this prospectus are inactive textual references and we do not incorporate website contents into this prospectus.

We have filed with the SEC a registration statement on Form F-3 relating to the securities covered by this prospectus. This prospectus is a part of the Registration Statement and does not contain all the information in the Registration Statement. Whenever a reference is made in this prospectus to a contract or other document of the Bank, the reference is only a summary and you should refer to the exhibits that are a part of the Registration Statement for a copy of the contract or other document. You may review a copy of the Registration Statement at the SEC s public reference room in Washington, D.C., as well as through the SEC s website.

## INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to *incorporate by reference* into this prospectus the information in documents we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. In other words, in the case of a conflict or inconsistency between information contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded to constitute a part of this prospectus.

We incorporate by reference the documents listed below and all documents which we subsequently file with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with the SEC rules) pursuant to Section 13(a), 13(c), 14, or 15(d) Exchange Act until the termination of the offering of the securities under this prospectus:

Annual Report on Form 40-F for the fiscal year ended October 31, 2013;

Reports on Form 6-K filed on December 3, 2013 (three filings) (Acc-nos: 0001193125-13-460174, 0001193125-13-460185 and 0001193125-13-460589);

Report on Form 6-K filed on December 13, 2013;

Report on Form 6-K filed on December 23, 2013;

Report on Form 6-K filed on January 24, 2014;

Report on Form 6-K filed on January 28, 2014;

Table of Contents

Report on Form 6-K filed on January 30, 2014;

Report on Form 6-K filed on February 7, 2014;

Reports on Form 6-K filed on February 25, 2014 (four filings) (Acc-nos: 0001193125-14-066488, 93125-14-067196, 0001193125-14-067213 and 0001193125-14-067235);

Report on Form 6-K filed on March 7, 2014;

Report on Form 6-K filed on April 1, 2014;

Report on Form 6-K filed on April 10, 2014;

Reports on Form 6-K filed on April 14, 2014 (two filings) (Acc-nos: 0001193125-14-142315 and 0001193125-14-142691);

Report on Form 6-K filed on April 16, 2014;

Report on Form 6-K filed on April 23, 2014;

Report on Form 6-K filed on May 7, 2014;

Reports on Form 6-K filed on May 28, 2014 (seven filings) (Acc-nos: 0001193125-14-214394, 0001193125-14-215101, 0001193125-14-215138, 0001193125-14-215147, 0001193125-14-215161, 0001193125-14-215221 and 0001193125-14-215246);

Report on Form 6-K filed on June 6, 2014; and

Registration Statement on Form 8-A filed on September 26, 1994.

We may also incorporate any other Form 6-K that we submit to the SEC on or after the date of this prospectus and prior to the termination of this offering if the Form 6-K filing specifically states that it is incorporated by reference into the Registration Statement of which this prospectus forms a part.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

**Bank of Montreal**

**Corporate Secretary s Department**

**100 King Street West**

**1 First Canadian Place**

**Toronto, Ontario**

**Canada M5X 1A1**

**(416) 867-6785**

Table of Contents

## RISK FACTORS

Investment in these securities is subject to various risks, including those risks inherent in conducting the business of a diversified financial institution. Before deciding whether to invest in any securities, you should consider carefully the risks described in the documents incorporated by reference in this prospectus (including subsequently filed documents incorporated by reference) and, if applicable, those described in the applicable supplements relating to a specific offering of securities. You should consider the categories of risks identified and discussed in the management s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 40-F for the fiscal year ended October 31, 2013, including those summarized under *Caution Regarding Forward-Looking Statements* above.

Table of Contents

## BANK OF MONTREAL

Bank of Montreal ( *Bank of Montreal* , *BMO* or the *Bank* ) started business in Montreal in 1817 and was incorporated in 1821 by an Act of Lower Canada as the first Canadian chartered bank. Since 1871, the Bank has been a chartered bank under the Bank Act (Canada) (the *Bank Act* ), and is named in Schedule I of the Bank Act. The Bank Act is the charter of the Bank and governs its operations. The Bank is a registered bank holding company and is a financial holding company under the Bank Holding Company Act of 1956.

The Bank s head office is 129 rue Saint Jacques, Montreal, Quebec, H2Y 1L6. Its executive offices are located at 100 King Street West, 1 First Canadian Place, Toronto, Ontario, M5X 1A1.

Bank of Montreal offers a broad range of products and services directly and through Canadian and non-Canadian subsidiaries, offices and branches. As at October 31, 2013, BMO had more than 12 million customers and approximately 45,500 full-time employees. The Bank also maintained approximately 1,560 bank branches in Canada and the United States and operated internationally in major financial markets and trading areas through our offices in 21 other jurisdictions, including the United States. BMO Financial Corp. ( *BFC* ) (formerly Harris Financial Corp.), is based in Chicago and wholly-owned by Bank of Montreal. BFC operates primarily through its subsidiary BMO Harris Bank N.A., which provides banking, financing, investing, and cash management services in select markets in the U.S. Midwest. BMO provides a full range of investment dealer services through entities including BMO Nesbitt Burns Inc., a major fully integrated Canadian investment dealer, and BMO Capital Markets Corp., Bank of Montreal s wholly-owned registered securities dealer in the United States.

Bank of Montreal conducts business through three operating groups:

Personal and Commercial ( *P&C* ) Banking, which comprises Canadian P&C and U.S. P&C. Canadian P&C operates across Canada, offering a broad range of products and services, including banking, lending and treasury management. Operating predominately in the U.S. Midwest under the BMO Harris brand, U.S. P&C offers personal and commercial clients banking, lending, and treasury management products and services;

Wealth Management serves a full range of client segments from mainstream to ultra-high net worth and institutional. It serves them by offering a range of wealth management products and solutions, including insurance products. Wealth Management operates in both Canada and the United States as well as in other global locations.

BMO Capital Markets is a full service North American financial services provider that offers the following services to corporate, institutional, and government clients in Canada, the United States, and select international locations: debt and equity underwriting and research, corporate lending and project financing, mergers and acquisitions, advisory services, securitization and treasury and market risk management.

Corporate Services consists of Corporate Units and Technology and Operations ( *T&O* ). The Bank s Corporate Units provide enterprise-wide expertise and governance support in a variety of areas, including strategic planning, risk management, finance, legal and compliance, marketing, communications, and human resources. T&O manages, maintains, and provides governance over information technology, operations services, real estate, and sourcing for the Bank.

**Certain Matters Relating to the Bank s Board of Directors**

Under the Bank Act, the Bank s board of directors must have at least seven members and the Bank s board of directors may establish by by-law a minimum and maximum number of directors. The Bank Act also requires that no more than two-thirds of the directors may be affiliated with the Bank, as specified by the Bank Act, and no more than 15% of the directors may be employees of the Bank or a subsidiary of the Bank, except that up to four of these employees may be directors if they constitute not more than 50% of the directors. Subject to the foregoing residency requirements, a majority of directors shall constitute a quorum at any meeting of the board of directors. Under the Bank Act, a majority of the directors of the Bank must be resident Canadians and, except in limited circumstances, directors may not transact business at a meeting of directors at which a majority of the directors present are not resident Canadians. The Bank Act also requires the directors of a bank to appoint from their members a chief executive officer who must ordinarily be resident in Canada. Under the Bank s by-laws, the minimum number of directors is seven and the maximum number of directors is 40. The Bank s by-laws provide that the number of directors to be elected at any annual meeting of shareholders of the Bank will be fixed by the board of directors before the meeting. Directors may be elected to terms of one, two or three years. The Bank currently has 13 directors.

Under the Bank Act, any director or the entire board of directors may be removed with the approval of a majority of the votes cast at a special meeting of shareholders. A vacancy created by such removal may be filled at the meeting or by a quorum of the directors. Bank policies stipulate that a director shall not stand for re-election at the first annual meeting after reaching the age of 70, and, in addition, directors are subject to maximum term limits of 15 years for new directors (elected after January 1, 2010), except a director serving as chairman, who is subject to a maximum term limit of 20 years.

***Conflicts of Interest***

The Bank Act contains detailed provisions with regard to a director s power to vote on a material proposal, arrangement or contract in which the director is interested. These provisions include procedures for: disclosure of the conflict of interest and the timing for such disclosure; the presence of directors at board meetings where the proposal, arrangement or contract giving rise to the conflict of interest is being considered, and voting with respect to the proposal, arrangement or contract giving rise to the conflict of interest; and other provisions for dealing with such conflicts of interest. The Bank Act also contains detailed provisions regarding transactions with persons who are related parties of the Bank, including directors of the Bank. See *Borrowing Powers*.

***Compensation***

The by-laws of the Bank have provisions with regard to the general remuneration of directors. The board of directors may, from time to time, by resolution determine their remuneration that may be paid, but such remuneration may not exceed in each year an aggregate cap set out in the by-laws, and individually may be in such amounts as the board may determine by resolution. In addition, the directors may be paid their reasonable out-of-pocket expenses incurred in attending meetings of the board, shareholders or committees of the board or otherwise in the performance of their duties.

Directors are required to hold at least eight times the cash retainer portion of their annual retainer fee in either common shares or deferred share units ( *Deferred Share Units* ) under the Bank s Deferred Share Unit Plan for Non-employee Directors and until this level is obtained, directors must take 100% of their annual retainer in the form of either common shares (which are purchased on the open market) or Deferred Share Units. Once this threshold has been reached, directors receive a minimum of $100,000 of their $175,000 annual retainer fee in common shares (which are purchased on the open market) or in Deferred Share Units. A Deferred Share Unit is an amount owed by the Bank to directors having the same value as one common share, but is not paid out (in cash or in common shares purchased on the open market) until such time as the director leaves the board, thereby providing an ongoing equity stake in the Bank throughout the director s period of board service. Directors have the option to receive up to 100% of their annual retainer and meeting fees in this manner. Only non-employee directors can receive Deferred Share Units.

***Borrowing Powers***

The directors of the Bank may, without authorization of the shareholders, authorize the Bank to borrow money. The Bank Act, however, prohibits the Bank from entering into transactions with persons who are deemed to be related parties of the Bank, subject to certain exceptions. Related party transactions may include loans made on the credit of the Bank. In addition, the by-laws of the Bank may be amended, as described in *Description of Common Shares and Preferred Shares Amendments to the Rights, Privileges, Restrictions and Conditions of the Bank s Share Capital* , to vary the borrowing authority of directors in this regard.

Table of Contents

## Additional Regulatory Capital Restrictions

*Bail-in Regime*

In Canada s federal budget released on March 21, 2013, the Canadian government announced a proposal to implement a bail-in regime for domestic systemically important banks such as the Bank, which would be consistent with key international standards such as the Financial Stability Board s Key attributes of Effective Resolution Regimes for Financial Institutions and would work alongside the existing regulatory capital regime. The details of Canada s bail in regime are not yet clear as the government first intends to consult stakeholders on how best to implement the regime. As a result, there is no clarity as to the scope of the Bank s liabilities that may be subject to the regime when implemented, including whether there will be any grandfathering provisions in respect of any outstanding liabilities of a bank issued prior to the regime s implementation.

Table of Contents

## CONSOLIDATED CAPITALIZATION OF THE BANK

The following table sets forth the consolidated capitalization of the Bank at April 30, 2014.

| | As at April 30, 2014 (In millions of Canadian dollars) |
|---|---|
| **Subordinated Debt** | 3,965 |
| **Preferred Share Liabilities**[1] | 493 |
| **Shareholders Equity** | |
| Preferred Shares[2] | 2,115 |
| Common Shares | 12,071 |
| Contributed Surplus | 313 |
| Retained Earnings | 16,162 |
| Accumulated Other Comprehensive Loss | 1,100 |
| Total Shareholders Equity | 31,761 |
| **Non-Controlling Interest in Subsidiaries** | 1,071 |
| Total Equity | 32,832 |
| **Total Capitalization** | $ 37,290 |

(1) Preferred Shares classified under Liabilities consist of Class B Preferred Shares Series 27. For more information on the classification of Preferred Share Liabilities, please refer to Note 11 of the unaudited interim consolidated financial statements of the Bank for the quarter ended April 30, 2014 incorporated by reference in this prospectus.

(2) Preferred Shares classified under Shareholders Equity consist of Class B Preferred Shares Series 13, 14, 15, 16, 17, 18, 21, 23 and 25. For more information on the classification of Preferred Shares, please refer to Note 20 of the audited consolidated financial statements of the Bank for the year ended October 31, 2013 incorporated by reference in this prospectus and Note 11 of the unaudited interim consolidated financial statements of the Bank for the quarter ended April 30, 2014 incorporated by reference in this prospectus.

Table of Contents

## CONSOLIDATED EARNINGS RATIOS

The following table provides the Bank s consolidated ratios of earnings to fixed charges and ratios of earnings to combined fixed charges and preferred share dividends, calculated in accordance with Part V of Canadian GAAP for each of the years in the two year period ended October 31, 2010 and in accordance with IFRS for the six month period ended April 30, 2014 and each of the years in the three year period ended October 31, 2013.

| | Years Ended October 31, | | | | | Six months Ended April 30, |
|---|---|---|---|---|---|---|
| | 2013(1) | 2012(1) | 2011(1) | 2010(2) | 2009(2) | 2014(1) |
| **Consolidated Ratios of Earnings to Fixed Charges** | | | | | | |
| Excluding interest on deposits | 3.52 | 3.07 | 2.49 | 4.56 | 2.90 | 3.97 |
| Including interest on deposits | 2.07 | 1.96 | 1.72 | 2.06 | 1.40 | 2.17 |
| **Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Dividends** | | | | | | |
| Excluding interest on deposits | 3.28 | 2.86 | 2.32 | 3.90 | 2.58 | 3.69 |
| Including interest on deposits | 2.01 | 1.90 | 1.67 | 1.96 | 1.37 | 2.10 |

(1) Calculated in accordance with IFRS.
(2) Calculated in accordance with Part V of Canadian GAAP.

For purposes of computing these ratios:

- earnings represent income from continuing operations plus income taxes and fixed charges (excluding capitalized interest);
- fixed charges, excluding interest on deposits, represent interest (including capitalized interest), estimated interest within rent, and amortization of debt issuance costs; and
- fixed charges, including interest on deposits, represent all interest.

-12-

Table of Contents

## COMPARATIVE PER SHARE MARKET PRICE

The Bank s common shares are listed on the Toronto Stock Exchange (the *TSX* ) and the New York Stock Exchange (the *NYSE* ) under the trading symbol *BMO* .

The table below sets forth, for the periods indicated, the per share high and low closing sales prices for the Bank s common shares as reported on the NYSE and the TSX. TSX closing prices of the Bank s common shares are presented in Canadian dollars, and the NYSE closing prices of the Bank s common shares are presented in U.S. dollars.

| | BMO shares TSX (in C$) | | BMO shares NYSE (in US$) | |
|---|---|---|---|---|
| | High | Low | High | Low |
| **Annual information for the past fiscal years** | | | | |
| 2009 | 54.55 | 24.51 | 51.25 | 19.51 |
| 2010 | 65.41 | 49.95 | 65.30 | 46.52 |
| 2011 | 63.67 | 55.67 | 66.29 | 53.85 |
| 2012 | 61.08 | 53.48 | 60.84 | 51.41 |
| 2013 | 73.90 | 57.08 | 70.66 | 56.54 |
| **Quarterly information for the past two fiscal years and subsequent quarters:** | | | | |
| **2012, quarter ended** | | | | |
| January 31 | 61.08 | 54.52 | 60.60 | 52.65 |
| April 30 | 59.63 | 57.06 | 60.09 | 57.06 |
| July 31 | 58.34 | 53.48 | 59.13 | 51.41 |
| October 31 | 59.74 | 56.82 | 60.84 | 56.47 |
| **2013, quarter ended** | | | | |
| January 31 | 64.53 | 57.08 | 64.52 | 56.98 |
| April 30 | 64.35 | 62.11 | 63.41 | 60.73 |
| July 31 | 65.80 | 58.92 | 64.12 | 56.54 |
| October 31 | 73.90 | 63.42 | 70.66 | 60.89 |
| **2014, quarter ended** | | | | |
| January 31 | 74.16 | 68.06 | 70.79 | 61.08 |
| April 30 | 76.30 | 67.40 | 69.29 | 60.80 |
| **Monthly information for the most recent six months** | | | | |
| January 2014 | 73.02 | 68.06 | 66.78 | 61.08 |
| February 2014 | 73.36 | 67.40 | 65.97 | 60.80 |
| March 2014 | 73.96 | 71.98 | 67.01 | 64.47 |
| April 2014 | 76.30 | 73.82 | 69.29 | 66.90 |
| May 2014 | 76.80 | 74.55 | 70.45 | 68.36 |
| June 2014 (through June 26, 2014) | 77.87 | 76.24 | 72.81 | 69.94 |

Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar will affect any comparisons of the Bank s common shares traded on the TSX and the Bank s common shares traded on the NYSE.

Table of Contents

## USE OF PROCEEDS

Unless otherwise specified in an applicable supplement, the net proceeds to the Bank from the sale of the securities will be added to the Bank s general working capital and will be used for general working capital purposes.

Table of Contents

## DESCRIPTION OF COMMON SHARES AND PREFERRED SHARES

*Set forth below is a summary of the material terms of the Bank s share capital and certain provisions of the Bank Act and the Bank s amended and restated by-laws as they relate to the Bank s share capital. The following summary is not complete and is qualified in its entirety by the Bank Act, the Bank s amended and restated by-laws and the actual terms and conditions of such shares.*

### Capital Stock

The authorized capital of the Bank consists of an unlimited number of common shares, without nominal or par value, an unlimited number of Class A Preferred Shares, without nominal or par value, issuable in series, and an unlimited number of Class B Preferred Shares, without nominal or par value, issuable in series, in each case the aggregate consideration for which is also unlimited.

As of April 30, 2014, there were issued and outstanding the following shares of capital stock: 645,231,226 common shares; 14,000,000 Class B Preferred Shares Series 13; 10,000,000 Class B Preferred Shares Series 14; 10,000,000 Class B Preferred Shares Series 15; 6,267,391 Class B Preferred Shares Series 16; 5,732,609 Class B Preferred Shares Series 17; 16,000,000 Class B Preferred Shares Series 23; 11,600,000 Class B Preferred Shares Series 25; and 20,000,000 Class B Preferred Shares Series 27.

### Common Shares

*Voting*. Holders of common shares are entitled to one vote per share on all matters to be voted on by holders of common shares. Unless otherwise required by the Bank Act, any matter to be voted on by holders of common shares shall be decided by a majority of the votes cast on the matter.

*Size of Board of Directors*. The Bank Act requires that the number of directors on the Bank s board of directors be at least seven. All directors of the Bank are elected annually. The Bank Act also requires that at least a majority of the directors must be, at the time of each director s election or appointment, resident Canadians.

*Liquidation Rights*. Upon the liquidation, dissolution or winding up of the Bank, whether voluntary or involuntary, the holders of common shares are entitled to receive the remaining property of the Bank available after the payment of all debts and other liabilities and subject to the prior rights of holders of any outstanding preferred shares.

*Preemptive, Subscription, Redemption and Conversion Rights*. Holders of common shares, as such, have no preemptive, subscription, redemption or conversion rights.

*Dividends*. The holders of common shares are entitled to receive dividends as and when declared by the board of directors of the Bank, subject to the preference of the holders of the preferred shares of the Bank. The Bank s dividends have historically been declared on a quarterly basis in Canadian dollars. As a matter of practice, the Bank pays dividends to U.S. holders of common shares, if and when a dividend is declared, in U.S. dollars, in an amount fixed at the date of record for the payment of the dividend. The declaration and payment of dividends and the amount of the dividends is subject to the discretion of the board of directors, and will be dependent upon the results of operations, financial condition, cash requirements and future regulatory restrictions on the payment of dividends by, the Bank and other factors deemed relevant by the board of directors.

### Preferred Shares

This section describes the general terms and provisions of our preferred shares and provides a description of the rights and privileges of each of our outstanding series of preferred shares. The applicable prospectus supplement will describe the specific terms of the preferred shares offered through that prospectus supplement, as well as any general terms described in this section that will not apply to those preferred shares.

**Table of Contents**

*General*. The Bank has two classes of authorized preferred shares, Class A Preferred Shares and Class B Preferred Shares, each of which is without nominal or par value and issuable in series. The Class B Preferred Shares rank on parity with the Class A Preferred Shares. There were no Class A Preferred Shares outstanding as of April 30, 2014. 104,600,000 shares of Class B Preferred Shares were outstanding as of April 30, 2014, namely, 14,000,000 Class B Preferred Shares Series 13; 10,000,000 Class B Preferred Shares Series 14; 10,000,000 Class B Preferred Shares Series 15; 6,267,391 Class B Preferred Shares Series 16; 5,732,609 Class B Preferred Shares Series 17; 11,000,000 Class B Preferred Shares Series 21; 16,000,000 Class B Preferred Shares Series 23; 11,600,000 Class B Preferred Shares Series 25; and 20,000,000 Class B Preferred Shares Series 27.

The board of directors is authorized, subject to the provisions of the Bank Act, without shareholder approval, to divide the unissued preferred shares into series and to fix the number of shares in each series and the rights, privileges, restrictions and conditions of such series, and to change the rights, privileges, restrictions or conditions attached to the unissued shares of any series, provided that no rights, privileges, restrictions or conditions attached to a series confer on a series a priority in respect of dividends or return of capital over any series of preferred shares of the same class then outstanding.

*Priority*. The preferred shares shall be entitled to preference over common shares and to any other shares of ranking junior to the preferred shares with respect to the payment of dividends and return of capital. Each series of preferred shares of a class ranks on a parity with every other series of preferred shares in the same class with respect to the payment of dividends and return of capital.

*Restriction*. Under the terms of the Bank Act, the approval of the holders of the preferred shares is required for the creation of any class of shares ranking prior to or on a parity with the preferred shares.

*Voting*. Except as required under the Bank Act or in the rights, privileges, restrictions or conditions attached to any series before the issue thereof, the holders of preferred shares are not entitled to receive notice, to attend or to vote at any meeting of the shareholders of the Bank.

*Retirement of Preferred Shares*. Subject to the prior approval of the Office of the Superintendent of Financial Institutions (Canada) ( OSFI ) and to the provisions governing restrictions on dividends and retirement of shares, the Bank may at any time purchase any outstanding series of preferred shares for cancellation, provided that no such shares may be redeemed or purchased for cancellation at prices exceeding the redemption price stated in or calculated according to a formula stated in the terms of issue thereto.

*Rights and privileges of each outstanding series:*

| | | | | | |
|---|---|---|---|---|---|
| | n="right">35,771 | $ | $ | $ 117,419 | |
| Unproved | 20,447 | 10,581 | | | 31,028 |
| | 102,095 | 46,352 | | | 148,447 |
| Accumulated depletion | (10,956) | (6,663) | | | (17,619) |
| Accumulated provision for impairment | (50,350) | | | | (50,350) |

| | | | | | |
|---|---|---|---|---|---|
| | 40,789 | 39,689 | | | 80,478 |
| GTL and EOR Investments: | | | | | |
| GTL master license | | | 10,000 | | 10,000 |
| Feasibility studies and other deferred costs | | | 3,793 | 2,091 | 5,884 |
| | | | 13,793 | 2,091 | 15,884 |
| Furniture and equipment | 417 | 84 | | 11 | 512 |
| Accumulated depreciation | (300) | (22) | | (1) | (323) |
| | 117 | 62 | | 10 | 189 |
| | $ 40,906 | $ 39,751 | $ 13,793 | $ 2,101 | $ 96,551 |

Costs as at September 30, 2005 and December 31, 2004 of $31.9 million and $31.0 million, respectively, related to unproved oil and gas properties were separately assessed for impairment and excluded from the depletion and ceiling test calculations.

For the three-month and nine-month periods ended September 30, 2005, general and administrative expenses related directly to oil and gas acquisition, exploration and development activities, and investments in GTL and EOR projects of $1.0 million and $3.1 million, respectively, were capitalized. For the same periods ended September 30, 2004, $0.7 million and $2.3 million, respectively, were capitalized.

As at September 30, 2005, the GTL and EOR Investments include $4.7 million of costs associated with the RTP™ CDF acquired in the Merger including $0.1 million in improvements made to the facility. The RTP™ CDF is being used to develop and identify improvements in the application of the RTP™ Technology by processing and testing heavy crude feedstock of prospective customers until such time as the RTP™ CDF is sold or dismantled and redeployed (See Note 13).

For the nine-month period ended September 30, 2005, the Company wrote down $0.3 million related to its GTL project in Bolivia and, in the three-month period ended September 30, 2005, $0.3 million related to its MOU with Ecopetrol S.A. ( **Ecopetrol** ) for the Llanos Heavy Basin Crude Project . The Company wrote down its investment in its GTL project in Bolivia due to the impact that political and fiscal uncertainty in Bolivia could have on the viability of a GTL plant and its investment in the MOU with Ecopetrol as the Company did not meet the company-size requirements specified by Ecopetrol in their final bidding qualifications for the Llanos Basin Heavy Crude Project , which included the Castilla and Chichimene field developments. For the nine-month period ended September 30, 2004, GTL investments of $0.3 million were written down related to a study for a GTL fuels plant in Oman as the opportunity to build a 45,000 bpd GTL fuels plant in Oman failed to materialize due to a lack of sufficient uncommitted gas volumes to support a plant of that size.

**4. LONG TERM ASSETS**

During 2004, prior to entering into the Merger Agreement, the Company acquired from Ensyn a 15% equity interest in Ensyn Petroleum International Ltd. ( **EPIL** ) and exclusive rights to use the RTP™ Technology for petroleum applications in key international markets. Ensyn, the parent company of EPIL, retained the remaining 85% of EPIL. The $3.0 million cost to acquire the 15% equity interest in EPIL plus $2.5 million of costs incurred by the Company in connection with the Merger, including $1.0 million to acquire an option to purchase an additional 5% of EPIL (which expired, unexercised, in January 2005) are included in long-term assets as at December 31, 2004. The Merger was completed on April 15, 2005 and the 15% equity interest in EPIL was eliminated upon consolidating the accounts of the Company and its subsidiaries as at September 30, 2005. An additional $1.5 million of Merger related costs were incurred in 2005. The $4.0 million of Merger related costs were allocated among the net assets acquired in the Merger (See Note 12).

As at December 31, 2004, long term assets includes $0.4 million of deferred costs to obtain debt financing for the Company s Dagang development project in China. The Company incurred an additional $0.5 million of such costs during the nine-month period ended September 30, 2005. As the Company is presently assessing current production levels and future drilling activity in this project, the Company has suspended current project-financing discussions with potential lending institutions and has written off the $0.9 million of deferred financing costs in the three month-period ended September 30, 2005.

As at September 30, 2005 and December 31, 2004, long term assets consisted of the following:

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Investment in EPIL | $ | $ 3,000 |
| Merger related costs | | 2,513 |
| Drilling deposits | 400 | 400 |
| Deferred debt financing costs | 27 | 384 |
| Other long term deposits and assets | 186 | 127 |
| | $ 613 | $ 6,424 |

**5. INTANGIBLE ASSET**

The Company s intangible asset consists of the underlying value of an exclusive, irrevocable license acquired in the Merger with Ensyn to deploy, worldwide, the RTP™ Technology for petroleum applications as well as the exclusive right to deploy RTP™ Technology in all applications other than bio-mass (See Note 12). This intangible

asset is not currently being amortized and its carrying value was not impaired for the three-month and nine-month periods ended September 30, 2005.

**6. SEGMENT INFORMATION**

The following tables present the Company s interim segment information for the three-month and nine-month periods ended September 30, 2005 and 2004 and identifiable assets as at September 30, 2005 and December 31, 2004:

| | **Three-Month Period Ended September 30, 2005** | | | | | |
|---|---|---|---|---|---|---|
| | **Oil and Gas** | | | | | |
| | **U.S.** | **China** | **GTL** | **EOR** | **Corporate** | **Total** |
| Oil and gas revenue | $ 4,336 | $ 4,547 | $ | $ | $ | $ 8,883 |
| Interest income | 8 | 3 | | | 13 | 24 |
| | 4,344 | 4,550 | | | 13 | 8,907 |
| Operating costs | 1,180 | 551 | | | | 1,731 |
| General and administrative | 210 | 1,050 | | | 1,151 | 2,411 |
| Business development | | | 296 | 1,208 | | 1,504 |
| Depletion and depreciation | 1,286 | 3,185 | 3 | 1 | 1 | 4,476 |
| Interest expense | 79 | | | 2 | 460 | 541 |
| Write down of GTL and EOR investments | | | | 357 | | 357 |
| | 2,755 | 4,786 | 299 | 1,568 | 1,612 | 11,020 |
| **Net (Income) Loss** | $ (1,589) | $ 236 | $ 299 | $ 1,568 | $ 1,599 | $ 2,113 |
| **Capital Investments** | $ 2,770 | $ 5,860 | $ 246 | $ 893 | $ | $ 9,769 |

| | **Nine-Month Period Ended September 30, 2005** | | | | | |
|---|---|---|---|---|---|---|
| | **Oil and Gas** | | | | | |
| | **U.S.** | **China** | **GTL** | **EOR** | **Corporate** | **Total** |
| Oil and gas revenue | $ 10,500 | $ 10,693 | $ | $ | $ | $ 21,193 |
| Interest income | 18 | 6 | | | 71 | 95 |
| | 10,518 | 10,699 | | | 71 | 21,288 |
| Operating costs | 3,448 | 1,816 | | | | 5,264 |
| General and administrative | 624 | 1,412 | | | 4,292 | 6,328 |
| Business development | | | 1,019 | 2,382 | | 3,401 |
| Depletion and depreciation | 3,768 | 5,457 | 8 | 12 | 5 | 9,250 |
| Interest expense | 233 | | | 2 | 801 | 1,036 |
| | | | 279 | 357 | | 636 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Write down of GTL and EOR investments | | | | | | |
| | 8,073 | 8,685 | 1,306 | 2,753 | 5,098 | 25,915 |
| **Net (Income) Loss** | $ (2,445) | $ (2,014) | $ 1,306 | $ 2,753 | $ 5,027 | $ 4,627 |
| **Capital Investments** | $ 5,282 | $ 24,111 | $ 977 | $ 3,736 | $ | $ 34,106 |
| **Identifiable Assets (As at September 30, 2005)** | $ 47,564 | $ 64,612 | $ 14,533 | $ 100,080 | $ 2,250 | $ 229,039 |
| **Identifiable Assets (As at December 31, 2004)** | $ 49,465 | $ 44,960 | $ 13,867 | $ 2,441 | $ 7,753 | $ 118,486 |

| | Three-Month Period Ended September 30, 2004 | | | | | |
|---|---|---|---|---|---|---|
| | Oil and Gas | | | | | |
| | **U.S.** | **China** | **GTL** | **EOR** | **Corporate** | **Total** |
| Oil and gas revenue | $ 2,628 | $ 2,246 | $ | $ | $ | $ 4,874 |
| Interest income | 4 | 6 | | | 48 | 58 |
| | 2,632 | 2,252 | | | 48 | 4,932 |
| Operating costs | 863 | 394 | | | | 1,257 |
| General and administrative | 163 | 182 | | | 1,463 | 1,808 |
| Business development | | | 315 | 142 | | 457 |
| Depletion and depreciation | 1,600 | 683 | 3 | 2 | 2 | 2,290 |
| Interest expense | 70 | | | | 1 | 71 |
| | 2,696 | 1,259 | 318 | 144 | 1,466 | 5,883 |
| **Net (Income) Loss** | $ 64 | $ (993) | $ 318 | $ 144 | $ 1,418 | $ 951 |
| **Capital Investments** | $ 3,508 | $ 4,480 | $ | $ 509 | $ | $ 8,497 |

| | Nine-Month Period Ended September 30, 2004 | | | | | |
|---|---|---|---|---|---|---|
| | Oil and Gas | | | | | |
| | **U.S.** | **China** | **GTL** | **EOR** | **Corporate** | **Total** |
| Oil and gas revenue | $ 6,428 | $ 5,210 | $ | $ | $ | $ 11,638 |
| Interest income | 7 | 12 | | | 128 | 147 |
| | 6,435 | 5,222 | | | 128 | 11,785 |
| Operating costs | 2,294 | 1,394 | | | | 3,688 |
| General and administrative | 572 | 613 | | | 3,689 | 4,874 |
| Business development | | | 1,014 | 142 | | 1,156 |
| Depletion and depreciation | 3,459 | 1,760 | 14 | 2 | 4 | 5,239 |
| Interest expense | 115 | | | | 4 | 119 |
| Write down of GTL and EOR investments | | | 250 | | | 250 |
| | 6,440 | 3,767 | 1,278 | 144 | 3,697 | 15,326 |
| **Net (Income) Loss** | $ 5 | $ (1,455) | $ 1,278 | $ 144 | $ 3,569 | $ 3,541 |
| **Capital Investments** | $ 13,351 | $ 18,632 | $ 66 | $ 1,624 | $ | $ 33,673 |

**7. SHARE CAPITAL**

Following is a summary of the changes in share capital, contributed surplus and stock options outstanding for the nine-month period ended September 30, 2005:

| | Common Shares | | | Stock Options | |
|---|---|---|---|---|---|
| | Number (thousands) | Amount | Contributed Surplus | Number (thousands) | Weighted Avg. Exercise Price Cdn.$ |
| Balance December 31, 2004 | 169,665 | $ 183,617 | $ 1,748 | 8,246 | $ 2.65 |
| Shares issued for: | | | | | |
| Merger, net of share issue costs | 30,000 | 74,907 | | | |
| Private placements, net of share issue costs | 4,100 | 7,647 | | | |
| Exercise of purchase warrants | 4,515 | 6,133 | | | |
| Services | 192 | 441 | | | |
| Exercise of options | 91 | 127 | (31) | (91) | $ 1.50 |
| Options: | | | | | |
| Granted | | | | 3,114 | $ 2.95 |
| Expired | | | | (1,417) | $ 6.15 |
| Stock based compensation | | | 1,424 | | |
| Balance September 30, 2005 | 208,563 | $ 272,872 | $ 3,141 | 9,852 | $ 2.25 |

***Private Placements***

In April and July 2005, the Company closed two special warrant financings by way of private placements for Cdn.$15.8 million (U.S.$12.6 million, net of U.S.$0.2 million in share issue costs). Proceeds from the financings were used to complete the Merger and to pursue opportunities for the commercial deployment of the Company s RTP Technology as well as funding the ongoing development of its oil and gas projects in China and for general corporate purposes. The financings consisted of 5,100,000 special warrants at Cdn.$3.10 per special warrant. The April 2005 special warrant financing for 4,100,000 special warrants entitled the holders to receive, for each special warrant and at no additional cost, one common share and one common share purchase warrant which were issued on July 4, 2005. The July 2005 special warrant financing for 1,000,000 special warrants entitles the holder to receive, for each special warrant and at no additional cost, one common share and one common share purchase warrant four months after the closing date. Each common share purchase warrant entitles the holder to purchase one common share at a price of Cdn.$3.50 until the second anniversary date of the closings.

***Warrants***

Purchase warrants as at September 30, 2005 were $2.4 million for the value of the 4,100,000 common share purchase warrants outstanding, associated with the April 2005 private placement. This value was calculated in accordance with the Black-Scholes pricing model using a risk-free interest rate of 2.6%, a dividend yield of 0.0%, a volatility factor of 60.1% and an expected life of 2 years.

Special warrants as at September 30, 2005 were $2.5 million for the July 2005 special warrant financing for which common shares had not been issued as at September 30, 2005. The common shares and common share purchase warrants for the July 2005 financing will be issued on November 8, 2005.

For the nine-month period ended September 30, 2005, 9,029,412 common share purchase warrants were exercised for the purchase of 4,514,706 common shares at an average exercise price of $1.36 (Cdn.$1.64) for a total of $6.1 million.

As at September 30, 2005, the following common share purchase warrants were exercisable to purchase additional common shares until the expiry date at the price per share as indicated:

| Year of Special Warrant Financing | Price per Special Warrant | Number of Purchase Warrants Issued | Remaining Number of Purchase Warrants | Number of Common Shares | Expiry Date | Exercise Price per Share |
|---|---|---|---|---|---|---|
| | | | (thousands) | | | |
| 2003 | U.S.$4.00 | 1,250 | 1,250 | 1,250 | October 31, 2005 | U.S.$4.30 |
| 2004 | U.S.$2.90 | 5,449 | 5,449 | 2,725 | February 18, 2006 | U.S.$3.20 |
| 2004 | U.S.$2.90 | 1,724 | 1,724 | 862 | March 5, 2006 | U.S.$3.20 |
| 2005 | Cdn.$3.10 | 4,100 | 4,100 | 4,100 | April 15, 2007 | Cdn.$3.50 |
| | | 12,523 | 12,523 | 8,937 | | |

**8. STOCK BASED COMPENSATION**

The Company accounts for all stock options granted using the fair value based method of accounting. This method was adopted effective January 1, 2004 for stock options granted to employees and directors after January 1, 2002. Under this method, compensation costs are recognized in the financial statements over the stock options vesting period using an option-pricing model for determining the fair value of the stock options at the grant date.

For the three-month and nine-month periods ended September 30, 2005, the Company incurred $0.6 million and $1.4 million, respectively, in stock based compensation costs. For the same periods ended September 30, 2004, the Company incurred $0.4 million and $0.9 million, respectively.

**9. NOTE AND ADVANCE PAYABLE**

In February 2003, the Company obtained a bank facility for up to $5.0 million to develop the southern expansion of its South Midway field. The note is repayable over three years starting August 2004 with interest at 0.5% above the bank s prime rate or 3.0% over the London Inter-Bank Offered Rate ( **LIBOR** ), at the option of the Company. The note is secured by all the Company s rights and interests in its South Midway properties. The note balance, as at September 30, 2005 and December 31, 2004, was $3.1 million and $4.3 million, respectively, with a six-month fixed LIBOR rate of 7.375% per annum effective October 13, 2005.

The scheduled maturities of the bank note payable as at September 30, 2005 were as follows:

| | |
|---|---|
| 2005 | $ 417 |
| 2006 | 1,667 |
| 2007 | 972 |
| | 3,056 |
| Less: current portion | 1,667 |
| | $ 1,389 |

In March 2004, the Company received a $10.0 million advance as part of a $20.0 million up-front payment due to a farm-in to the Company s Dagang oil project. Upon finalization of the farm-in agreement in June 2004, the Company s farm-in partner elected to apply $10.0 million of the up-front payment due to the Company against the advance.

**10. CONVERTIBLE LOANS**

The Company has two unsecured convertible loans, of $6.0 million and $2.0 million, which bear interest at 8.0% per annum. Accrued and unpaid interest as at September 30, 2005 was $0.3 million. The loans, originally due on August 23, 2005, were extended for up to three months and are currently due upon the earliest of i.) five days following receipt of proceeds from a private placement or public offering of Company common shares ii.) thirty days following written demand for repayment from lender or iii.) November 23, 2005. A 3% extension fee of approximately $0.3 million is payable on the unpaid principal and interest at maturity and has been accrued as at September 30, 2005.

During the term of the loans the lender may convert, at its option, unpaid principal and interest, in whole or in part, to the Company s common shares at $2.25 per share as to the $6.0 million loan and $2.15 per share as to the $2.0 million loan. However, if the Company completes a private placement or public offering of Company common shares during the term of the loans at a price per share that is less than either of the loans conversion rates of $2.25 per share and $2.15 per share and the lender elects to convert the loans, in whole or in part, to the Company s common shares then the Company will, at its election, either i.) convert the loans to the Company s common shares at a conversion rate equal to the share price obtained from a private placement or public offering of Company common shares or ii.) pay the lender, in cash, the difference between the loans conversion rates and the share price obtained from a private placement or public offering of Company common shares times the number of the Company s common shares to be issued to the lender based on the lender s election.

The fair value of the convertible loans approximates their carrying values due to the short-term maturity. No value was assigned to the equity component of the loans.

**11. ASSET RETIREMENT OBLIGATIONS**

The undiscounted amount of expected cash flows required to settle the Company s asset retirement obligations as at September 30, 2005 was estimated at $3.0 million, which includes $0.1 million for dismantlement and site restoration of the RTP™ CDF and $1.5 million to permanently abandon the Northwest Lost Hills # 1-22 well. The liability for the expected cash flows, as reflected in the financial statements, has been discounted at 5% to 7% and is estimated to be settled over a twelve-year period starting in 2010.

**12. MERGER**

On April 15, 2005, the Company and Ensyn completed the Merger (as more fully described in the Company s 2004 Annual Report filed on Form 10-K) in which the Company paid $10.0 million in cash and issued 30 million Ivanhoe common shares ( **Merger Shares** ) in exchange for all of the issued and outstanding Ensyn common shares. Ten million of the Merger Shares issued were deposited in an escrow fund and are being held to secure certain obligations on the part of the former Ensyn stockholders to indemnify the Company for damages in the event of any breaches of representations, warranties and covenants in the Merger Agreement and certain liabilities, including those arising from any failure by Ensyn to meet certain development milestones set out in the Merger Agreement.

As at September 30, 2005, the Company incurred $4.0 million of costs associated with the Merger, including $1.0 million to acquire an option to purchase an additional 5% of EPIL, which expired, unexercised, in January 2005. The total purchase consideration and cost of the Merger was $89.0 million and has been allocated to the net assets acquired from Ensyn as follows:

| | |
|---|---|
| **Purchase Consideration** | |
| 29,999,886 shares of Ivanhoe at $2.50 per share | $ 75,000 |
| Cash | 10,000 |
| | 85,000 |
| Merger related costs | 4,000 |
| **Total purchase consideration and cost of the Merger** | $ 89,000 |

| | |
|---|---|
| **Net Assets Acquired** | |
| Cash | $ 21 |
| Non-cash working capital, net | (117) |
| Oil and gas properties and investments | 4,561 |
| Intangible asset | 89,531 |
| Asset retirement obligation | (96) |
| Contingent obligation *(Note 13)* | (1,900) |
| Less : previous investment in EPIL | (3,000) |
| | $ 89,000 |

The allocation of the purchase consideration and cost of the Merger is preliminary and subject to change.

The Company s consolidated results of operations for the three-month and nine-month periods ended September 30, 2005 included a net loss of $0.7 million, or nil per share and $1.3 million, or $0.01 per share, respectively, associated with the operations acquired from Ensyn after the completion of the Merger on April 15, 2005. Had the Merger been completed on January 1, 2005 or 2004, the pro forma revenue, net loss and net loss per share of the merged entity for the three-month and nine-month periods ended September 30, 2005 and 2004 would have been as follows:

| | **Three-Month Periods Ended September 30,** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | | **2004** | | |
| | **Revenue** | **Net Loss** | **Net Loss Per Share** | **Revenue** | **Net Loss** | **Net Loss Per Share** |
| As reported | $ 8,907 | $ 2,113 | $ 0.01 | $ 4,932 | $ 951 | $ 0.01 |
| Pro forma adjustments | | | | 90 | 635 | |
| | $ 8,907 | $ 2,113 | $ 0.01 | $ 5,022 | $ 1,586 | $ 0.01 |

| | | |
|---|---|---|
| Weighted Average Number of Shares (in thousands) | 206,629 | 199,534 |

| | Nine-Month Periods Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | |
| | Revenue | Net Loss | Net Loss Per Share | Revenue | Net Loss | Net Loss Per Share |
| As reported | $ 21,288 | $ 4,627 | $ 0.02 | $ 11,785 | $ 3,541 | $ 0.02 |
| Pro forma adjustments | 736 | 730 | | 264 | 1,240 | |
| | $ 22,024 | $ 5,357 | $ 0.02 | $ 12,049 | $ 4,781 | $ 0.02 |
| Weighted Average Number of Shares (in thousands) | | | 202,583 | | | 196,935 |

**13. ENSYN AGREEMENTS**

***RTP™ Joint Venture***

In the Merger, the Company acquired a 50% interest in a joint venture ( **RTP™ Joint Venture** ), which owns the RTP™ CDF and exclusive right to use the RTP™ Technology to manufacture RTP™ facilities, at cost plus 25%, or be paid a fixed fee if the RTP™ facilities are manufactured by any party other than the RTP™ Joint Venture. The fixed fee is a one-time fee for each RTP™ facility installed determined based on factors including the capacity and application of the RTP™ facility. The RTP™ Joint Venture must include in the sale price for RTP™ facilities a royalty of $500/barrel of capacity of each installed RTP™ facility payable in a lump sum and pay such royalty to the Company or alternately, at the Company s option, the royalty may be paid to the Company by the purchaser of the RTP™ facility. The Company has a 50% interest in the profits and losses of the RTP™ Joint Venture.

In 2003, Ensyn (which changed its name following the Merger to Ivanhoe Energy HTL Inc. ( **IE HTL** )) entered into an agreement with Aera Energy LLC ( **Aera** ) providing for the construction of an RTP™ CDF on Aera s property in California s San Joaquin Basin to demonstrate the commercial viability of the RTP™ Technology. The RTP™ Joint Venture partners agreed to fund the construction of an RTP™ CDF to be owned and operated by the RTP™ Joint Venture up until its redeployment to another site or sale to a third party. Within six months after completing the RTP™ CDF s testing and demonstration period, the Company is responsible for dismantling the facility and restoring the Aera site to its original condition.

No royalties were paid by the RTP™ Joint Venture to the Company for the construction of the RTP™ CDF.

Other than the RTP™ CDF and exclusive right to use the RTP™ Technology to manufacture RTP™ facilities, the RTP™ Joint Venture had no assets, liabilities, revenues or net income for the three-month and nine-month periods ended September 30, 2005. The Company has included its 50% interest in the RTP™ CDF in its balance sheet as at September 30, 2005.

***ConocoPhillips Canada Resources Limited***

Under a pre-existing agreement between IE HTL and ConocoPhillips Canada Resources Corp. ( **ConocoPhillips Canada** ), certain non-exclusive rights to use the RTP Technology for petroleum applications in Canada were granted. ConocoPhillips Canada has the right, through August 2010, to place orders for RTP facilities with input capacity of up to 250,000 barrels-per-day. Should ConocoPhillips Canada install RTP facilities, IE HTL is entitled to receive royalties per barrel after the first 50,000 barrels-per day of feedstock input capacity.

**14. COMMITMENTS AND CONTINGENCIES**

***Zitong Exploration Commitment***

With the signing of the production-sharing contract for the Zitong block, the Company is obligated to conduct a minimum exploration program during the first three years ending December 1, 2005 ( **Phase 1** ). The Phase 1 work program includes acquiring approximately 300 miles of new seismic lines, reprocessing approximately 1,250 miles of existing seismic and drilling a minimum of approximately 23,000 feet. The Company has completed Phase 1 with the exception of drilling approximately 13,800 feet. On October 20, 2005, the Company requested an extension of Phase 1 to assess its election to proceed into the next three-year exploration phase ( **Phase 2** ) as further review and mapping of the Company s seismic data is necessary. In addition, the Company is in active discussion with two potential partners who have indicated an interest in participating in the Zitong block exploration program. The Company expects to receive the extension by the end of 2005 and is planning to drill a second Phase 1 exploration well with its partner(s) upon receipt of such extension after which an election would be made as to its decision to enter into Phase 2. If an extension were not granted, the Company could elect not to enter Phase 2 and would be required to pay China National Petroleum Corporation ( **CNPC** ), within 30 days after its election, a cash equivalent of the deficiency in the work program estimated at $4.3 million as at September 30, 2005. If the Company did not elect to enter Phase 2, the aggregate costs related to the Zitong block in the approximate amount of $13.2 million , including the $4.3 million cash requirement, would be included in the depletable base of the China full cost pool and would be subject to the ceiling test. This could result in a ceiling test impairment related to the China full cost pool in an amount which is not determinable at this time.

***Contingent Obligations***

As part of the Merger, the Company assumed a contingent obligation to pay $1.9 million in the event, and at such time that, the sale of units incorporating the RTP™ Technology for petroleum applications reach a total of $100 million. This contingent obligation was recorded in the Company s balance sheet as at September 30, 2005 as part of the net assets acquired in the Merger. Additionally, the Company assumed a contingent obligation to advance to a subsidiary of Ensyn Corporation, formed from the spin-off of Ensyn s Renewables Business immediately prior to the Merger, up to approximately $0.4 million if this subsidiary cannot meet certain debt servicing ratios required under a Canadian municipal government loan agreement. The loan principal is repayable in nine equal annual installments commencing April 1, 2006 and ending April 1, 2014. Ensyn Corporation has agreed to indemnify the Company for any amounts advanced to the subsidiary under the loan agreement.

**15. SUBSEQUENT EVENTS**

On November 7, 2005, the Company closed a special warrant financing by way of private placement for $15.75 million. The financing consisted of 7,208,599 special warrants issued for cash and 2,453,988 issued for the repayment of convertible loans, both at U.S.$1.63 per special warrant. Each special warrant entitles the holder to receive, at no additional cost, one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of U.S. $2.50 per share until the second anniversary date of the closing.

A portion of the proceeds of the financing, in the amount of $6.75 million, has been used to acquire the 50% interest in the RTP Joint Venture not already owned by the Company (see Note 13).

A further portion of the proceeds of the financing will be used to pay interest and an extension fee of approximately $ 0.7 million accrued to date on the convertible loans (See Note 10). As noted above, the Company has agreed with the holder of $8.0 million of convertible loans to convert $4.0 million of the loans into 2,453,988 common shares of the Company at U.S.$1.63 per share under the private placement. Additionally, the repayment period of the remaining $4.0 million of convertible loans has been extended until November 23, 2007 with interest payable monthly at a rate of 8% per annum. The previously granted conversion rights attached to the convertible loans will be cancelled and, subject to regulatory approval, the Company will grant the holder of the convertible loans 2,000,000 common share purchase warrants, each of which will entitle the holder to purchase one common share at a price of U.S. $2.00 per share until November 23, 2007.

The balance of the private placement proceeds of $4.3 million will be used for working capital and general corporate purposes.

**16. ADDITIONAL DISCLOSURE REQUIRED UNDER U.S. GAAP**

The consolidated financial statements have been prepared in accordance with Canadian GAAP, which conforms to U.S. GAAP except as described below:

**Condensed Consolidated Balance Sheets**

Shareholders Equity and Oil and Gas Properties and Investments

| | As at September 30, 2005 | | | | |
|---|---|---|---|---|---|
| | Oil and Gas Properties and Investments | Shareholders Equity: Share Capital and Warrants | Contributed Surplus | Accumulated Deficit | Total |
| Canadian GAAP | $ 126,212 | $ 277,777 | $ 3,141 | $ (86,406) | $ 194,512 |
| Adjustment for reduction in stated capital | | 74,455 | | (74,455) | |
| Adjustment to ascribed value of shares issued for U.S. royalty interests, net | 1,358 | 1,358 | | | 1,358 |
| Provision for impairment | (8,650) | | | (8,650) | (8,650) |
| Depletion adjustments due to differences in provision for impairment | 1,328 | | | 1,328 | 1,328 |
| GTL and EOR development costs expensed | (9,856) | | | (9,856) | (9,856) |
| Adjustment for change in accounting for stock based compensation | | (306) | (2,992) | 3,298 | |
| U.S. GAAP | $ 110,392 | $ 353,284 | $ 149 | $ (174,741) | $ 178,692 |

| | As at December 31, 2004 | | | | |
|---|---|---|---|---|---|
| | Oil and Gas Properties and Investments | Shareholders Equity: Share Capital | Contributed Surplus | Accumulated Deficit | Total |
| Canadian GAAP | $ 96,551 | $ 183,617 | $ 1,748 | $ (81,779) | $ 103,586 |
| Adjustment for reduction in stated capital | | 74,455 | | (74,455) | |
| Adjustment to ascribed value of shares issued for U.S. royalty interests, net | 1,358 | 1,358 | | | 1,358 |
| Provision for impairment | (8,650) | | | (8,650) | (8,650) |
| | 482 | | | 482 | 482 |

| | | | | | |
|---|---|---|---|---|---|
| Depletion adjustments due to differences in provision for impairment | | | | | |
| GTL and EOR development costs expensed | (5,884) | | | (5,884) | (5,884) |
| Adjustment for change in accounting for stock based compensation | | (300) | (1,660) | 1,960 | |
| U.S. GAAP | $ 83,857 | $ 259,130 | $ 88 | $ (168,326) | $ 90,892 |

*Shareholders Equity*

In June 1999, the shareholders approved a reduction of stated capital in respect of the common shares by an amount of $74.4 million being equal to the accumulated deficit as at December 31, 1998. Under U.S. GAAP, a reduction of the accumulated deficit such as this is not recognized except in the case of a quasi reorganization. The effect of this is that under U.S. GAAP, share capital and accumulated deficit are increased by $74.4 million as at September 30, 2005 and December 31, 2004.

For Canadian GAAP, the Company accounts for all stock options granted to employees and directors since January 1, 2002 using the fair value based method of accounting. Under this method, compensation costs are recognized in the financial statements over the stock options vesting period using an option-pricing model for determining the fair value of the stock options at the grant date. For U.S. GAAP, the Company continues to apply APB Opinion No. 25, as interpreted by FASB Interpretation No. 44, in accounting for its stock option plan and does not recognize compensation costs in its financial statements for stock options issued to employees and directors. This resulted in a reduction of $3.3 million and $2.0 million in the accumulated deficit as at September 30, 2005 and December 31, 2004, respectively, equal to accumulated stock based compensation for stock options granted to employees and directors since January 1, 2002 expensed under Canadian GAAP.

*Oil and Gas Properties and Investments*

For U.S. GAAP purposes, the aggregate value attributed to the acquisition of U.S. royalty rights during 1999 and 2000 was $1.4 million higher, due to the difference between Canadian and U.S. GAAP in the value ascribed to the shares issued to acquire the royalty rights, primarily resulting from differences in the recognition of effective dates of the transactions.

As more fully described in our financial statements in Item 8 of our 2004 Annual Report filed on Form 10-K, there are differences between the full cost method of accounting for oil and gas properties as applied in Canada and as applied in the U.S. The principal difference is in the method of performing ceiling test evaluations under the full cost method of accounting rules. The Company performed the ceiling test in accordance with U.S. GAAP and determined that for 2004 an impairment provision of $15.0 million was required on its U.S. oil and gas properties compared to a $16.3 million impairment provision under Canadian GAAP. For 2001, a $10.0 million provision for impairment was required, for U.S. GAAP purposes, in connection with the Company s China oil and gas properties. These differences result in accumulated net additional impairment provisions of $8.7 million for U.S. GAAP purposes as at September 30, 2005 and December 31, 2004.

The differences in the amount of impairment provisions between Canadian and U.S. GAAP resulted in a reduction in accumulated depletion of $1.3 million and $0.5 million as at September 30, 2005 and December 31, 2004, respectively.

As more fully described in Note 2 to these consolidated financial statements, for Canadian GAAP, the Company capitalizes certain costs incurred for GTL and EOR projects subsequent to executing an MOU to determine the technical and commercial feasibility of a project, including studies for the marketability for the projects products. If no definitive agreement is reached, then a project s capitalized costs, which are deemed to have no future value, are written down and charged to operations with a corresponding reduction in the investments in GTL and EOR assets. For U.S. GAAP, feasibility, marketing and related costs are considered to be research and development and are expensed as incurred. As at September 30, 2005 and December 31, 2004, the Company capitalized $9.9 million and $5.9 million, respectively, for Canadian GAAP, which was expensed for U.S. GAAP purposes.

**Condensed Consolidated Statements of Loss**

The application of U.S. GAAP had the following effects on net loss and net loss per share as reported under Canadian GAAP:

| | Three-Month Periods Ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Net Loss | Net Loss Per Share | Net Loss | Net Loss Per Share |
| Canadian GAAP | $ 2,113 | $ 0.01 | $ 951 | $ 0.01 |
| Stock based compensation expense | (540) | | (416) | |
| Depletion adjustments due to differences in provision for impairment | (418) | | (64) | |
| GTL and EOR development costs expensed, net | 688 | | 509 | |
| U.S. GAAP | $ 1,843 | $ 0.01 | $ 980 | $ 0.01 |
| Weighted Average Number of Shares under U.S. GAAP (in thousands) | | 206,629 | | 169,534 |

| | Nine-Month Periods Ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Net Loss | Net Loss Per Share | Net Loss | Net Loss Per Share |
| Canadian GAAP | $ 4,627 | $ 0.02 | $ 3,541 | $ 0.02 |
| Stock based compensation expense | (1,338) | (0.01) | (877) | |
| Depletion adjustments due to differences in provision for impairment | (846) | | (144) | |
| GTL and EOR development costs expensed, net | 3,972 | 0.02 | 1,440 | |
| U.S. GAAP | $ 6,415 | $ 0.03 | $ 3,960 | $ 0.02 |
| Weighted Average Number of Shares under U.S. GAAP (in thousands) | | 191,374 | | 166,935 |

As discussed under Shareholders Equity in this note, for U.S. GAAP, the Company continues to apply APB Opinion No. 25, as interpreted by FASB Interpretation No. 44, in accounting for its stock option plan and does not recognize compensation costs in its financial statements for stock options issued to employees and directors. This resulted in a reduction of $0.5 and $1.3 million in the net losses for the three-month and nine-month periods ended September 30, 2005, respectively, and a reduction of $0.4 million and $0.9 million in the net losses for the three-month and nine-month periods ended September 30, 2004, respectively.

As discussed under Oil and Gas Properties and Investments in this note, there is a difference in performing the ceiling test evaluation under the full cost method of accounting between U.S. and Canadian GAAP. Application of the ceiling test evaluation under U.S. GAAP resulted in accumulated net additional impairment provisions of $8.7 million for U.S. GAAP purposes as at September 30, 2005 and December 31, 2004. The net increase in impairment provisions resulted in lower depletion rates for U.S. GAAP purposes, a reduction of $0.4 million and $0.8 million in the net losses for the three-month and nine-month periods ended September 30, 2005, respectively, and a reduction of $0.1 million each in the net losses for the three-month and nine-month periods ended September 30, 2004.

As described under Oil and Gas Properties and Investments in this note, for Canadian GAAP, feasibility, marketing and related costs incurred prior to executing a GTL or EOR definitive agreement are capitalized and are subsequently written down upon determination that a project s future value has been impaired. For U.S. GAAP, such costs are considered to be research and development and are expensed as incurred. For the three-month and nine-month periods ended September 30, 2005, the Company expensed $0.7 million and $4.0 million, respectively, of GTL and EOR development costs for U.S. GAAP purposes and $0.5 million and $1.4 million for the three-month and nine-month periods ended September 30, 2004, respectively.

*Stock Based Compensation*

Had stock based compensation expense been determined based on fair value at the stock option grant date, consistent with the method of SFAS No. 123, Accounting for Stock Based Compensation , the Company s net loss and net loss per share would have been increased to the pro forma amounts indicated below:

| | Three-Month Periods Ended September 30, | | Nine-Month Periods Ended September 30, | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Net loss under U.S. GAAP | $ 1,843 | $ 980 | $ 6,415 | $ 3,960 |
| Stock-based compensation expense determined under the fair value based method for employee and director awards | 570 | 507 | 1,430 | 1,499 |
| Pro forma net loss under U.S. GAAP | $ 2,413 | $ 1,487 | $ 7,845 | $ 5,459 |
| Basic loss per common share under U.S. GAAP: | | | | |
| As reported | $ 0.01 | $ 0.01 | $ 0.03 | $ 0.02 |
| Pro forma | $ 0.01 | $ 0.01 | $ 0.04 | $ 0.03 |
| Weighted Average Number of Shares under U.S. GAAP (in thousands) | 206,629 | 169,534 | 191,374 | 166,935 |

Stock based compensation for U.S. GAAP was calculated in accordance with the Black Scholes option-pricing model using the same assumptions as used for Canadian GAAP.

*Pro Forma Effect of Merger*

The Company s U.S. GAAP consolidated results of operations for the three-month and nine-month periods ended September 30, 2005 included a net loss of $0.7 million, or nil per share and a net loss of $1.3 million, or $0.01 per share, respectively, associated with the operations acquired from Ensyn after the completion of the Merger on April 15, 2005. Had the Merger been completed on January 1, 2005 or 2004, the U.S. GAAP pro forma revenue, net loss and net loss per share of the merged entity for the three-month and nine-month periods ended September 30, 2005 and 2004 would have been as follows:

| | Three-Month Periods Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | |
| | **Revenue** | **Net Loss** | **Net Loss Per Share** | **Revenue** | **Net Loss** | **Net Loss Per Share** |
| As reported | $ 8,907 | $ 1,843 | $ 0.01 | $ 4,932 | $ 980 | $ 0.01 |
| Pro forma adjustments | | | | 90 | 635 | |
| | $ 8,907 | $ 1,843 | $ 0.01 | $ 5,022 | $ 1,615 | $ 0.01 |
| Weighted Average Number of Shares (in thousands) | | | 206,629 | | | 199,534 |

**Nine-Month Periods Ended September 30,**

**2005** **2004**

| | Revenue | Net Loss | Net Loss Per Share | Revenue | Net Loss | Net Loss Per Share |
|---|---|---|---|---|---|---|
| As reported | $ 21,288 | $ 6,415 | $ 0.03 | $ 11,785 | $ 3,960 | $ 0.02 |
| Pro forma adjustments | 736 | 730 | | 264 | 1,240 | |
| | $ 22,024 | $ 7,145 | $ 0.03 | $ 12,049 | $ 5,200 | $ 0.02 |
| Weighted Average Number of Shares (in thousands) | | | 202,583 | | | 196,935 |

**Condensed Consolidated Statements of Cash Flow**

As a result of the write-down of GTL and EOR development costs required under U.S. GAAP, the statements of

20

cash flow would result in cash provided by operating activities of $1.4 million and $0.5 million for the three-month and nine-month periods ended September 30, 2005, respectively and cash deficiency from operating activities of $0.7 million and $0.5 million for the three-month and nine-month periods ended September 30, 2004, respectively. Additionally, capital investments reported under investing activities would be $8.7 million and $29.5 million for the three-month and nine-month periods ended September 30, 2005, respectively, and $7.8 million and $32.0 million for the three-month and nine-month periods ended September 30, 2004, respectively.

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

In January 2005, the Canadian Institute of Chartered Accountants ( **CICA** ) approved Section 1530 Comprehensive Income ( **S.1530** ), Section 3855 Financial Instruments Recognition and Measurement ( **S.3855** ) and Section 3865 Hedges ( **S.3865** ) to harmonize financial instrument and hedge accounting with U.S. GAAP and introduce the concept of comprehensive income. S.1530 requires presentation of certain gains and losses outside of net income, such as unrealized gains and losses related to hedges or other derivative instruments. S.3855 establishes standards for recognizing and measuring financial assets and financial liabilities and non-financial derivatives as required to be disclosed under Section 3861 Financial Instruments Disclosure and Presentation . S.3865 establishes standards for how and when hedge accounting may be applied. We apply SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities for U.S. GAAP purposes and will implement S.3865 for Canadian GAAP for hedging activities. These sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006 and are not expected to have a material impact on our financial statements.

In January 2005, the CICA approved Section 3251 Equity which establishes standards for the presentation of equity and changes in equity during a reporting period. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006 and is not expected to have a material impact on our financial statements.

Effective January 1, 2005, the Company adopted revised CICA Accounting Guideline 15 ( **AcG 15** ), Consolidation of Variable Interest Entities . AcG 15 is harmonized in all material respects with U.S. GAAP and provides guidance for applying consolidation principles to certain entities (defined as VIEs) that are subject to control on a basis other than ownership of voting interests. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit that entity to finance its activities without additional subordinated support from other parties; (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. AcG 15 requires consolidation by a business of VIEs in which it is the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of the expected losses and/or expected residual returns of the VIE. AcG 15 does not impact us at this time.

**Impact of New and Pending U.S. GAAP Accounting Standards**

In June 2004, the Financial Accounting Standards Board ( **FASB** ) issued an exposure draft of a proposed statement, Fair Value Measurements to provide guidance on how to measure the fair value of financial and non-financial assets and liabilities when required by other authoritative accounting pronouncements. The proposed statement attempts to address concerns about the ability to develop reliable estimates of fair value and inconsistencies in fair value guidance provided by current U.S. GAAP, by creating a framework that clarifies the fair value objective and its application in GAAP. In addition, the proposal expands disclosures required about the use of fair value to re-measure assets and liabilities. The standard would be effective for financial statements issued for fiscal years beginning after June 15, 2005.

In December 2004, the FASB issued a revision to SFAS No. 123, Accounting for Stock Based Compensation which supersedes APB No. 25, Accounting for Stock Issued to Employees . This statement ( **SFAS No. 123(R)** ) requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant and recognition of the cost in the results of operations over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. The Company applies APB Opinion No. 25, as interpreted by FASB Interpretation No. 44, in accounting for awards issued from its stock option plan and does not recognize compensation costs in its U.S. GAAP financial statements for stock options issued to its employees and directors. This statement is effective for the first fiscal year that begins after June 15, 2005 and may be implemented on a modified prospective or retrospective basis. The Company has elected to implement this statement on a modified prospective basis starting in the first quarter of 2006. Under the modified prospective basis the Company would recognize stock based compensation in its U.S. GAAP results of operations for the unvested portion of awards outstanding as at January 1, 2006 and for all awards granted after January 1, 2006.

To assist in the implementation of SFAS No. 123(R), the SEC issued SAB No. 107, Share-Based Payment . While SAB No. 107 addresses a wide range of issues, the largest area of focus is valuation methodologies and the selection of assumptions. Notably, SAB No. 107 lays out simplified methods for developing certain assumptions. In addition to providing the SEC staff s interpretive guidance on SFAS No. 123(R), SAB No. 107 addresses the interaction of SFAS No. 123(R) with existing SEC guidance (e.g., the interaction with the SEC s guidance dealing with non-GAAP disclosures). Its intent is to clarify, not change, any of SFAS No. 123(R) s guidance.

In March 2005, the FASB issued Interpretation No. 47 ( **FIN 47** ) Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143 . A conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises). Retrospective application for interim financial information is permitted but is not required.

In May 2005, the FASB issued SFAS No. 154 ( **SFAS 154** ) Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 . SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 applies to all voluntary changes in accounting principle. SFAS 154 also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. SFAS 154 also carries forward the guidance in APB Opinion No. 20 requiring justification of a change in accounting principle on the basis of preferability. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the FASB published an Exposure Draft containing proposals to change the accounting for business combinations. The proposed standards would replace the existing requirements of the FASB s Statement No. 141, Business Combinations . The proposals would result in fewer exceptions to the principle of measuring assets acquired and liabilities assumed in a business combination at fair value. Additionally, the proposals would result in payments to third parties for consulting, legal, audit, and similar services associated with an acquisition being recognized generally as expenses when incurred rather than capitalized as part of the business combination. The FASB also published an Exposure Draft that proposes, among other changes, that non-controlling interests be classified as equity within the consolidated financial statements. The FASB s proposed standard would replace Accounting Research Bulletin No. 51, Consolidated Financial Statements .

The following standards issued by the FASB do not impact the Company at this time:
SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 effective for inventory costs incurred during fiscal years beginning after June 15, 2005.
SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 effective for nonmonetary asset exchanges occurring in fiscal years beginning after June 15, 2005.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

With the exception of historical information, certain matters discussed in this Form 10-Q are forward looking statements that involve risks and uncertainties. Certain statements contained in this Form 10-Q, including statements which may contain words such as could , should , expect , believe , will and similar expressions and statements rel to matters that are not historical facts are forward-looking statements. Such statements involve known and unknown risks and uncertainties which may cause our actual results, performances or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include, but are not limited to, our ability to raise capital as and when required, the timing and extent of changes in prices for oil and gas, competition, environmental risks, drilling and operating risks, uncertainties about the estimates of reserves and the potential success of heavy oil and gas-to-liquids development technologies, 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 we operate and implementation of our capital investment program.

The following should be read in conjunction with the Company s consolidated financial statements contained herein and in the Form 10-K for the year ended December 31, 2004, along with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in such Form 10-K. Any terms used but not defined in the following discussion have the same meaning given to them in the Form 10-K. The unaudited condensed consolidated financial statements in this Quarterly Report filed on Form 10-Q have been prepared in accordance with generally accepted accounting principles in Canada. The impact of significant differences between Canadian and U.S. accounting principles on the unaudited condensed consolidated financial statements is disclosed in Note 16. The date of this discussion is November 7, 2005.

***Executive Overview of 2005 Results***

Despite significant increases in our revenues for the third quarter and for the first three quarters of 2005, we continue to generate net losses both in the current quarter and year to date, primarily as a result of increases in non-cash expenses such as depletion and stock based compensation and from cash items such as general and administrative and business development expenses. Our net operating revenues and cash flow from operating activities have almost doubled for the three-month and nine-month periods ended September 30, 2005 compared to the same periods for 2004 due to increases in oil and gas prices and increased production volumes from our field development programs at Dagang, South Midway, Citrus and Knights Landing.

The following table sets forth certain selected consolidated data for the three-month and nine-month periods ended September 30, 2005 and 2004:

| (stated in thousands of U.S. dollars, except per share and production amounts) | **Three-Month Periods Ended September 30, 2005** | **2004** | **Nine-Month Periods Ended September 30, 2005** | **2004** |
|---|---|---|---|---|
| Oil and gas revenue | 8,883 | 4,874 | 21,193 | 11,638 |
| Net loss | 2,113 | 951 | 4,627 | 3,541 |
| Net loss per share | 0.01 | 0.01 | 0.02 | 0.02 |
| Average production (Boe/d) | 1,902 | 1,466 | 1,741 | 1,277 |
| Capital investments | 9,769 | 8,497 | 34,106 | 33,673 |
| Cash flow from (used in) operating activities | 2,500 | (200) | 5,125 | 1,134 |

***Financial Results   Change in Net Losses***

The following provides an analysis of our changes in net losses for the three-month and nine-month periods ended September 30, 2005 when compared to the same periods for 2004:

| (stated in thousands of U.S. Dollars) | **Three-Months Ended September 30,** | **Nine-Months Ended September 30,** |
|---|---|---|
| **Net Losses for 2004** | $ 951 | $ 3,541 |
| **Favorable (unfavorable) variances:** | | |
| Cash Items: | | |
| Net Operating Revenues: | | |
| Production volumes | 1,217 | 3,763 |
| Oil and gas prices | 2,792 | 5,792 |
| Less: Operating costs | (474) | (1,576) |
| | 3,535 | 7,979 |
| General and administrative | (530) | (1,081) |
| Business development | (956) | (2,105) |
| Net interest | (504) | (969) |
| **Total Cash Variances** | 1,545 | 3,824 |
| Non-Cash Items: | | |
| Depletion and depreciation | (2,186) | (4,011) |
| Stock based compensation | (164) | (513) |
| Write down of GTL and EOR investments | (357) | (386) |
| **Total Non-Cash Variances** | (2,707) | (4,910) |

| | | |
|---|---|---|
| **Net Losses for 2005** | $ 2,113 | $ 4,627 |

Our net loss for the three-month period ended September 30, 2005 was $2.1 million ($0.01 per share) compared to a net loss for the same period in 2004 of $1.0 million ($0.01 per share). The $1.1 million increase in our net loss for the third quarter of 2005 was mainly due to a $0.7 million increase in general and administrative expenses, including stock based compensation, an increase of $0.9 million in business development expense, an increase of $0.5 million in net interest expense, an increase of $2.2 in depletion and depreciation and $0.3 million for the write down of GTL and EOR investments. This is partially offset by a $3.5 million increase in net operating revenues.

Our net loss for the nine-month period ended September 30, 2005 was $4.6 million ($0.02 per share) compared to a net loss for the same period in 2004 of $3.5 million ($0.02 per share). The increase in our net loss from 2004 to 2005 of $1.1 million was mainly due to a $2.1 million increase in business development expense, an increase of $1.6 million in general and administrative, including stock based compensation, an increase of $1.0 million in net interest expense, an increase of $4.0 million in depletion and depreciation and $0.4 million for the write down of GTL and EOR investments. This is partially offset by an $8.0 million increase in net operating revenues.

Significant variances in our net losses are explained in the sections that follow.

**Net Operating Revenues**

**Production Volumes 2005 vs. 2004**

Net production volumes for the three-month and nine-month periods ended September 30, 2005 increased 30% and 36%, respectively, when compared to the same periods in 2004. The increase for the three-month period ended September 30, 2005 was due to 39% and 21% increases in production volumes in our China and U.S. properties, respectively, resulting in increased revenues of $1.2 million. The increase for the nine-month period ended September 30, 2005 was due to 42% and 30% increases in production volumes in our China and U.S. properties, respectively, resulting in increased revenues of $3.8 million.

*China*

Net production volumes for the three-month and nine-month periods ended September 30, 2005 at the Dagang field increased 61% and 59%, respectively, when compared to the same periods in 2004 despite the farm-out of a 40% working interest in June 2004. During the nine-month period ended September 30, 2005, we placed 20 wells on production bringing the total wells on production, or available for production, to 41 wells. We stimulated 9 wells in the northern blocks during the nine-month period ended September 30, 2005, where we had been experiencing less than expected results. Five of the stimulated wells currently have production rates of between 60 and 160 Bopd while 3 of the other 4 wells are in post-stimulation clean up and stabilized production will not be known until the fourth quarter 2005. The fourth well is expected to be re-stimulated in the fourth quarter of 2005 and we expect to stimulate an additional 2 to 3 wells during the remainder of 2005. At the end of September 30, 2005, there were 3 producing wells down for maintenance and one well was awaiting stimulation. As at September 30, 2005, we were producing 2,025 Bopd (950 net Bopd), a 22% increase from the year-end 2004 exit rate of 1,655 Bopd (774 net Bopd).

Our royalty percentage from the Daqing project was reduced from 4% to 2% in May 2005 when the operator of the properties reached payout of its investment. As a result, our share of production volumes decreased 50% and 21% for the three-month and nine-month periods ended September 30, 2005, respectively, when compared to the same periods in 2004.

*U.S.*

Net production volumes for the three-month and nine-month periods ended September 30, 2005 in the U.S. increased 21% and 30%, respectively, when compared to the same periods in 2004. The increase in U.S. production rates for the three-month and nine-month periods were due mainly to increased production at our Knights Landing gas field in northern California. We farmed into Knights Landing in February 2004 with a 50% working interest in 4 producing natural gas wells, which started production in April 2004. In December 2004, we increased our working interest to between 80% and 100% in 12 Knights Landing natural gas wells capable of production. In April 2005, three Knights Landing wells that were drilled and completed in 2004 were connected to a gas sales line and placed on production. As at September 30, 2005, we were producing 185 gross Boe/d (110 net Boe/d) at Knights Landing. Our production at Citrus for the nine-month period ended September 30, 2005 was up 62% compared to the same period in 2004 as two of the three Citrus wells were not placed on production until early in the third quarter of 2004. For the three-month period ended September 30, 2005, production at Citrus was down 21% compared to the same period in 2004 due to natural decline in the wells. As at September 30, 2005, we were producing 100 gross Boe/d (85 Boe/d net) at Citrus. Our production at South Midway increased 9% for the nine-month period ended September 30, 2005 compared to the same period in 2004 as a result of our continuous steam injection program in the southern expansion of South Midway. Additionally, in the second quarter of 2005 we drilled one in-fill well in the southern expansion, which contributed to the increase in production. For the three-month period ended September 30, 2005, production levels at South Midway decreased 4% compared to the same period in 2004 primarily due to wells taken off production in the primary area for cyclic steaming operations. As at

September 30, 2005, we were producing 610 gross Boe/d (570 net Boe/d) at South Midway. The decrease in production volumes in other U.S. properties for the three-month and nine-month periods ended September 30, 2005 compared to the same periods in 2004 were primarily due to the natural decline in production rates from our Spraberry field in west Texas and as a result of the sale of our interest in the Sledge Hamar property in the fourth quarter of 2004.

The following is a comparison of changes in production volumes for the three-month and nine-month periods ended September 30, 2005 when compared to the same periods in 2004:

| | Three-Month Periods Ended September 30, | | | Nine-Month Periods Ended September 30, | | |
|---|---|---|---|---|---|---|
| | Average Net Boe s | | Percentage | Average Net Boe s | | Percentage |
| | 2005 | 2004 | Change | 2005 | 2004 | Change |
| **China:** | | | | | | |
| Dagang | 80,799 | 50,067 | 61% | 199,320 | 125,405 | 59% |
| Daqing | 6,087 | 12,222 | -50% | 25,935 | 32,748 | -21% |
| | 86,886 | 62,289 | 39% | 225,255 | 158,153 | 42% |
| **U.S.:** | | | | | | |
| South Midway | 46,994 | 48,869 | -4% | 148,314 | 136,167 | 9% |
| Citrus | 8,463 | 10,710 | -21% | 26,807 | 16,580 | 62% |
| Knights Landing | 24,559 | 4,145 | 493% | 52,482 | 8,045 | 552% |
| Others | 8,102 | 8,903 | -9% | 22,376 | 31,049 | -28% |
| | 88,118 | 72,627 | 21% | 249,979 | 191,841 | 30% |
| | 175,004 | 134,916 | 30% | 475,234 | 349,994 | 36% |

**Oil and Gas Prices 2005 vs. 2004**

Oil and gas prices increased 41% and 34% per Boe generating $2.8 million and $5.8 million in additional revenue for the three-month and nine-month periods ended September 30, 2005, respectively, as compared to the same periods in 2004.

*China*

We realized an average of $52.33 and $47.47 per Boe from our operations in China for the three-month and nine-month periods ended September 30, 2005, respectively, an increase of $16.28 and $14.53 per Boe which accounts for $1.4 million and $3.4 million of our increase in revenues from price increases for the three-month and nine-month periods ended September 30, 2005, respectively, as compared to the same periods in 2004.

*U.S.*

From the U.S. operations, we realized an average of $49.21 and $42.00 per Boe for the three-month and nine-month periods ended September 30, 2005, respectively, an increase of $13.02 and $8.49 which accounts for $1.4 million and $2.4 million of our increased revenues for the three-month and nine-month periods ended September 30, 2005, respectively, as compared to the same periods in 2004.

**Operating Costs 2005 vs. 2004**

For the three-month and nine-month periods ended September 30, 2005, operating costs, including production taxes and engineering support, increased $0.5 million and $1.6 million, respectively, in absolute terms from the same periods in 2004 or $0.57 and $0.54, respectively, on a per Boe basis.

*China*

Operating costs in China, including engineering support, were basically the same on a Boe basis for the three-month periods ended September 30, 2005 and 2004 and decreased 9% or $0.76 per Boe for the nine-month period

26

ended September 30, 2005, when compared to the same period in 2004. For the three-month period ended September 30, 2005, the increase in field operating costs were offset by a decrease in engineering support due to increased production from the Dagang field in relation to the level of engineering support required to operate the field. For the nine-month period ended September 30, 2005, field operating costs increased $0.76/boe due to higher power costs, permanent land fees on producing wells and increased treatment and processing costs due to higher water production rates partially offset by a reduction of well workover and maintenance costs. Additionally, engineering support decreased $1.52/Boe resulting from an increase in production from the Dagang field in relation to the level of engineering support required to operate the field.

*U.S.*

Operating costs in the U.S., including engineering support and production taxes, increased 13% or $1.51 and 15% or $1.84 per Boe for the three-month and nine-month periods ended September 30, 2005, respectively, when compared to the same periods in 2004. Field operating costs increased $1.15 and $1.65 per Boe, for the three-month and nine-month periods ended September 30, 2005, respectively, due mainly to an increase in fuel costs incurred for the increased level of cyclic and continuous steam operations at South Midway and workovers at Knights Landing. Engineering support increased $0.61 and $0.68 per Boe, respectively, due mainly to the start up of production operations at Citrus in late first quarter of 2004 and also at Knights Landing where we became the operator in December 2004. Production taxes were down $0.25 and $0.49 per Boe, respectively, due mainly to a reassessment of property values at South Midway.

Production and operating information including oil and gas revenue, operating costs and depletion, on a per Boe basis are detailed below:

| | **Three-Month Periods Ended September 30,** | | | | | |
|---|---|---|---|---|---|---|
| | | **2005** | | | **2004** | |
| | **U.S.** | **China** | **Total** | **U.S.** | **China** | **Total** |
| Net Production: | | | | | | |
| Boe | 88,118 | 86,886 | 175,004 | 72,627 | 62,289 | 134,916 |
| Boe/day for the period | 958 | 944 | 1,902 | 789 | 677 | 1,466 |
| | | Per Boe | | | Per Boe | |
| Oil and gas revenue | $ 49.21 | $ 52.33 | $ 50.76 | $ 36.19 | $ 36.05 | $ 36.13 |
| Field operating costs | 9.85 | 5.82 | 7.85 | 8.70 | 4.96 | 6.98 |
| Production taxes | 0.70 | | 0.35 | 0.95 | | 0.51 |
| Engineering support | 2.84 | 0.52 | 1.69 | 2.23 | 1.36 | 1.83 |
| | 13.39 | 6.34 | 9.89 | 11.88 | 6.32 | 9.32 |
| Net revenue before depletion | 35.82 | 45.99 | 40.87 | 24.31 | 29.73 | 26.81 |
| Depletion | 14.38 | 36.63 | 25.43 | 21.58 | 10.99 | 16.69 |
| Net Revenue from operations | $ 21.44 | $ 9.36 | $ 15.44 | $ 2.73 | $ 18.74 | $ 10.12 |

27

| | Nine-Month Periods Ended September 30, 2005 U.S. | China | Total | 2004 U.S. | China | Total |
|---|---|---|---|---|---|---|
| Net Production: | | | | | | |
| Boe | 249,979 | 225,255 | 475,234 | 191,841 | 158,153 | 349,994 |
| Boe/day for the period | 916 | 825 | 1,741 | 700 | 577 | 1,277 |
| | | Per Boe | | | Per Boe | |
| Oil and gas revenue | $ 42.00 | $ 47.47 | $ 44.59 | $ 33.51 | $ 32.94 | $ 33.25 |
| Field operating costs | 10.23 | 7.13 | 8.76 | 8.58 | 6.37 | 7.58 |
| Production taxes | 0.58 | | 0.31 | 1.07 | | 0.59 |
| Engineering support | 2.98 | 0.93 | 2.01 | 2.30 | 2.45 | 2.37 |
| | 13.79 | 8.06 | 11.08 | 11.95 | 8.82 | 10.54 |
| Net revenue before depletion | 28.21 | 39.41 | 33.51 | 21.56 | 24.12 | 22.71 |
| Depletion | 14.84 | 24.21 | 19.28 | 17.56 | 11.12 | 14.66 |
| Net revenue from operations | $ 13.37 | $ 15.20 | $ 14.23 | $ 4.00 | $ 13.00 | $ 8.05 |

**General and Administrative 2005 vs. 2004**

Our changes in general and administrative expenses, including stock based compensation expense, by segment for the three-month and nine-month periods ended September 30, 2005 when compared to the same periods for 2004 were as follows:

| (stated in thousands of U.S. Dollars) | Three-Months Ended September 30, | Nine-Months Ended September 30, |
|---|---|---|
| **General and Administrative for 2004** | $ 1,808 | $ 4,874 |
| **Favorable (unfavorable) variances:** | | |
| Oil and Gas Activities: | | |
| China | (868) | (799) |
| U.S. | (47) | (52) |
| Corporate | 312 | (603) |
| | (603) | (1,454) |
| **General and Administrative for 2005** | $ 2,411 | $ 6,328 |

General and administrative costs increased $0.6 million for the three-month period ended September 30, 2005 compared to the same period in 2004 due mainly to the write off of $0.9 million of deferred costs associated with project financing discussions with European and Chinese lending banks to provide funding for our Dagang development project which we suspended as a result of our decision to temporarily suspend the development of this field. This is partially offset by a $0.3 million reduction in professional fees to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 as we enter our second year of compliance including a reduction in insurance costs for directors and officers liability.

General and administrative costs increased $1.5 million for the nine-month period ended September 30, 2005 compared to the same period in 2004 due mainly to the write off of $0.9 million of deferred costs associated with project financing discussions for our Dagang development project and $0.6 million in professional fees incurred in the first half of 2005 to complete our first year of compliance with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002.

**Business Development 2005 vs. 2004**

Our changes in business development expenses by segment for the three-month and nine-month periods ended September 30, 2005 when compared to the same periods for 2004 were as follows:

| (stated in thousands of U.S. Dollars) | **Three-Months Ended September 30,** | **Nine-Months Ended September 30,** |
|---|---|---|
| **Business Development for 2004** | $ 457 | $ 1,156 |
| **Favorable (unfavorable) variances:** | | |
| GTL | 19 | (5) |
| EOR | (1,066) | (2,240) |
| | (1,047) | (2,245) |
| **Business Development for 2005** | $ 1,504 | $ 3,401 |

Business development expense increased by $1.0 million and $2.2 million for the three-month and nine-month periods ended September 30, 2005, respectively, when compared to the same periods in 2004 due mainly to increased activities in Egypt, Iraq and other Northern Africa and Middle East countries primarily related to EOR activities. In addition, operating expenses of the RTP™ CDF to develop and identify improvements in the application of the RTP™ Technology are a part of our business development activities and contributed $0.5 million and $0.9 to the increases in business development for the three-month and nine-month periods ended September 30, 2005.

**Depletion and Depreciation 2005 vs. 2004**

Depletion and depreciation increased $2.2 million and $4.0 million for the three-month and nine-month periods ended September 30, 2005, respectively, when compared to the same periods for 2004 primarily due to an increase in depletion rates of $8.74 and $4.62 per Boe resulting in additional depletion expense of $1.6 million and $2.2 million for the three-month and nine-month periods ended September 30, 2005, respectively. Additionally, higher production rates resulted in increases in depletion of $0.6 million and $1.8 million for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004.

*China*

In China, the $25.64 and $13.09 per Boe increases in depletion rates for the three-month and nine-month periods ended September 30, 2005, respectively, were due mainly to three factors:

As noted in our periodic report on Form 10-Q for the quarterly period ended June 30, 2005 and in related shareholder communications, as a result of the work completed in the northern blocks of the Dagang project, we stated that we were assessing our drilling program for the Dagang field, were anticipating a reduction in wells drilled in the northern blocks of the field and would be reducing our internally estimated proved reserves. In order that we may assess production decline performance of recently drilled wells, as well as maximizing cash flow from these operations, we have temporarily suspended new drilling activity. As a result, we have reduced our estimate of the overall development program and revised our internal estimate of total proved reserves downward accordingly.

In the second quarter of 2005, we impaired the cost of our first Zitong block exploration well, the Dingyuan 1, resulting in those costs and other associated costs being included with our proved properties and therefore subject to depletion.

During periods of increasing oil prices our share of proved oil reserves decreases, as fewer barrels of oil are required to recover our costs under our Dagang production-sharing contract.

*U.S.*

Depletion rates in the U.S. decreased $7.20 and $2.72 per Boe for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004. Our U.S. depletion rates were significantly higher in the third quarter of 2004 as a result of increases in the carrying costs of our evaluated U.S.

oil and gas assets primarily in Northwest Lost Hills, East Texas, Knights Landing and North South Forty as well as a decrease in estimated reserves at Knights Landing.

***Capital Investments***

The following provides an analysis of our capital investment activities for the three-month and nine-month periods ended September 30, 2005 when compared to the same periods for 2004:

| | **Three-Month Periods Ended September 30,** | | | **Nine-Month Periods Ended September 30,** | | |
|---|---|---|---|---|---|---|
| (stated in thousands of U.S. Dollars) | **2005** | **2004** | **(Increase) Decrease** | **2005** | **2004** | **(Increase) Decrease** |
| Oil and Gas Activities: | | | | | | |
| China | $ 5,860 | $ 4,480 | $ (1,380) | $ 24,111 | $ 18,632 | $ (5,479) |
| U.S. | 2,770 | 3,508 | 738 | 5,282 | 13,351 | 8,069 |
| EOR | 893 | 509 | (384) | 3,736 | 1,624 | (2,112) |
| GTL | 246 | | (246) | 977 | 66 | (911) |
| | $ 9,769 | $ 8,497 | $ (1,272) | $ 34,106 | $ 33,673 | $ (433) |

**Oil and Gas Activities China**

Our capital investment in China increased $1.4 million and $5.5 million for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004 primarily due to increased development drilling activities in Dagang.

*Dagang*

For our field development activities at Dagang we spent $5.1 million and $18.0 million, an increase of $0.8 million and $5.2 million, for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004. For the nine-month period ended September 30, 2005, we completed 3 wells drilled in 2004, drilled and completed 14 new wells, re-completed 5 existing wells and drilled three wells that are either awaiting completion or in the process of drilling as at September 30, 2005. The wells drilled in the third quarter of 2005 were in the southern blocks of the contract area.

Review of test results in our most northerly block of the Dagang field, confirmed the presence of significant faulting and poor reservoir continuity, eliminating the potential for economic development in that block. We continued our successful stimulation program in the second of the northern blocks, during the third quarter of 2005 by stimulating 4 additional wells, and we anticipate stimulating additional 2 to 3 wells in the fourth quarter of 2005. After drilling and completing 3 wells planned in the fourth quarter of 2005, we will have drilled and completed 40 wells in the Dagang field as compared to the estimated 115 wells set out in the approved Overall Development Program submitted in 2003. We have decided to suspend the current development-drilling program in the Dagang field to allow for detailed evaluation of well productivity and production decline performance. Initial rates of production have been less than expected, and unless decline rates are reduced, future drilling may not meet our profitability thresholds. Suspending our drilling operations at this time will also maximize our cash flow from current production from the Dagang field of approximately $1 million per month before development drilling costs.

*Zitong*

Our capital investment on our Zitong block increased $0.6 million and $0.3 million during the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004. We spent $5.9 million in the first nine months of 2004 for 540 miles of new seismic data. For the nine-month period ended September 30, 2005, we spent $3.2 million to acquire the remaining 160 miles of our 700 mile acquisition program, to complete interpretation work and $2.9 million to drill our first well, Dingyuan 1. The well was not commercially viable and cement plugs were set that will allow us to use the surface location and re-enter the well bore for a potential directional hole. On October 20, 2005, we requested an extension of Phase 1 of the Zitong block exploration program, which expires December 1, 2005 to assess our election to proceed into Phase 2 as further review and mapping of our seismic data is necessary. In addition, we are in active discussion with two potential partners who have indicated an interest in participating in the Zitong block exploration program. We expect to receive the extension by the end of 2005 and are planning to drill a second Phase 1 exploration well with our partner(s) upon receipt of such extension after which an election would be made as to our decision to enter into Phase 2. If an extension were not granted, we could elect not to enter Phase 2 and would be required to pay CNPC, within 30 days after our election, a cash equivalent of the deficiency in the work program estimated at $4.3 million as at September 30, 2005. If we did not elect to enter Phase 2, the aggregate costs related to the Zitong block in the approximate amount of $13.2 million, including the $4.3 million cash requirement, would be included in the depletable base of the China full cost pool and would be subject to the ceiling test. This could result in a ceiling test impairment related to the China full cost pool in an amount which is not determinable at this time. We have a 100% working interest in the Zitong block**.**

**Oil and Gas Activities U.S.**

Capital investment in the U.S. was down $0.7 million and $8.1 million for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004.

The decrease for the three-month period ended September 30, 2005 was due mainly to a $2.6 million reduction in our development activities at our Citrus field as we completed drilling of Citrus #2 and #3 in the third quarter of 2004. These decreases are partially offset by a $1.9 million increase in capital investments related to drilling activities at LAK Ranch in Wyoming and Northwest Lost Hills, South Midway, North Salt Creek, Peach and other California exploration prospects during the third quarter of 2005.

The decrease for the nine-month period ended September 30, 2005 was due mainly to a $9.1 million reduction in our development activities in the Knights Landing and Citrus fields, compared to the same period in 2004, in addition to a $0.7 million net reduction in exploration drilling in our other California exploration prospects. These decreases were partially offset by a $1.7 million increase in capital investments related to drilling activities at Northwest Lost Hills, North Salt Creek and Peach during the first three quarters of 2005.

*Knights Landing*

Our development activities at Knights Landing decreased $3.9 million for the nine-month period ended September 30, 2005 compared to the same period in 2004. In February 2004, we farmed into the Knights Landing gas field, which is located in the Sutter and Yolo counties, in northern California. Subsequent to the construction of gas gathering, surface treatment facilities and meters to connect 4 commercial wells to an existing pipeline system in the first quarter of 2004 we drilled 9 wells during the second and third quarters of 2004. Three of these new wells were successful and by April 2005 had been tied into the existing pipeline system and were on production. Due to weather and scheduling delays our 3-D seismic acquisition program was delayed until the fourth quarter of 2005. The seismic surveying is 50% complete and drilling of shot holes has begun. The seismic shoot should start by the end of November 2005 and be completed by the end of 2005. Drilling activities in Knights Landing will recommence after interpretation of the 3-D seismic in 2006**.**

*Citrus*

Our development activities at Citrus decreased $2.6 million and $5.1 million for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004. We completed the drilling of three Citrus wells in the first six months of 2004 with Citrus # 2 and Citrus #3 being completed and placed on production in the third quarter of 2004. We have not drilled any additional wells at Citrus in 2005 but we concluded negotiations for a farm-out agreement to drill three undeveloped blocks in Citrus covering approximately 1,920 gross acres. Plans are to spud the first well prior to the end of 2005 that will extend expiring leases. We have an average of a 92% working interest in approximately 3,400 developed and undeveloped gross acres at Citrus.

*South Midway*

Our development activities at South Midway decreased $0.4 million for the nine-month period ended September 30, 2005 compared to the same period in 2004. We drilled one successful delineation well and two temperature observation wells in the second quarter of 2005. Additionally, we drilled one successful exploration well adjacent to the primary area of South Midway in the third quarter of 2005. Plans are underway to steam this discovery well to stimulate production. This compares to six delineation wells and one exploratory well drilled in the first nine months of 2004, which resulted in the completion of four producing oil wells.

*Northwest Lost Hills*

In August 2005, we concluded a farm-out of 1/3rd of our working interest to Aera Energy LLC ( **Aera** ) to complete and test the Northwest Lost Hills # 1-22 deep gas well. This well was drilled to a depth of approximately 20,000 feet in August 2002 and was designed to fully evaluate the natural gas and condensate reserve potential of the deep Temblor formation. While drilling the well, we encountered several high-pressure intervals, which indicated the presence of natural gas, and decided to set liner to 19,620 feet in preparation for testing. In 2003, the well was temporarily abandoned pending the identification of one or more partners to share the costs of the testing program currently estimated at $7.7 million. Our share of completion equipment, of approximately $1.0 million, previously purchased by the joint venture partners will be used in the completion and testing of the well. The rig is on location and work has commenced to re-enter and test the well. The current operation is running 4 1/2-inch liner over the open hole to a depth of 21,000 feet. Testing of the well should commence in late November 2005 and is expected to be completed before the end of 2005. We will retain a 28% working interest in the Northwest Lost Hills # 1-22 well and the block.

*LAK Ranch*

Our development activities at LAK Ranch increased $0.4 million for the three-month period ended September 30, 2005 with no change in spending for the nine-month period ended September 30, 2005 compared to the same periods in 2004. We drilled one vertical well in the first quarter of 2005 for data collection purposes and completed the interpretation of our ultra-high resolution 3-D seismic program. We drilled three steam injection wells in the third quarter of 2005 to provide continuous steam injection above the existing horizontal wells. We commenced continuous steaming operations in the fourth quarter of 2005 and initial oil production has increased in response. Profiles of steam through the pay section will be measured as part of the evaluation of the effectiveness of the process, with volumes and quality of steam monitored and adjusted as necessary. Production improvements will be monitored over the next several months. We currently have a 42% working interest at LAK Ranch.

*North Salt Creek*

We spent $0.1 million and $0.3 million for the three-month and nine-month periods ended September 30, 2005, respectively, to drill a discovery natural gas well and build a pipeline at our North Salt Creek prospect. The prospect is located at the north end of the Cymric Oil Field in the San Joaquin Basin of California. The 2,500-foot North Salt Creek well tested in the Fitzgerald sand and encountered oil and gas bearing horizons in the Diatomite and Etchegoin formations. Natural gas sales commenced September 1, 2005 and the well is currently producing 1,000 Mcf/day. We plan to drill two offset wells to this discovery during the fourth quarter of 2005 depending on rig availability. We are the operator of the well and own a 24% working interest in the well and the prospect.

*Peach*

During the first quarter of 2005, we discovered natural gas at our Peach prospect in the North Antelope Hills area in Kern County, California. The prospect is in a major hydrocarbon-producing region along the west side of the San Joaquin Basin. We farmed-out part of our Peach prospect in November 2004 for 100% of the drilling costs of the first Peach well, Peach # 1, to earn a 50% interest in the prospect. We will retain a 50% interest in this well after payout and will retain a 50% working interest in the prospect. We spent $0.1 million and $0.6 million for the three-month and nine-month periods ended September 30, 2005, respectively, to drill an appraisal well which was drilled to a depth of 4,950 feet and encountered gas shows while drilling. The testing of the appraisal well was unsuccessful and will be abandoned. Construction of a pipeline to sell gas from the Peach #1 well is underway.

*Other California Exploration*

Our exploration activities in California increased $0.2 million for the three-month period ended September 30, 2005 and decreased $0.7 million for the nine-month period ended September 30, 2005 compared to the same periods in 2004. We spent $0.3 million in the third quarter of 2005 to drill an unsuccessful exploration well at Kings River in northern California. This was partially offset by a $0.1 million decrease in exploration and development activities in our Sledge Hamar prospect, which we sold in the fourth quarter of 2004, and unsuccessful wells at the McCloud River and Pistachio prospects. For the nine-month period ended September 30, 2005, our spending decreased $1.0 million for exploration and development activities at Sledge Hamar, McCloud River and Pistachio, partially offset by the $0.3 million exploration well drilled at Kings River.

**Enhanced Oil Recovery and Heavy Oil Processing Activities**

We incurred $0.4 and $2.1 million more in capital investment activities on EOR and RTP™ projects for the three-month and nine-month periods ended September 30, 2005, respectively, when compared to the same periods in 2004.

*Iraq*

In Iraq, we continue to further our study of the Qaiyarah heavy oil field which resulted in increases in capital investments of $0.5 million and $1.3 million for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004. The field s reservoirs contain a large proven accumulation of 16-17º API heavy oil at a depth of approximately 1,000 feet. Our studies include the potential response of the Qaiyarah heavy oil field to the latest in EOR techniques, along with the potential value that could be added using the RTP™ Technology to produce higher quality, more valuable crude oil as well as providing steam for EOR and/or power generation. Reservoir characterization work was completed during the third quarter of 2005 and engineering analysis and preliminary development planning is progressing.

The Qaiyarah capital investment increases were offset by a reduction in spending of $0.3 million and $0.5 million for the three-month and nine-month periods ended September 30, 2005, respectively, on other Iraq projects including for engineering, design and procurement contract bids submitted in 2004, which are currently being considered by the Iraqi government. During 2005, we prepared and submitted a commercial and technical proposal for the development of the Kormor gas field. Following meetings with representatives of the Iraq Ministry of Oil in September 2005 we provided clarification on our bid and submitted a revised commercial and technical proposal for their consideration**.**

*Colombia*

Our capital investments increased $0.3 million for the nine-month period ended September 30, 2005 compared to the same period in 2004 to complete our MOU with Ecopetrol for the study of heavy crudes from the large Castilla and Chichimene oil fields. We did not meet the company-size requirements that Ecopetrol specified in their final bidding qualifications for the Llanos Basin Heavy Crude Project , which includes the Castilla and Chichimene field developments and wrote down our $0.3 million investment in this project in the third quarter of 2005. We are, however, reviewing the potential for other EOR heavy oil upgrading opportunities in Colombia.

*RTPTMCDF*

In 2004, an RTPTM CDF was constructed on Aera s property in the Belridge Field for the purpose of demonstrating the RTPTM Technology on a commercial scale. Aera provides heavy crude oil for testing the RTPTM CDF and in return receives upgraded oil product including the results from testing the RTPTM CDF. Additionally, Aera will be provided steam produced by Company owned RTPTM facilities installed in the State of California at a price equal to the lowest price charged to other customers. In March 2005, the performance testing of the RTP CDF was completed successfully and the results of the test were verified by the independent consulting firms Muse, Stancil & Co. and Purvin & Gertz Inc. The RTP CDF demonstrated an overall processing capacity of approximately 1,000 barrels-per-day of raw, heavy oil and a hot section capacity of 300 barrels-per-day. This successful test of the RTP CDF and verification of the liquid product quality, volume yield and by-product energy by Muse Stancil & Co. facilitated the completion of the Merger between Ivanhoe and Ensyn (now IE HTL) in April 2005. We incurred $0.2 million and $0.9 million for the three-month and nine-month periods ended September 30, 2005, respectively, for modifications to the RTPTM CDF and for a preliminary design package prepared by Colt Engineering Corporation for a 15,000 barrels-per-day feed of raw, heavy oil (5,000 barrels per day hot-section) commercial RTP facility ( **RTP Unit** ). We continue to run critical tests on target crudes at the RTP CDF to develop data required for the design of an RTPTM Unit.

*RTPTMTechnology*

In August 2004, IE HTL and Aera signed an agreement that set out the financial and operational parameters for a commercial heavy oil project using the RTP Technology in Aera s California heavy oil fields. We continue negotiations for a definitive agreement to build an RTPTM Unit that would yield upgraded, heavy oil and excess thermal energy. The excess thermal energy from this RTPTM Unit would provide Aera an alternative to volatile natural gas prices and thereby lower Aera s operating expense associated with steam generation, the most significant component of their operating expense. The RTPTM Unit, if completed, will be owned and operated by IE HTL. Additional RTPTM Units, with a combined heavy oil throughput of up to 45,000 barrels per day, may be located on Aera s properties if the performance of the initial RTPTM Unit meets expectations. Aera, a California limited liability company owned by affiliates of Shell and ExxonMobil, is one of California s leading oil producers with approximately 250,000 barrels per day of oil production.

Under a preexisting agreement between IE HTL and ConocoPhillips Canada, certain non-exclusive rights to use the RTP Technology for petroleum applications in Canada were granted. ConocoPhillips Canada has the right, through August 2010, to place orders for RTP Units with input capacity of up to 250,000 barrels-per-day. Should ConocoPhillips Canada install RTP Units, IE HTL is entitled to receive royalties per barrel after the first 50,000 barrels-per day of feedstock input capacity.

We intend to apply the leading-edge RTPTM Technology to upgrade heavy oil in facilities located in the field to produce lighter, more valuable crude oil at lower costs and in smaller size facilities than required by conventional technologies. The upgraded heavy oil, similar to less viscous conventional light crude oil, brings a higher price and can be easily transported. In addition to a dramatic improvement in oil quality, an RTPTM Unit can yield large amounts of surplus energy for producing steam and electricity used in heavy-oil production. The thermal energy from the process provides heavy-oil producers with an alternative to high-priced natural gas that now is widely used to generate steam. The RTPTM Technology offers an excellent opportunity to improve the economics in mature heavy oil fields and also enables the development of stranded heavy oil deposits.

**Gas-To-Liquids Activities**

We spent $0.2 and $1.0 million more in capital investment activities on GTL projects for the three-month and nine-month periods ended September 30, 2005, respectively, compared to the same periods in 2004.

*Egypt*

We signed a memorandum of understanding with Egyptian Natural Gas Holding Company ( **EGAS** ), the state organization charged with the management of Egypt s natural gas resources, to prepare a feasibility study to construct and operate a GTL plant that would convert natural gas to ultra-clean liquid fuels in Egypt. EGAS has agreed to commit up to 4.2 trillion cubic feet of natural gas, or approximately 600 million cubic feet per day for the anticipated 20-year operating life of the proposed project, if the study indicates that a GTL project is economically feasible. We commenced the engineering design of a GTL plant to incorporate the latest advances in the GTL technology. We are also is in the process of obtaining an updated market analysis for GTL products to reflect changes since the original evaluation was completed several years ago. Plant capacity options of 45,000 and 90,000 barrels per day will be evaluated. If the feasibility study indicates that a GTL plant is economically viable the parties will enter into negotiations for a definitive agreement for the development of a project.

*Mongolia*

We have prepared an engineering feasibility study for the application of the Syntroleum Fischer Tropsch process to a coal-to-liquids ( **CTL** ) project in southern Mongolia. We have completed a marketing study for CTL products to be sold in northern and eastern China and will be presenting economics and a proposal to the private owner of the coal deposit.

*Bolivia*

As a result of our on-going evaluation of our GTL investments, $0.3 million of our investments were written down for the nine-month period ended September 30, 2005 related to our GTL project in Bolivia due to the impact that political and fiscal uncertainty in Bolivia could have on the viability of a GTL plant.

***Liquidity and Capital Resources***

**Sources and Uses of Cash**

Our net cash and cash equivalents increased for the three-month period ended September 30, 2005 by $0.1 million compared to a decrease of $11.8 million for the same period in 2004. Our net cash and cash equivalents decreased for the nine-month period ended September 30, 2005 by $5.5 million compared to an increase of $4.1 million for the same period in 2004. We incurred a net loss of $4.6 million for the nine-month period ended September 30, 2005, and, as at September 30, 2005 had an accumulated deficit of $86.4 million and negative working capital of $17.2 million.

*Operating Activities*

Our operating activities provided $2.5 million in cash for the three-month period ended September 30, 2005 compared to a use of cash by operating activities of $0.2 million for the same period in 2004. Our operating activities provided $5.1 million in cash for the nine-month period ended September 30, 2005 compared to $1.1 million for the same period in 2004.The increases in cash from operating activities for the three-month and nine-month periods ended September 30, 2005 are mainly due to increases in net production volumes of 30% and 36%, respectively, and increases in oil and gas prices of 41% and 44%, respectively, when compared to the same periods in 2004. The increases in net revenues for the three-month and nine-month periods ended September 30, 2005 were partially offset by increases of $0.6 million and $2.3 million, respectively, in general and administrative expenses, excluding stock based compensation, and business development expenses compared to the same periods for 2004.

*Investing Activities*

Our investing activities used $8.8 million in cash for the three-month period ended September 30, 2005 compared to $13.6 million for the comparable period in 2004 for a $4.8 million decrease in cash used in investing activities. Although our capital investing increased by $1.3 million for the third quarter of 2005, our working capital for investing activities decreased $5.6 million due mainly to an increase in our level of accounts payable and accrued liabilities associated with our capital investments. Additionally, we spent $0.4 million less on Merger related activities in the third quarter of 2005. For the nine-month period ended September 30, 2005, our investing activities used $35.6 million in cash compared to a use of $22.9 million for the comparable period in 2004 for a $12.7 million increase in cash used in investing activities. This increase is primarily due to a $13.5 million reduction in proceeds from assets sold in 2004 and an increase of $8.6 million of cash used in Merger related activities. This is partially offset by a net decrease of $9.4 million in cash used for capital investments as our level of accounts payable and accrued liabilities associated with our capital investments have increased.

*Financing Activities*

Our financing activities provided $6.4 million in cash for the three-month period ended September 30, 2005 compared to $2.0 million of cash for the comparable period in 2004. The $4.4 million increase in cash from financing activities is mainly due to a $6.6 million increase in cash from private placements and exercises of warrants and options less $2.2 million net decrease in debt financing and other related activities. For the nine-month period ended September 30, 2005, our financing activities provided $24.9 million in cash compared to $25.8 million for the comparable period in 2004. The $0.9 million decrease in cash from financing activities is due mainly to a $3.4 million reduction in cash from private placements and exercises of warrants and options partially offset by a $2.5 million increase in cash from debt financing and other related activities.

In November 2005, the Company closed a special warrant financing by way of private placement for $15.75 million. The financing consisted of 7,208,599 special warrants issued for cash and 2,453,988 issued for the repayment of convertible loans, both at U.S. $1.63 per special warrant. Each special warrant entitles the holder to receive, at no additional cost, one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of U.S. $2.50 per share until the second anniversary date of the closing. Further information on this financing is contained in Note 15 to the consolidated financial statements.

| | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| (stated in thousands of U.S. Dollars) | **2005** | **2004** | **2005** | **2004** |
| **Cash flow from operating activities** | $ 2,500 | $ (200) | $ 5,125 | $ 1,134 |
| **Investing Activities** | | | | |
| Capital investments, after changes in non-cash working capital | (8,705) | (13,056) | (23,730) | (33,101) |
| Merger, net of working capital | (117) | | (10,096) | |
| Equity investment and Merger related costs | | (653) | (1,687) | (3,153) |
| Proceeds from sale of assets | | | | 13,458 |
| Other | (6) | 108 | (60) | (72) |
| | (8,828) | (13,601) | (35,573) | (22,868) |
| **Financing Activities** | | | | |
| Proceeds from private placements, net of all share issue costs | 2,399 | | 12,459 | 20,428 |
| Proceeds from exercise of options and warrants | 4,504 | 289 | 6,229 | 1,664 |
| Net debt financing | (417) | 1,722 | 6,750 | 3,722 |
| Other | (86) | | (512) | |
| | 6,400 | 2,011 | 24,926 | 25,814 |

| | | | | |
|---|---|---|---|---|
| **Net Source (Use) of Cash** | $ 72 | $ (11,790) | $ (5,522) | $ 4,080 |

**Outlook**

We continue to focus our efforts on the commercial implementation of the heavy oil upgrading process we acquired last quarter. The Company is continuing discussions with a number of heavy oil resource owners and others for the potential commercial deployment of the RTP heavy oil upgrading technology in heavy oil fields around the world. These discussions are at various stages and contemplate a number of different contract formats, including potential production sharing, profit sharing or other joint venture arrangements. These projects would benefit significantly from the value added by our proprietary technology.

36

Our capital investments for the first nine months of 2005 were $34.1 million and our outlook for the remainder of 2005 is approximately $8.6 million. This compares to a budget of $60.9 million and $18.1 million for the same periods, respectively. The reduction in capital investments of $36.3 million for all of 2005 is due mainly to a reduction in our drilling program in Dagang and our plans to seek a farm-out partner for the second well at Zitong. Additionally, drilling at Knights Landing budgeted for 2005 has been delayed until after the completion of our planned acquisition and interpretation of 3-D seismic data by the end of the fourth quarter of 2005 and at Citrus until after we have evaluated performance of the current producing wells in an effort to improve production levels. We plan to seek financing on an as needed basis, from equity markets, project lenders, joint ventures or other potential financing sources to pursue our 2005 and 2006 capital investment program, acquisitions of proven and probable reserves and to deploy our HTL and GTL technologies. Although we have suspended our current discussions with European and Chinese lending banks to provide funding for the development of the Dagang field, this operation, excluding drilling costs, generates a positive cash flow of approximately $1 million per month and will provide a reasonable basis for resuming borrowing discussions with existing or different lenders.

In October 2003, we filed a base shelf prospectus with Canadian securities regulatory authorities and a shelf registration statement with the U.S. Securities and Exchange Commission to qualify for potential future sale in Canada and the U.S. up to $100 million of various types of securities, including common shares, preferred shares, warrants and debt securities. These shelf filings, which expire in November 2005 but which may be renewed, are expected to give us greater flexibility to fund our expansion and capital programs and will allow us to take advantage of a broader range of financing opportunities on a timelier basis. A combination of such equity financing, as well as convertible loan, debt and mezzanine financing and joint venture partner participation, will be required to complete our future capital programs.

We incurred a net loss of $4.6 million for the nine-month period ended September 30, 2005, and, as at September 30, 2005, had an accumulated deficit of $86.4 million and negative working capital of $17.2 million. We expect to incur substantial expenditures to further our capital investment programs and our cash flow from operating activities will not be sufficient to satisfy our current obligations and meet our capital investment objectives. Our plans include sale of additional equity securities, alliances or other partnership agreements with entities with the resources to support our projects as well as convertible loan, debt and mezzanine financing in order to generate sufficient resources to assure continuation of our operations and achieve our capital investment objectives. We are continuing active negotiation with a third party for the formation of a joint venture for the deployment, in a specific region of the world, of the GTL and RTP technologies we license or own. The transaction that is being discussed would, if consummated, include a potentially significant equity investment in the Company by the third party. No assurances can be given that we and the third party with whom we are presently negotiating will successfully conclude this potential transaction nor that we will be able to raise additional capital or enter into one or more alternative business alliances with other parties if this potential transaction is not successfully concluded. If we are unable to obtain adequate additional financing or enter into such business alliances, we will be required to sharply curtail our operations, which may include the sale of assets.

**Contractual Obligations**

The table below summarizes the contractual obligations that are reflected in our Unaudited Condensed Consolidated Balance Sheet as at September 30, 2005 and/or disclosed in the accompanying Notes:

| | | | | | | |
|---|---|---|---|---|---|---|
| | | **Payments Due by Year** (stated in thousands of U.S. dollars) | | | | |
| | **Total** | **2005** | **2006** | **2007** | **2008** | **After 2008** |
| Purchase Agreement: | $ 100 | $ | $ 100 | $ | $ | $ |
| Consolidated Balance Sheets: | | | | | | |
| Note payable current portion *(Note 9)* | 1,667 | 417 | 1,250 | | | |
| Long term debt *(Note 9)* | 1,389 | | 417 | 972 | | |
| Convertible loans *(Note 10)* | 8,000 | 8,000 | | | | |
| Other Commitments: | | | | | | |
| Interest payable | 791 | 648 | 122 | 21 | | |
| Lease commitments | 2,182 | 154 | 649 | 477 | 375 | 527 |
| Zitong exploration commitment *(Note 14)* | 4,300 | 4,300 | | | | |
| Contingent obligation *(Note 14)* | 1,900 | | 1,900 | | | |
| Total | $ 20,329 | $ 13,519 | $ 4,438 | $ 1,470 | $ 375 | $ 527 |

**Off Balance Sheet Arrangements**
As at September 30, 2005 and December 31, 2004, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have relationships and transactions with persons or entities that derive benefits from their non-independent relationship with us, or our related parties, except as disclosed herein.

**Outstanding Share Data**
As at November 1, 2005, there were 208,583,005 common shares of the Company issued and outstanding. Additionally, the Company had 11,272,414 common share purchase warrants outstanding and exercisable to purchase 7,686,207 common shares and 1,000,000 special warrants issued by way of a private placement on July 7, 2005 at a price of Cdn.$3.10 per special warrant. Each of these special warrants is exercisable to acquire, for no additional consideration, one common share and one common share purchase warrant, which is exercisable to purchase one common share at a price of Cdn.$ 3.50 until July 7, 2007. As at November 1, 2005, there were 10,382,468 incentive stock options outstanding to purchase the Company s common shares.

**Quarterly Financial Data In Accordance With Canadian and U.S. GAAP (Unaudited)**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **QUARTER ENDED** | | | | | | | |
| | **2005** | | | **2004** | | | | **2003** |
| | **3rd Qtr** | **2nd Qtr** | **1st Qtr** | **4th Qtr** | **3rd Qtr** | **2nd Qtr** | **1st Qtr** | **4th Qtr** |
| Total revenue | $8,907 | $6,645 | $5,736 | $ 6,212 | $4,932 | $3,521 | $3,332 | $ 2,330 |
| Net loss | | | | | | | | |
| Canadian GAAP | $2,113 | $1,031 | $1,483 | $17,184 | $ 951 | $1,298 | $1,292 | $23,154 |
| U.S. GAAP | $1,843 | $1,564 | $3,008 | $15,736 | $ 980 | $1,510 | $1,470 | $23,270 |
| Net loss per share | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.09 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.15 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Canadian GAAP | | | | | | | | |
| U.S. GAAP | $ 0.01 | $ 0.01 | $ 0.02 | $ 0.09 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.15 |

The 2003 quarterly earnings for Canadian GAAP have been restated to give effect to the retroactive application of CICA Section 3870 Stock Based Compensation and Other Stock Based Payments , which is more fully described in Note 2 under Stock Based Compensation in the Company s 2004 Annual Report on Form 10-K. The net losses in the fourth quarter of 2004, for Canadian and U.S. GAAP, were primarily due to impairment provisions of $16.3 million and $15.0 million, respectively, for U.S. oil and gas properties. The net losses in the fourth quarter of 2003, for Canadian and U.S. GAAP, were primarily due to an impairment provision of $20.0 million for U.S. oil and gas properties. The differences in the net loss and net loss per share for the first quarter of 2005 were due mainly to GTL and EOR investments, which are capitalized for Canadian GAAP but expensed as

38

incurred for U.S. GAAP.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

No material changes since December 31, 2004.

**Item 4. Controls and Procedures**

The Company s management, including our Chief Executive Officer 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 September 30, 2005. Based upon this evaluation, management concluded that these controls and procedures were (1) designed to ensure that material information relating to the Company is made known to the Company s Chief Executive Officer and Chief Financial Officer and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined under Rule 13a-15(f) under the Securities Exchange Act of 1934. During the fiscal 2004 implementation of Section 404 of the Sarbanes-Oxley Act of 2002, management identified two material weaknesses in the Company s internal control over financial reporting (this section of Item 4. Controls and Procedures should be read in conjunction with Item 9A. Controls and Procedures, included in the Company s Annual Report filed on Form 10-K for the fiscal year ended December 31, 2004 and as amended on Form 10-K/A filed on May 2, 2005).

**Part II Other Information**

**Item 1. Legal Proceedings: None**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds: None**

**Item 3. Defaults Upon Senior Securities: None**

**Item 4. Submission of Matters To a Vote of Securityholders: None**

**Item 5. Other Information: None**

**Item 6. Exhibits**

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 31.1 | Certification by the Chief Executive Officer 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 Chief Executive Officer 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 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

IVANHOE ENERGY INC.
By: /s/ W. Gordon Lancaster
Name: W. Gordon Lancaster
Title: Chief Financial Officer
Dated: November 7, 2005

40

**INDEX TO EXHIBITS**

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