IVANHOE ENERGY

Letter to Shareholders

Dear Fellow Shareholders,

Ivanhoe Energy's goal continues to be the pursuit of long-term growth in our oil and gas production and reserve base. Our strategy is to accomplish this through the application of our key proprietary heavy oil upgrading technology (HTL) to book reserves, along with state-of-the-art drilling and enhanced oil recovery (EOR) techniques and the conversion of natural gas to liquids (GTL).

This past year was one of significant accomplishment for us, with the acquisition of Ensyn Group Inc. and its proprietary heavy oil upgrading technology in the second quarter of 2005. We consider the acquisition of this technology to be a major advance in the implementation of our corporate strategy. We see a clear worldwide need for this technology and it provides us with significant opportunities to broaden our access to projects that might not otherwise be available to us. We believe that the value of this technology can be maximized by using it to enter into agreements to acquire oil reserves and actively participate in heavy oil development projects by building and owning the projects rather than licensing the technology to third parties.

In 2005, we made considerable progress in our business development efforts for the application of this technology. We have been assembling an excellent implementation team of experienced heavy oil experts and engineers to run our heavy oil upgrading business. We have also been negotiating specific projects, while at the same time maintaining focus on the attainment of performance goals at the Commercial Demonstration Facility (CDF) in California. Once the final commercial test phase is complete, we expect to finalize negotiations with heavy oil resource owners and move forward with oil field development plans, which will include heavy oil upgrading.

During 2005 we were engaged in the normal commissioning process for a new processing facility, and also completed a number of enhancements to the CDF in order to proceed with the commercialization phase of this breakthrough technology. In early 2006 we achieved important performance goals at the CDF, which were key milestones required before proceeding with site-specific design and engineering of full commercial 10,000 to 15,000 barrel per day heavy oil upgrading plants.

Our newly acquired heavy oil upgrading technology produces lighter, more valuable crude oil at lower costs and in smaller-sized plants than conventional technologies. It addresses the four key challenges to heavy oil development:

- the facilities can be field-located and cost-effective at a scale as low as 10,000 to15,000 barrels-per-day, which can be installed in multiple units if higher capacity is required;
- the value of the upgraded heavy oil is substantially increased;

- the viscosity of the upgraded product is dramatically reduced, allowing it to be transported by pipeline without the need for light blend oils; and
- significant amounts of by-product energy are produced, as an on-site source for the production of the steam and/or power used in heavy oil recovery.

Our heavy oil upgrading technology provides significant incremental value, flexibility and risk avoidance to heavy oil and bitumen producers. The technology can be applied in areas with existing infrastructure, such as California and Western Canada. It is also a unique option for the development of “stranded” heavy oil or tar sands deposits that cannot be produced due to lack of on-site energy, such as natural gas to make steam, or transportation challenges when the oil is too heavy to flow. We have seen a number of examples of these stranded assets in South America, North Africa and the Middle East. We believe that the innovative characteristics of our “Heavy-To-Light” oil process will provide us with an opportunity to significantly increase our base of oil reserves worldwide through joint venture and production sharing arrangements.

Operating Results

Our revenues continued to grow in 2005, rising 66% over 2004, following an 86% increase in 2004. Our production volumes were up 26% in 2005 in the United States and China to an average of 1,738 net barrels of oil equivalent per day, following a 41% increase in 2004, and we were also helped by continuing record high oil prices. We again met our goal of achieving positive cash flow from operations, with cash flow from operations more than doubling in 2005 to $9.4 million, after reporting $4 million for 2004. Our operating cash flow covers our day-to-day expenses, as well as the offices that we maintain around the world, our senior level consulting staff and the cost of our business development activities.

Our net loss in 2005 was reduced from our 2004 and 2003 losses; however our relatively modest production compared to the significant cash need for our very extensive business and product development activities, higher depletion, and the $5 million impairment of our Dagang oil project in China, resulted in a loss for the year of $13.5 million. This compares to a loss of $20.7 million in 2004 and $30.2 million in 2003.

We closed three special warrant financings and generated funds from the exercise of stock options and common share purchase warrants in 2005 for net proceeds of $26.7 million and $6.2 million respectively. These funds, combined with the cash flow of $9.4 million generated by our operations and $8 million of new debt obligations, were sufficient to fund our investing activities for the year, including the $10 million cash portion of the Ensyn acquisition.

Outlook

The most significant element in our strategy of building oil and gas production and reserves is the application of our heavy oil upgrading technology to developed and undeveloped heavy oil fields. Our most valuable assets are this patented technology and our people with their technical experience and long records of accomplishment. We are becoming increasingly confident in the technology’s ability to launch us to the forefront of heavy oil development and have laid the foundation for commercial implementation.

We made significant strides in our business development efforts and in the attainment of various performance goals at the CDF in 2005. During 2006, our priority is to build on the positive test results achieved at the CDF and to work towards the establishment of partnerships with owners of heavy oil reserves to build and operate a commercial heavy oil upgrading facility.

In addition, we will continue to develop our existing fields and undertake low-risk exploration activities in order to increase production with a view to meeting our goal of funding our ongoing operations and business development, before capital expenditures. Our capital investment budget for 2006 is $37.4 million, which includes the continued advancement of our technologies and development of business initiatives around the world and development of our producing fields, with further modest exploration in the U.S. and China.

We plan to seek financing as needed from equity markets, project lenders, joint ventures or other potential financing sources to complete our 2006 capital investment program, to pursue acquisitions of proven and probable reserves and to deploy our HTL and GTL technologies. In addition, we plan to complete the merger of our China subsidiary with a U.S. public corporation, resulting in a stand-alone entity, which will have enhanced cash flow, new capital and a financing platform to independently grow our oil and gas operations in China.

The opportunities that we see before us, particularly in the development of heavy oil, are tremendous. We are making excellent progress on the testing of our technology and are organizing our company around the pursuit of significant heavy oil projects. We appreciate the ongoing support of our shareholders as we bring this exciting new technology to the industry.

Sincerely,

David Martin
Chairman of the Board

Leon Daniel
President and Chief Executive Officer

March 24, 2006