

Ivanhoe Energy's Sunwing subsidiary to develop prospective oil and gas exploration block in central Mongolia in a major expansion of Asia-focused interests

Block XVI in Nyalga Basin has significant exploration potential, with rail and road access to Mongolian and export markets

ULAANBAATAR, MONGOLIA — Ivanhoe Energy Inc. (TSX: IE; NASDAQ: IVAN) announced today that an Ivanhoe subsidiary will merge with PanAsian Petroleum Inc., which holds oil and gas exploration and production rights to a large, highly prospective block in central Mongolia.

Ivanhoe Energy intends to combine PanAsian's Mongolian interests with Sunwing Energy Ltd., Ivanhoe's 100%-owned subsidiary for oil and gas operations in Asia, as Sunwing Energy contemplates a listing on a major Asian stock exchange.

PanAsian Petroleum is a private company based in Alberta, Canada. The company's key asset is a production-sharing contract — held through subsidiary PanAsian Energy Ltd. — with the Petroleum Authority of Mongolia, a state agency. The contract provides PanAsian Energy with the exclusive right to explore, develop and produce oil or gas within Block XVI in Mongolia's Nyalga Basin. Block XVI, covering 16,839 square kilometres, contains four significant sub-basins and is approximately 100 kilometres southeast of the capital, Ulaanbaatar. The Trans-Mongolian Railway, linking railway networks and markets in Russia, to the north, and China, to the south, runs through the western end of Block XVI, closely following Mongolia's main north-south highway.

The target on Block XVI is light oil, consistent with discoveries by Petrochina and Sinopec in Mongolia and other similar discoveries in China's adjacent Inner Mongolia region.

The PanAsian merger transaction will involve the issuance of up to three million shares of Ivanhoe Energy's common stock. It will not involve the payment of any cash to PanAsian's principals. PanAsian Energy's corporate structure and its contractual relationship with the Petroleum Authority of Mongolia will not be altered by the merger.

An “exceptional opportunity for Ivanhoe and Sunwing”

The merger transaction coincides with sharply increasing interest by foreign investors in Mongolia's petroleum sector, fuelled by recent oil discoveries and landmark foreign-investment agreements in Mongolia's broader resource sector. Major investment agreements have been concluded recently by Ivanhoe Mines, and its partner, Rio Tinto, for the multi-billion-dollar development of Ivanhoe Mines' Oyu Tolgoi copper-gold complex in southern Mongolia, and also by SouthGobi Energy Resources, Ivanhoe Mines' 79%-owned listed subsidiary, which is exporting coal to China from its Ovoot Tolgoi Mine and is developing additional discoveries in Mongolia's South Gobi Region.

“This is an exceptional opportunity for Ivanhoe and Sunwing,” said A. Robert Abboud, Ivanhoe Energy’s Co-Chairman.

“Mongolia’s vast sedimentary basins have been significantly underexplored and Block XVI, in particular, has been identified as offering highly prospective development potential,” he added.

“Mongolia represents ideal growth potential for Sunwing Energy, whose Asian capabilities constitute a core competency that Ivanhoe Energy intends to build on to develop a major, Asia-focused oil and gas business with the resources and support to secure a public-market listing on a major Asian stock exchange. This is consistent with our declared policy of establishing self-financing regional subsidiaries and, when appropriate, encouraging these entities to seek independent public-market listings.”

Sunwing has a 15-year history of oil and gas exploration and production in China and has signed three production-sharing agreements with Petrochina. Sunwing currently produces approximately 1,800 barrels of light oil per day in Dagang, in China’s Hebei province, in a production-sharing agreement with Petrochina in which Sunwing is the operator. In addition, Sunwing is the operator in a gas exploration block in Zitong, in Sichuan province, with its 10% partner, Mitsubishi Gas Chemical Company.

“Our objective is to develop additional sources of petroleum supply to permit Mongolia to become more self-sufficient in oil to help meet the needs of domestic consumers and support the realization of the nation’s economic aspirations,” Mr. Abboud said. “We believe our extensive history of operations in Asia makes Sunwing particularly well-suited to apply the expertise and technology to help Mongolia in the responsible development of this important resource.”

Exploration has established Block XVI as a prospective producer

The merger transaction will ensure access to 458 kilometres of 2D seismic data over the Kherulen sub-basin within the Nyalga Basin, including 215 kilometres acquired by PanAsian during the past two years. The new seismic data already have resulted in 19 leads being identified in the sub-basin’s southwestern area.

Block XVI was partially explored in the 1950s by Russian interests and was included in a regional appraisal conducted by BP International for the Mongolian Government in 1990. This work demonstrated that Nyalga has hydrocarbons and the potential to become a significant oil producer. The Russian drilling program reportedly encountered oil shows in 20 of approximately 40 wells drilled to depths of 700 to 1,800 metres; one well flowed oil. The 1990 BP appraisal of central Mongolia’s hydrocarbon potential concluded that the Nyalga Basin had the best potential for an active petroleum system among the sites evaluated in the region. In addition, Block XVI contains a large, visible, surface bitumen deposit that is evidence of hydrocarbon generation and migration and requires further evaluation.

Exploration to date has established that the Nyalga Basin possesses many of the characteristics of interior rift basins that produce light oil in Mongolia, east and south of Nyalga, and in northern China. These include: Petrochina’s Tamsag project in eastern Mongolia; Sinopec’s Zuunbayan project in southeastern Mongolia; and a 980-million-barrel discovery of light, sweet crude oil in the Bameng region of China’s Inner Mongolia, announced by a Sinopec subsidiary last August.

PanAsian Energy and Shaman staff remain involved in Mongolian operations

The structure of the merger is such that the holder of the production-sharing agreement, PanAsian Energy, and its wholly-owned Mongolian subsidiary, Shaman LLC, remain unaltered. Existing PanAsian and Shaman staff in Mongolia and Canada will continue operations and exploration on Block XVI, supported by Sunwing's technical and financial resources. PanAsian Energy will continue to hold the Block XVI production-sharing contract.

Mr. Abboud said the arrangement would preserve the contractual, industry and community relationships established by PanAsian and its subsidiaries during the past two years of work in Mongolia and provide the resources to conduct the planned exploration activities.

PanAsian has invested approximately US\$4 million in the acquisition and development of Block XVI.

Merger coincides with rising investor interest in Mongolia

Mongolia covers an area of more than 1.5 million square kilometres – more than twice the size of Texas – and incorporates large sedimentary basins covering most of the country, including the vast Gobi Desert in the south and east. Much of this area, now arid, once was covered by extensive, shallow, inland seas and lush vegetation. Significant coal resources have been discovered and mining and export sales are being greatly expanded.

Oil exploration in Mongolia, utilizing reasonably advanced technology, is only just beginning. Under 70 years of Soviet suzerainty, oil exploration in Mongolia was largely restricted to a limited survey and drilling program in the 1950s. In the early 1990s, a newly independent Mongolia initiated a development strategy that included assessment surveys by BP Exploration, Phillips Petroleum and Western Geophysical. The first production-sharing contracts were issued in the mid-1990s, but increased interest in Mongolian petroleum prospects accelerated with firming oil prices in recent years.

International interest in the Mongolian petroleum sector also has been stimulated by significant discoveries in northeastern China, along the border with Mongolia, and the discoveries by Petrochina and Sinopec in eastern Mongolia. China National Petroleum Corp. has stated that it has allocated US\$500 million for exploration drilling in Mongolia this year.

The merger transaction

Ivanhoe Energy has agreed to issue up to three million common shares in exchange for all of the issued and outstanding common shares of PanAsian. Closing of the transaction is subject to approval by PanAsian shareholders and approval by the Toronto Stock Exchange. Ivanhoe Energy has received signed support for the transaction from PanAsian shareholders representing more than 90% of PanAsian's shares.

Any net indebtedness of PanAsian's in excess of C\$150,000 will result in a compensating downward adjustment in the number of Ivanhoe Energy shares issued. In addition, existing stock-purchase warrants in PanAsian will be rolled-over into approximately 800,000 Ivanhoe Energy purchase warrants that entitle the holders to purchase Ivanhoe Energy common shares at approximately C\$3.50 for a period of approximately 18 months.

Ivanhoe Energy Inc.

Ivanhoe Energy is an international oil and gas company focussed on a) heavy-oil development and production opportunities worldwide; and b) oil and gas exploration and development projects in the Asia region. Ivanhoe Energy uses technologically innovative methods to significantly improve the development of heavy oil and other oil and gas assets, including the application of its patented HTL (heavy-to-light) heavy-oil upgrading process. Core operations are in Canada, Ecuador, China and, following closing of the PanAsian merger transaction, in Mongolia. Ivanhoe Energy trades on the NASDAQ Capital Market, with the ticker symbol IVAN, and on the Toronto Stock Exchange with the symbol IE.

Investors Contact: Ian Barnett +1-647-203-6588 / Bill Trenaman +1-604-688-8323
Media Contact: Bob Williamson +1-604-331-9880
Website: www.ivanhoeenergy.com

FORWARD-LOOKING STATEMENTS: This document includes forward-looking statements, including forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements by Ivanhoe Energy and Sunwing Energy concerning the potential for oil and gas production in Block XVI and the Nyalga region of Mongolia, the potential benefits of Ivanhoe Energy's heavy oil upgrading technology, the potential for commercialization and future application of the heavy oil upgrading technology and other technologies, statements relating to the continued advancement of Ivanhoe Energy's projects, the potential for successful exploration and development drilling, dependence on new product development and associated costs, statements relating to anticipated capital expenditures, the necessity to seek additional funding, statements relating to increases in production and other statements which are not historical facts. When used in this document, the words such as "could," "plan," "estimate," "expect," "intend," "may," "potential," "should," and similar expressions relating to matters that are not historical facts are forward-looking statements. Although Ivanhoe Energy and Sunwing Energy believe that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements include the potential that Block XVI and the Nyalga region of Mongolia may not have the oil and gas production potential anticipated, that the company's projects will experience technological and mechanical problems, new product development will not proceed as planned, the HTL technology to upgrade bitumen and heavy oil may not be commercially viable, geological conditions in reservoirs may not result in commercial levels of oil and gas production, the availability of drilling rigs and other support services, uncertainties about the estimates of reserves, the risk associated with doing business in foreign countries, environmental risks, changes in product prices, our ability to raise capital as and when required, competition and other risks disclosed in Ivanhoe Energy's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on EDGAR and the Canadian Securities Commissions on SEDAR.

