

# FINANCIAL POST

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## China bulks up in oil sands

Investment fund injects \$1.25B into two projects with Penn West Energy

Carrie Tait, Financial Post



Grant Black/ Calgary Herald

CALGARY - China's \$300-billion investment fund made another move into Canada's resource sector yesterday in a deal brokered by a little-known Canadian investment bank that shut out its larger domestic and international rivals.

China Investment Corp. (CIC) and Penn West Energy Trust have struck two deals -- an oil-sands partnership worth \$817-million, and an equity investment worth \$435-million.

Under the joint venture, Penn West will put up \$1.8-billion worth of steam-assisted gravity drainage oil-sands assets in exchange for a 55% stake in the joint venture. CIC will then pay \$817-million for a 45% slice. About \$312-million of that goes to Penn West now, after which CIC will cover \$505-million worth of Penn West's future expenses.

Penn West's oil-sands assets had been relegated to the bottom of its priority list as it chased its more lucrative conventional oil and natural-gas plays. The company has been spending about \$50-million per year on its oil-sands operations, which produce about 2,700 barrels of oil per day. But now the partnership will be able to double or triple that amount, said William Andrew, Penn West's chief executive.

On the investment side, CIC will buy 2.3 million newly issued Penn West units in a private placement, giving CIC control over 5% of the Calgary-based company. The income trust units will be sold for \$18.48 each, a slight discount to recent closing prices.

The deal is a major coup for Mackie Research Capital Corp., a year-old combination of Calgary's J.F. Mackie & Co. Ltd. and Research Capital Corp., which was a national firm.

"This is a very, very significant transaction for us," said Phil Hodge, an investment banker at Mackie in Calgary. Until now, Mackie's previous deals averaged between \$30-million and \$50-million, he said.

Mr. Hodge, who ran Westport Innovations Inc.'s China division for six years, was clutch in putting CIC and Penn West together. (Mr. Hodge speaks enough Mandarin to "make them chuckle at dinners," he said. "And compliment people.")

"I was fortunate enough over the years to build up some relationships with various groups in China, and one of them is the CIC," he said. "We were the group that introduced the two parties."

China's vast financial muscle once again played a role in the deal.

"Any time you have opportunity to team up with an organization of that size, with the trillions of dollars they command, we would be foolhardy not to work with them," Penn West's Mr. Andrew said in an interview. "[Their] sheer size, the professionalism of the organization [and] the quality of the organization" all factored into Penn West's decision to join hands with CIC.

The deal needs regulatory approval, and Penn West has had "some discussion" with regulators, Mr. Andrew said, adding the federal watchdog has not given any hint about how it feels about the transaction. Penn West will operate the oil-sands joint venture.

CIC, which is a big investor in China's financial sector, bought about 17% of mining powerhouse Teck Resources Ltd. for \$1.7-billion last July.

CIC's equity investment in Penn West proper marks a break from China's previous strategy. China's state-controlled oil, gas and refining firms have opted to focus on the oil sands. CIC, however, will be exposed to Penn West's conventional plays such as the Cardium and the Viking.

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PENN WEST ENERGY TRUST

Ticker PWTu/TSX

Close \$ 20.19, up 74¢

Volume 3,829,102

Avg. 6-month vol. 1,455,187

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