

Chinese investment firm invests \$1.25 billion in oil producer Penn West

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May 13, 2010 - CALGARY - A \$1.25-billion infusion from a deep-pocketed Chinese investment fund will help Penn West Energy Trust develop oilsands properties that would have otherwise laid dormant. **"What we needed was capital and what they needed was a play. And we had the play and they had the capital,"** said Jason Fleury, a spokesman for North America's largest conventional energy trust.

China Investment Corp. will buy \$435 million in Penn West stock and invest \$817 million in a joint venture to develop oilsands leases in the Peace River region of northern Alberta. Calgary-based **Penn West (TSX:PWT.UN) will hold a 55 per cent interest in the joint-venture and will operate the project**, which includes 96,000 hectares of oilsands leases. **Penn West values the asset at \$1.8 billion.**

Penn West, known mainly for its vast conventional oil holdings in western Canada, said the properties contain "significant" bitumen resources, though they are currently producing only 2,700 barrels of oil equivalent per day.

About a year ago, Penn West realized that it would need a joint venture partner to bring its oilsands properties to fruition. As an income trust, a large portion of its cash is funnelled off to investors rather than growth projects. "We just didn't have the capital within the income trust structure to push the amount of money necessary with this project to really get it off the ground. It just wasn't working," Fleury said. **"It's better to have 55 per cent of something that's growing, versus 100 per cent of something that's not moving."**

Around the same time, the Chinese fund made it clear it was on the hunt for resources to help satiate the country's ravenous energy needs. Mackie Research Capital Corp., the sole financial adviser to Penn West on the deal, "played matchmaker" and brought the two parties together, said Fleury. Other domestic and international firms showed some interest, he added.

"Honestly, CIC was the only one willing to pay us what we thought it was worth. And frankly, **sometimes it takes somebody from outside the sandbox** to come in and say, 'in the world market, this asset in this province with this kind of potential is worth \$1.8 billion.'"

Chinese companies have been snapping up oilsands properties in recent years as the country scours the globe for secure energy supplies. China's strategy so far has been to join forces with Canadian firms that have the technical expertise to extract the heavy oil from sand and clay. In return, the Canadian firms get a big injection of capital that may have otherwise been tough to secure.

"There is not enough capital, nor is there enough appetite by Canadian investors, to capitalize these projects," said Fleury.

The Penn West deal was announced a month after another Chinese state-owned company, fuel refinery giant Sinopec, bought a nine per cent interest in the world's largest oilsands project.

Sinopec spent US\$4.65 billion for a stake in the Syncrude Canada Ltd. partnership (TSX:IMO) (TSX:COS) (TSX:NXY) (TSX:SU), which owns the gargantuan 350,000-barrel-per day mining operation north of Fort McMurray, Alta.

U.S. energy major ConocoPhillips (NYSE:COP) had put its interest on the block as part of a plan to streamline its operations and pay down debt. Sinopec previously acquired a 40 per cent interest in Total E&P Canada's Northern Lights project in 2008, bumping up its ownership to 50 per cent a year ago of the French-owned company's oilsands development.

Another state-owned firm, PetroChina, announced in August it was making a C\$1.9-billion investment in two projects operated by Athabasca Oil Sands Corp. (TSX:ATH), which recently made its debut on the Toronto Stock Exchange.

Last summer, China Investment Corp. acquired about 20 per cent of Vancouver-based Teck Resources Ltd. (TSX:TCK.B), Canada's largest publicly traded miner. Teck has a 20 per cent interest in the yet-to-be developed Fort Hills oilsands mine.

Penn West units rose 3.8 per cent, or 74 cents, to close at \$20.19 on the Toronto Stock Exchange