



# **Recent Chinese M&A and Investments in Canada:**

## **Trends and Developments**

**Michael Amm**

mamm@torys.com

Tel. 416.865.8140

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# Recent Major Transactions

- **State Grid's C\$1B PIPE investment and project financing with Quadra Mining** (March 2010)
- **Tongling and CRCC's C\$679M acquisition of Corriente Resources** (December 2009)
- **PetroChina's C\$1.9B acquisition of a 60% interest in two Athabasca Oil Sands projects** (September 2009)
- **CIC's C\$1.7B PIPE investment in Teck Resources** (July 2009)
- **Sinopec's C\$8.3B acquisition of Addax Petroleum** (June 2009)
- **Wuhan Iron & Steel's \$240M PIPE investment in Consolidated Thompson Iron Mines** (March 2009)

# Trends and Developments

- Resource focus
  - > to date: oil, base metals, metallurgical coal and iron ore
- PIPE transactions
  - > easier to execute in terms of regulatory and political sensitivities
  - > importing deal terms from US PIPE transactions
- Offtake arrangements and stakes in underlying assets
  - > also seeing project financing
- Assets outside North America
  - > e.g., copper in South America; oil in West Africa and Kurdistan

# Chinese Investor Perspectives

- Host country foreign investment review and political perceptions
  - > avoid Unocal and Chinalco/Rio Tinto reactions
- Domestic Chinese perceptions
  - > what will the reaction be at home?
- Confidence re financing
  - > access to funding by SOEs
- Sensitivity to environmental issues
- Productivity and cost-cutting drivers

# Coordinating the Chinese Regulatory Process and North American M&A Process

- Multiple Chinese regulatory approvals required for outbound investments (e.g., NDRC, SASAC, MOFCOM, CSRC, SAFE and State Council)
  - > how can they be coordinated/managed?
- Chinese regulatory approvals need to be coordinated with the North American M&A timeline
  - > what is necessary for letter of intent/exclusivity stage?
  - > what is necessary for announcement of transaction?
- Coordination of final approvals in China and North America
  - > preserving a reasonable closing timeline

## *Investment Canada Act*

- A direct acquisition of control of a Canadian business by a foreign entity is generally subject to review if asset value exceeds C\$299 million
  - > threshold is adjusted annually and lower thresholds apply for cultural-sector acquisitions (legislative amendments are expected to increase threshold)
- Reviews normally last 45-75 days and require cabinet minister approval
- Investors must demonstrate that the investment is of “net benefit” to Canada
  - > typically requires binding 3-5 year undertakings re employment, R&D, Cap Ex, Canadian head office and management participation

# Canadian foreign investment review

## Cont'd

### *State Owned Enterprises*

- When investors are State-Owned Enterprises, additional “net benefit” criteria are considered
  - > intent is not to block acquisitions by SOEs, but to ensure that these investors operate under standards similar to other commercial enterprises
  - > key areas of focus
    - nature and extent of foreign government control
    - corporate governance and transparency
    - commercial orientation

# Canadian foreign investment review

## Cont'd

### *National Security Test*

- Amendments to the Act have introduced a national security test
  - > any investment will be subject to potential review on national security grounds
    - no financial thresholds or mandatory review for national security reviews
    - investments reviewed on an “injurious to national security” and not the usual “net benefit” standard
    - national security reviews are expected to be infrequent



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**Toronto**  
**New York**

416.865.0040  
212.880.6000