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CALGARY BUSINESS

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Oil juniors snagged in credit crisis

Firms could be forced to delay projects

LISA SCHMIDT
CALGARY HERALD

At least three Calgary-based junior energy companies are among investors who bought asset-backed commercial paper from non-bank dealers that failed to roll over debt last week and were unable to get emergency funding from lenders.

Petrolifera Petroleum Ltd., West Energy Ltd. and Jura Energy Corp. will have to wait to get a combined \$80 million out of short-term investments after a credit crunch froze part of the asset-backed commercial paper market.

And more cases are expected to emerge amid the continued uncertainty in global markets, analysts say.

"I suspect that there's probably a few out there that will keep coming to light," said Greg Chornoboy, an analyst with **Jennings Capital** in Calgary.

"Whether the individual companies disclose it now or not may depend on the maturity. . . . If the note or whatever the instrument is, doesn't have a maturity for say several months, it's probably worthwhile to know, but who knows where this situation is going to be several months out."

Companies could be forced to delay drilling or projects if they can't get access to cash currently tied up in the commercial paper funds. A group of 10 pension funds and banks agreed last week to convert about \$35 billion in commercial

paper to longer-term notes, which may postpone repayment for debt holders.

The energy sector is among several being squeezed. **First Quantum Minerals** and **Miramir Mining Corp.** on Monday joined several Canadian mining firms affected by the credit crunch in commercial paper. And Calgary-based **Westaim Corp.**, a medical technology firm, warned it has nearly \$20 million invested in the commercial paper maturing in the next two months, and faces "adverse" consequences if the money is not paid back on time.

Shares of **Petrolifera**, a junior oil and gas firm with operations in Argentina and Peru, fell on Monday after the company said that more than half of its cash and cash equivalents are invested in asset-based securities.

The firm said \$31.4 million in notes issued by **Apsley Trust** were due Aug. 14, but not repaid. Another \$6.3 million in notes is due at the end of the month.

Petrolifera shares fell eight cents to \$14.07 on the Toronto stock exchange on Monday. In earlier trading, the stock was down nearly seven per cent, hitting a 52-week low of \$13.18.

"The company believes that it has sufficient cash balances and cash flow from operations, in addition to a previously announced credit facility that is expected to be finalized in the coming weeks, to fund its planned operations during this period of market uncertainty," it said in a release.

Petrolifera said it does not expect the situation will affect its 2007 spending program and analysts said the company appears to have adequate cash flow and resources.

SEE JUNIORS, PAGE D9



CMHC's Richard Corriveau said several factors are contributing to a strong resale market.

Alberta to set pace in house price growth

Record levels of MLS sales forecasted

MARIO TONEGUZZI
CALGARY HERALD

The Canadian Real Estate Association is forecasting record levels of MLS sales across the country this year and Alberta to lead all provinces in the rate of average price growth, according to a new residential market report released Monday.

In Alberta, the association is predicting MLS sales will jump by 5.6 per cent this year to 78,550 compared to 74,350 in 2006 and the residential average sale price (including both single-family homes and condominiums) is also expected to hit \$355,600 — a 24.6 per cent hike from the \$285,383 recorded in 2006.

Nationally, CREA says sales will increase by 8.1 per cent this year to 523,100 units while the average sale price will jump by 10.4 per cent to \$305,900.

"Resale housing activity

was a juggernaut in the second quarter of 2007," said CREA chief economist Gregory Klump in explaining the forecast for the entire year. "Record-breaking sales activity in the first and second quarters forced the Canadian Real Estate Association to revise its forecast upward," he said.

"Home-buying sentiment remains upbeat in all regions and mortgage financing is still within reach for many potential homebuyers.

"The resale housing market will become more balanced as rising prices and higher mortgage interest rates gradually impact affordability. Strong employment numbers will keep sales activity strong, even as prices and interest rates continue to rise."

In May, CREA had forecast a 2007 sales increase of 3.6 per cent, which was an update on its original 2007 forecast issued in February. At that time, CREA had predicted that sales activity this year would drop 1.6 per cent from 2006.

With its most recent Housing Market Outlook, Canada Mortgage and Housing Corp.

Painted a similar forecast for Alberta. The CMHC forecast was for house sales to increase by 6.6 per cent this year to 79,250 while average prices will increase 26.1 per cent to \$360,000.

Richard Corriveau, regional economist for the Prairies and Territories region for CMHC, said the agency is "just a little more bullish" than the CREA report.

"There are signs that the market is slowing no doubt about it, especially in Calgary and Edmonton also peaking as well, but it will still benefit from the strong gains in the first half of the year, which should bring us well into a new record," he said.

Several factors have contributed to the strong resale residential market in the province so far this year, added Corriveau, including the introduction of some new mortgage products such as extended amortization periods beyond 25 years and up to 40 years, which will lower home owners' monthly payments considerably.

SEE SALES, PAGE D9

MARGIN CALLS

Harry Hays building sold

REAL ESTATE • Calgary's downtown Harry Hays building is one of nine federal government office buildings that will be sold to a Canadian real estate company.

The federal government announced Monday the office properties will be sold to **Larco Investments Ltd.** for \$1.6 billion and will be leased back for a total of 25 years.

The federal government said **Larco** is a 100 per cent Canadian-owned real estate company with more than 30 years in the industry.

In a news release, the government said, "Canadians will continue to have the same level of access to federal programs and services under the new ownership arrangement. The government will continue to occupy the buildings and display the Canadian flag, and maintain the right to name the buildings. The new owner will be required to respect the government's environmental, health and safety standards."

The nine buildings are located in Calgary, Vancouver, Edmonton, Toronto, Ottawa and Montreal. The government said the leases it is signing require **Larco** to maintain, operate and repair the buildings "to our standards" and the new owner is also required to undertake the backlog of capital repairs on the buildings over the next 10 years.

— Calgary Herald

Canadian miners hitting pay dirt

SURVEY • Canada's miners are hitting pay dirt, according to a survey of site staff salaries released Monday.

Base salaries are up, more positions are eligible for cash bonuses, and the stronger dollar has pushed average salaries about 12 to 15 per cent higher than those in the United States.

A shortage of qualified people means these trends will continue even if strong metals prices do not, according to the 2007 mining salary survey by **Coopers Consulting** and **PriceWaterhouseCoopers**. That's particularly true in B.C. where managers must compete for staff with Alberta's oilsands and with mines north of the 60th parallel, said Lou Vujanich, principal of **Coopers Consulting**.

— CanWest News Service

HERALD ENERGY



Mexico is shutting off 80 per cent of its crude oil production as hurricane Dean approaches

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Aaron Harris, Bloomberg

Coventree Inc., Canada's biggest non-bank issuer of asset-backed commercial paper, is seeking an additional \$790 million of emergency funds after failing to sell any notes Monday.

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The Canadian Real Estate Association is forecasting record levels of MLS sales across the country this year with Alberta expected to lead in the rate of average price growth, according to a market report released Monday.

FROM DI SALES: Listings boom helps market

“Another factor is that active listings have increased tremendously. Last year, we believe sales could have even been higher if there was more selection available to prospective buyers. Because there wasn't, a lot of those folks turned their attention to the new home market,” Corriveau said.

“Now, prices have escalated tremendously in the new home market as they have resale. It's taking upwards of a year to construct the average home and at the same time active listings have increased — they've doubled in Calgary, tripled in Edmonton — and under that environment people can get into a resale home more quickly with more selection — and not under the same panic conditions that prevailed in

2006. That in part has contributed to some of the increase in (resale) activity this year.”

Corriveau said the province is also still benefiting from strong net migration and building off the record of net migration from last year.

“There's a bit of a lag effect. Some people just don't move here and buy a home,” he said. “They might rent initially and determine where they want to live. And we also have very strong employment gains and income growth.”

Alberta's net migration in 2006 was 86,255 — an increase of 26.7 per cent from the previous year.

The CREA is forecasting overall sales in Alberta to drop by 4.5 per cent in 2008 to 75,030, but the average residential sale price to continue to increase by 6.6 per cent to \$379,000.

Nationally, the number of sales is forecast to drop by two per cent next year to 512,705 and the average price to increase a further 5.5 per cent to \$322,700.

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WITH A FILE FROM CANWEST NEWS SERVICE

FROM DI JUNIORS: Resources offered

“Certainly there's an impairment in their net asset value because of the uncertainty of the timing and full-repayment . . . I'm not sure that the full repayment is an issue, it's more the timing,” said Chornoboy of Jennings.

“You have the short-term issues of do you need the cash in order to carry on business, and for Petrofira, I don't think that's the case.”

Jura, a junior with assets in Pakistan, said Friday it hadn't received repayment for nearly \$15 million from holdings in Coventree funds, equal to nearly half its cash investments.

And West, which operates in Western Canada, said nearly all of its cash investments — about \$30 million — were tied up in asset-based securities.

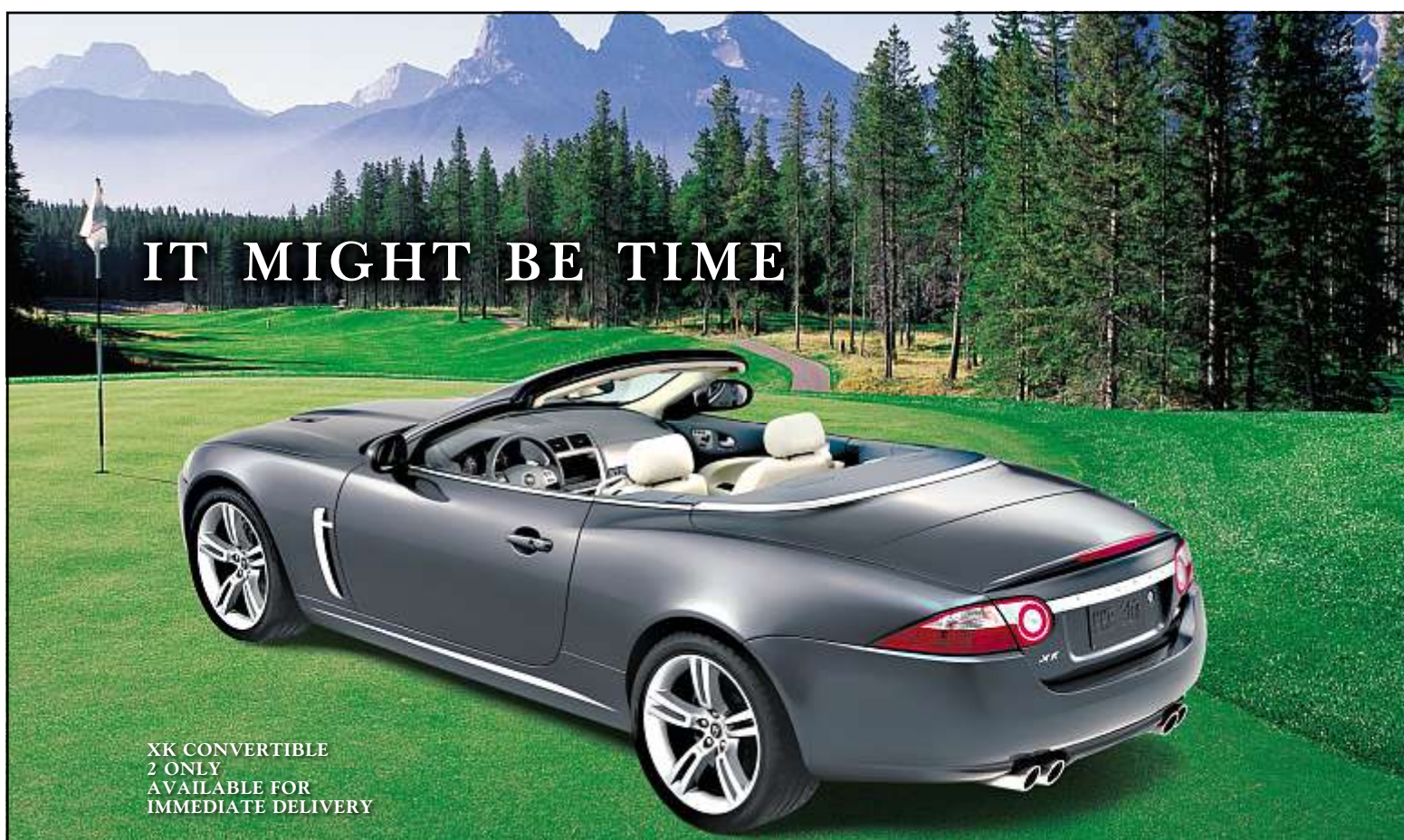
The company said it has adequate resources to cover its planned drilling program in 2007 and has been offered a temporary increase in its bank line.

“As it stands, it is unclear where the liability rests, how much of West's original investment will ultimately be returned and how long this process will take,” said Cody Kwong, an analyst with FirstEnergy Capital Corp. in Calgary, in a note Monday.

“This was clearly not West's intent to take risks with its idle cash position as the focus of the company is largely to take risks via the drill bit.”

In trading, West's shares fell seven cents Monday, while Jura's stock rose a penny to 70 cents.

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