

M&A Quarterly Report – Q2/06

Overview

The Canadian M&A market reached record levels of activity in the second quarter of 2006 based on data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database. Continued attractiveness of the Canadian economy, record high prices for base metals and oil, consolidation among the world's top tier mining companies, and active financial groups, contributed to the favourable M&A environment in the quarter. The number of announced transactions increased to 480 in the quarter compared to 420 during the same period last year and was level with the 480 in the first quarter of 2006. The total value of announced

transactions during the second quarter was a record \$86.1 billion, compared to \$33.6 billion during the second quarter of 2005 and \$27.4 billion in the first three months of 2006. The results eclipsed the previous high of \$79.1 billion recorded during the technology boom in the second quarter of 2000.

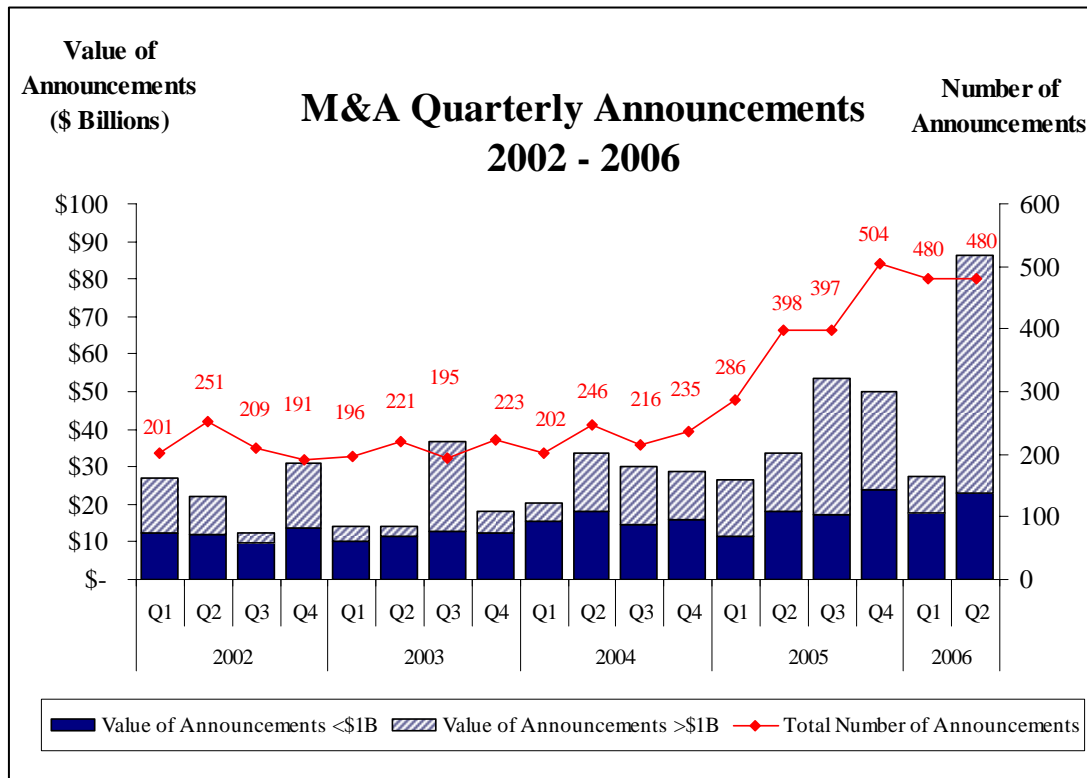
Mega-Deals

The mega-deal (transaction value over \$1 billion) segment of the market remained strong with 11 mega deals in the second quarter with a total value of \$63.1 billion, an increase from the six mega-deals totalling \$13.2 billion during the same period last year and the five mega-deals for a total of \$9.9 billion in the first quarter

of 2006. The segment of the market below \$100 million in transaction value was extremely active with 389 transactions, up significantly from the 290 in the previous quarter and from 187 during the same period last year.

Industry Activity

Mining & Minerals was the most active sector with 50 transactions valued at \$39.5 billion. The sector experienced a frenzy of activity as bidding wars evolved for two of Canada's pre-eminent mining companies, **Inco Limited** and **Falconbridge Limited**. Inco got the ball rolling by entering into a bidding war for Falconbridge with Swiss-based Xstrata plc, which ultimately prevailed with a \$19.2 billion



offer, the largest transaction in the quarter. Inco itself came into play, receiving multiple bids, including an \$18.8 billion offer from **Teck Cominco Limited**. **Phelps Dodge Corp.** of the U.S. and **Compania Vale do Rio Doce** of Brazil continue to battle for the Sudbury-based nickel giant.

Oil & Gas remained extremely active with 116 transactions valued at \$15.8 billion. This sector was lead by **Penn West Energy Trust's** \$3.1 billion acquisition of **Petrofund Energy Trust** and **Shell Canada Limited's** \$2.4 billion takeover of **Blackrock Ventures Inc.** Other significant deals included the \$1.7 billion merger of **Daylight Energy Trust** and **Sequoia Oil & Gas Trust** and the **Focus Energy Trust's** \$1.2 billion acquisition of **Profico Energy Management Ltd.**

There were 127 **Industrial Products** transactions in the quarter, the most active sector by deal volume, up from 90 last quarter and 65 in the same quarter last year. Total deal value was \$3.7 billion, up slightly from \$3.0 billion in the last quarter and \$1.5 billion in the second quarter of 2005. The largest deal in the sector saw **Georgia Gulf Corporation** acquire scandal-plagued **Royal Group Technologies Limited** for \$1.7 billion. **Real Estate** was also extremely active with 78 transactions valued at \$14.2 billion. REITs (real estate investment trusts) led the activity, participating in 40 deals. The largest deal in the quarter saw the **Peter Munk** announce the sale of **Trizec Canada Inc.** and **Trizec Properties, Inc.** to **Brookfield Properties Corporation** and private equity firm **The Blackstone Group** for \$8.9 billion.

Active Financial Groups

Financial sponsors such as private equity groups and pension funds continue to exert their influence on the M&A market. These groups represented approximately 16% of the overall M&A activity by transaction value in the second quarter versus 13% for all of 2005. With the increased availability of relatively inexpensive capital, lower investment return targets and diversification into alternative asset classes such as private equity, real estate and infrastructure projects, financial buyers have become formidable

ACTIVITY GROUPED BY INDUSTRY: Y-T-D TO JUNE 30

INDUSTRY GROUPS	2006		2005	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	217	6,646	124	5,977
Consumable Fuels	201	21,559	146	14,409
Real Estate	141	16,351	120	9,135
Metals & Minerals	105	43,258	34	4,910
Merchandising	59	5,741	63	1,465
Consumer Products	54	1,378	59	1,427
Financial Services	51	6,856	34	7,191
Utilities	34	5,037	39	9,405
Transportation & Environmental Services	33	2,992	23	704
Communications & Media	25	2,091	20	3,835
Gold	20	927	8	266
Paper & Forest	20	730	12	1,370
Pipelines	0	0	2	15
TOTAL	960	113,566	684	60,109
<i>Technology Watch:</i> (subsector of Ind. Prod.)	29	1,302	10	339

CROSS-BORDER TRANSACTIONS: Y-T-D TO JUNE 30

	2006		2005		
	# of Deals	Value \$Millions	# of Deals	Value \$Millions	
Canadians Acquiring Foreign Companies	252	29,979	152	12,257	
Cdn Co's from Foreigners	15	1,436	17	5,748	
Total	267	31,415	169	18,005	
Top Foreign Target Country of Canadian Acquirors					
United States	130	18,331	United States	93	6,978
Foreigners Acquiring Canadian Companies	65	46,174	33	6,192	
Foreign Co's from Cdn	28	2,576	20	19,068	
Total	93	48,750	53	25,260	
Top Foreign Acquiror of Canadian Located Companies					
United States	42	20,462	United States	23	5,121

BREAKDOWN OF ACTIVITY: Y-T-D TO JUNE 30

Size	2006				2005			
	# Deals	%	Value \$ Millions	%	# Deals	%	Value \$ Millions	%
Undisclosed	176	18	N/A		104	15	N/A	
1m-100m	679	71	12,812	11	494	72	9,511	16
101m-250m	52	5	8,366	7	40	6	6,195	10
251m-500m	20	2	7,056	6	23	3	8,281	14
501m-1b	17	2	12,380	11	10	1	6,755	11
>1b	16	2	72,951	64	13	2	29,368	49

opponents when competing against strategic groups for transactions. **Canadian Pension Plan Investment Board, Onex Corporation, The Blackstone Group** and the **Caisse de Depot et Placement du Quebec** are examples of financial groups that were active during the quarter.

Cross-Border Activity

Cross-border transactions continued to be a significant driver of the overall M&A activity, representing 71% of total deal value and 38% of total deal volume. There were 360 cross border transactions totalling \$80.2 billion in the first half of 2006 compared to 222 transactions worth \$43.3 billion for the same period last year. This trend is highlighted by the strong interest by foreign acquirers in some of Canada's largest companies, which represented 43% of the total transaction value, including three of the ten largest transactions in the quarter.

Largest Transactions Announced During Q2 2006

VALUE (*ESTIMATE)	NAME	ROLE	ANNOUNCED
\$ 19,200,000,000	Falconbridge Limited Xstrata plc	Target Acquiror	17-May-06
\$ 18,760,000,000	Inco Limited Teck Cominco Limited	Target Acquiror	8-May-06
\$ 8,900,000,000	Trizec Properties, Inc. Trizec Canada Inc. The Blackstone Group Brookfield Properties Corporation	Target Target Acquiror Acquiror	5-Jun-06
\$ 3,080,000,000	Petrofund Energy Trust Penn West Energy Trust	Target Acquiror	16-Apr-06
£ 1,200,000,000	BAA plc Government of Singapore Investment Corporation Pte Ltd. Ferrovial Infraestructurass, S.A. Caisse de dépôt et placement du Québec	Target Acquiror Acquiror Acquiror	7-Apr-06
\$ 2,400,000,000	BlackRock Ventures Inc. Shell Canada Limited	Target Acquiror	8-May-06
US\$ 1,700,000,000	HQI Transelec Chile S.A. British Columbia Investment Management Corporation Canada Pension Plan Brookfield Asset Management Inc. International Finance Corporation Hydro-Québec	Target Acquiror Acquiror Acquiror Vendor Vendor	16-Jun-06
US\$ 1,630,000,000	Office portfolio Trizec Canada Inc. Arden Realty, Inc.	Target Acquiror Vendor	2-May-06
\$ 1,700,000,000	Daylight Energy Trust Sequoia Oil & Gas Trust	Target Target	20-Apr-06
\$ 1,700,000,000	Royal Group Technologies Limited Georgia Gulf Corporation	Target Acquiror	9-Jun-06
\$ 1,210,000,000	Profico Energy Management Ltd. Focus Energy Trust	Target Acquiror	23-Apr-06
€ 584,000,000	Bertelsmann AG Bertelsmann AG Power Financial Corporation	Target Acquiror Vendor	25-May-06
\$ 800,000,000	Aon Warranty Group Onex Corporation Aon Corporation	Target Acquiror Vendor	30-Jun-06
\$ 780,000,000	Valkyries Petroleum Corp. Lundin Petroleum AB	Target Acquiror	29-May-06

The information above and on preceding pages is a summary of Crosbie & Company Inc.'s analysis of each quarter's M&A activity. The data is compiled from Financial Post Crosbie: Mergers & Acquisitions in Canada, the most extensive database on M&A activity in Canada. To subscribe to Financial Post Crosbie: Mergers & Acquisitions in Canada, contact CanWest Interactive Inc. (phone 416-442-2121 toll free 1-800-661-7678 e-mail helpdesk@canwest.com).