

M&A Quarterly Report – Q2/08

Overview

The Canadian M&A market remained surprisingly resilient in the second quarter of 2008, with a 10% increase in deal volume relative to the prior quarter. However, the pronounced decline in “mega deals” over \$1B resulted in a fall off in deal value for the overall market.

According to data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, there were 416 announced transactions in Q2 worth \$18.4B, compared to 377 transactions worth \$24.5B in the prior quarter, and 552 transactions representing \$163.5B in Q2 of 2007. Consistent with prior quarters, the mid-market (transactions between \$1M and

\$500M) remained an important driver of M&A activity, accounting for 74% of deal volume. However, there were only two transactions above \$1B in Q2 resulting in \$3.5B in transaction value, down from seven transactions in the prior quarter (worth \$14B) and 24 deals announced in the record setting second quarter of 2007 (worth \$136B).

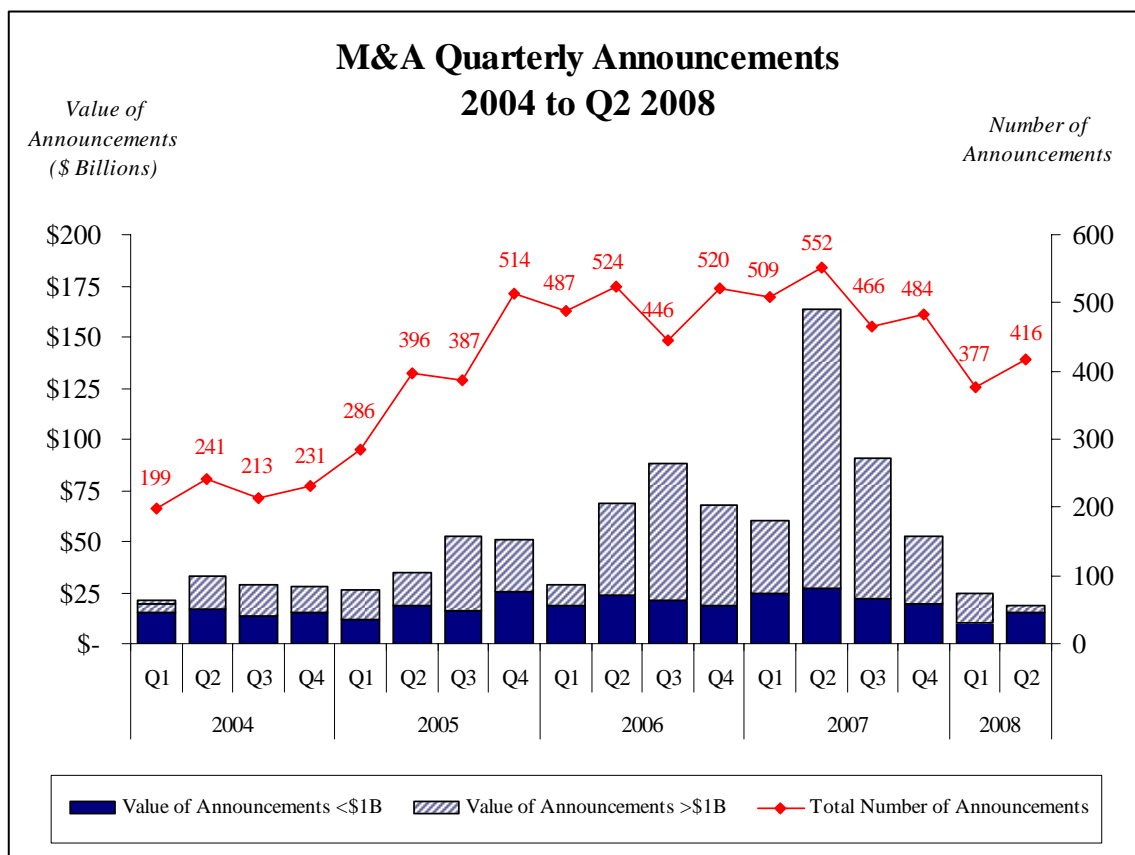
Industry Activity

Oil & Gas displaced **Industrial Products** as the most active sector in Q2 with 99 announced transactions, a 43% increase in activity relative to last quarter. The sector generated \$7.6B worth of transactions representing 40% of total M&A value, and was propelled by **Precision Drilling Trust’s** \$2.1B

proposed takeover of Texas-based **Grey Wolf Inc.**, the quarter’s largest announced deal. Having rejected Precision’s previous two unsolicited offers, Grey Wolf entered into a definitive agreement with Precision subsequent to Q2 to sell the business.

The second largest Oil & Gas transaction (which incidentally was also the second largest transaction in the quarter) was **Enbridge Inc.’s** \$1.3B sale of its 25% stake in **Compania Logistica de Hidrocarburos CLH, S.A.** to a consortium of buyers including the **Public Sector Pension Investment Board**.

Not far behind Oil & Gas was the Industrial Products group, with 95 new transactions (\$1.5B), comparable to the 100 transactions



(\$2.9B) announced last quarter. Interest in **Metal & Minerals** companies was a continuing theme in Q2, accounting for 65 transactions valued at \$2.4B in aggregate. On a combined basis, these three sectors accounted for approximately 62% of both transaction volume and value in the quarter.

Income Trust Activity

Activity in the income trust sector demonstrated continued strength with 41 deals, down slightly from 44 in the prior quarter. Notwithstanding this decline, announced income trust deals totalled \$3.1B, a notable increase and departure from last quarter's lacklustre \$1.8B. Transactions in this group were led by the previously mentioned proposed takeover of Grey Wolf Inc.

Financial Groups

Contribution to M&A activity from capital groups saw an uptick in the second quarter, with eight new announcements worth \$3.6B versus five transactions worth \$5.1B last quarter. In the category of transactions greater than \$100M, financial groups accounted for 19% and 26% of activity and value, respectively. The acquisition of Compania Logistica de Hidrocarburos CLH, S.A., as discussed above, was the largest transaction involving a financial group, and was followed by **Ontario Teachers' Pension Plan's** \$645M acquisition of **SAESA Group**, a Chilean electricity distribution, transmission and generating company, from **Public Service Enterprise Group**. Following up on last quarter's \$3.7B takeover of **CHC Helicopter**, **First Reserve Corporation** was once again on the hunt to add to its portfolio of energy-related companies, buying **Saxon Energy Services Inc.** for \$592M.

Cross-Border Activity

Cross-border activity accounted for 169 transactions in Q2, up from 146 in Q1, however the total value of these transactions declined from \$16.4B in Q1 to \$12.6B in Q2. Canadian acquisitions of foreign companies made up 64% of cross-border activity and 45% of cross-border transaction value. All seven of the largest transactions in the quarter had a cross-border component to them, with the three largest deals involving Canadian acquirers, and the remaining four led by foreign entities. Interestingly, five of the seven transactions involved Calgary-based companies in the Oil & Gas sector.

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

INDUSTRY GROUPS	2008		2007	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	195	4,461	202	30,384
Consumable Fuels	168	14,729	199	25,420
Metals & Minerals	105	4,696	124	15,601
Real Estate	79	2,402	202	12,124
Consumer Products	56	1,857	64	7,915
Financial Services	52	2,967	75	16,851
Merchandising	43	382	67	6,882
Utilities	28	4,657	27	57,360
Gold	20	3,739	14	7,177
Transportation & Environmental Services	18	292	37	3,541
Communications & Media	17	509	43	35,339
Paper & Forest	9	265	6	4,037
Pipelines	3	1,894	1	1,060
TOTAL	793	42,850	1,061	223,691
<i>Technology Watch:</i> (subsector of Ind. Prod.)	28	397	36	2,722

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

	2008		2007		
	# of Deals	Value \$Millions	# of Deals	Value \$Millions	
Canadians Acquiring					
Foreign Companies	205	15,023	273	59,893	
Cdn Co's from Foreigners	8	107	13	4,922	
Total	213	15,130	286	64,815	
Top Foreign Target Country of Canadian Acquirors					
United States	112	10,865	United States	161	27,869
Foreigners Acquiring					
Canadian Companies	72	11,007	95	116,533	
Foreign Co's from Cdn	30	2,854	27	2,018	
Total	102	13,861	122	118,551	
Top Foreign Acquiror of Canadian Located Companies					
United States	42	8,479	United States	59	81,041

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

Size	2008				2007			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Undisclosed	181	23	N/A		135	13	N/A	
1m-100m	541	68	9,514	22	760	72	12,658	6
101m-250m	39	5	6,283	15	74	7	12,349	6
251m-500m	17	2	6,074	14	32	3	10,800	5
501m-1b	6	1	3,597	8	23	2	16,215	7
>1b	9	1	17,382	41	37	3	171,670	77

Largest Transactions Announced During Q2 2008

VALUE	NAME	ROLE	ANNOUNCED
US\$ 2,070,000,000	Grey Wolf, Inc. Precision Drilling Trust	Target Acquiror	10-Jun-08
€ 876,000,000	Compañía Logistica de Hidrocarburos CLH, S.A. AMP Capital Investors Stichting Pensioenfonds Zorg en Welzijn Public Sector Pension Investment Board Deutsche Bank Aktiengesellschaft Enbridge Inc.	Target Acquiror Acquiror Acquiror Acquiror Vendor	29-May-08
US\$ 635,000,000	SAESA Group Ontario Teachers' Pension Plan Public Service Enterprise Group Incorporated	Target Acquiror Vendor	17-Jun-08
\$ 592,115,000	Saxon Energy Services Inc. First Reserve Corporation Schlumberger N.V.	Target Acquiror Acquiror	21-Apr-08
\$ 540,000,000	Rainbow Pipe Line Company, Ltd. Plains All American Pipeline, L.P. Imperial Oil Limited	Target Acquiror Vendor	8-Apr-08
\$ 530,000,000	Synenco Energy Inc. Total S.A.	Target Acquiror	28-Apr-08
\$ 500,000,000	Oil sands lease Occidental Petroleum Corporation Enerplus Resources Fund	Target Acquiror Vendor	23-Jun-08
\$ 460,340,000	Skye Resources Inc. HudBay Minerals Inc.	Target Acquiror	23-Jun-08
\$ 425,000,000	Global Copper Corp. Teck Cominco Limited	Target Acquiror	14-Apr-08
US\$ 377,850,000	Ithaca Energy Inc. Endeavour International Corporation	Target Acquiror	20-Jun-08
US\$ 342,200,000	BreitBurn Energy Partners L.P. BreitBurn Energy Partners L.P. Provident Energy Trust	Target Acquiror Vendor	17-Jun-08
\$ 321,900,000	Shepell-fgi Morneau Sobeco Income Fund Clairvest Group Inc.	Target Acquiror Vendor	12-May-08
\$ 298,000,000	Gentry Resources Ltd. Crew Energy Inc.	Target Acquiror	23-Jun-08
\$ 284,000,000	Anglo Potash Ltd. BHP Billiton Limited	Target Acquiror	12-May-08
\$ 265,367,000	Scandinavian Minerals Limited First Quantum Minerals Ltd.	Target Acquiror	21-Apr-08

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).