

M&A Quarterly Report – Q3/07

Overview

The prevailing jitters in the credit market had a ripple effect on the Canadian M&A market in the third quarter, however, this did not prevent the Canadian market from establishing the second best quarter ever in terms of deal value. According to data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, total transaction value announced in the third quarter exceeded \$91B, which was second only to the all-time record of \$166B set in the last quarter. Activity levels fell by 11% in the third quarter, with 460 deals announced compared to 517 deals announced in Q2. Notwithstanding this decline, volumes remained strong due in large part to healthy

levels of activity in the mid-market (transactions between \$1M - \$500M), where the volume of transactions accounted for 72% of all M&A activity.

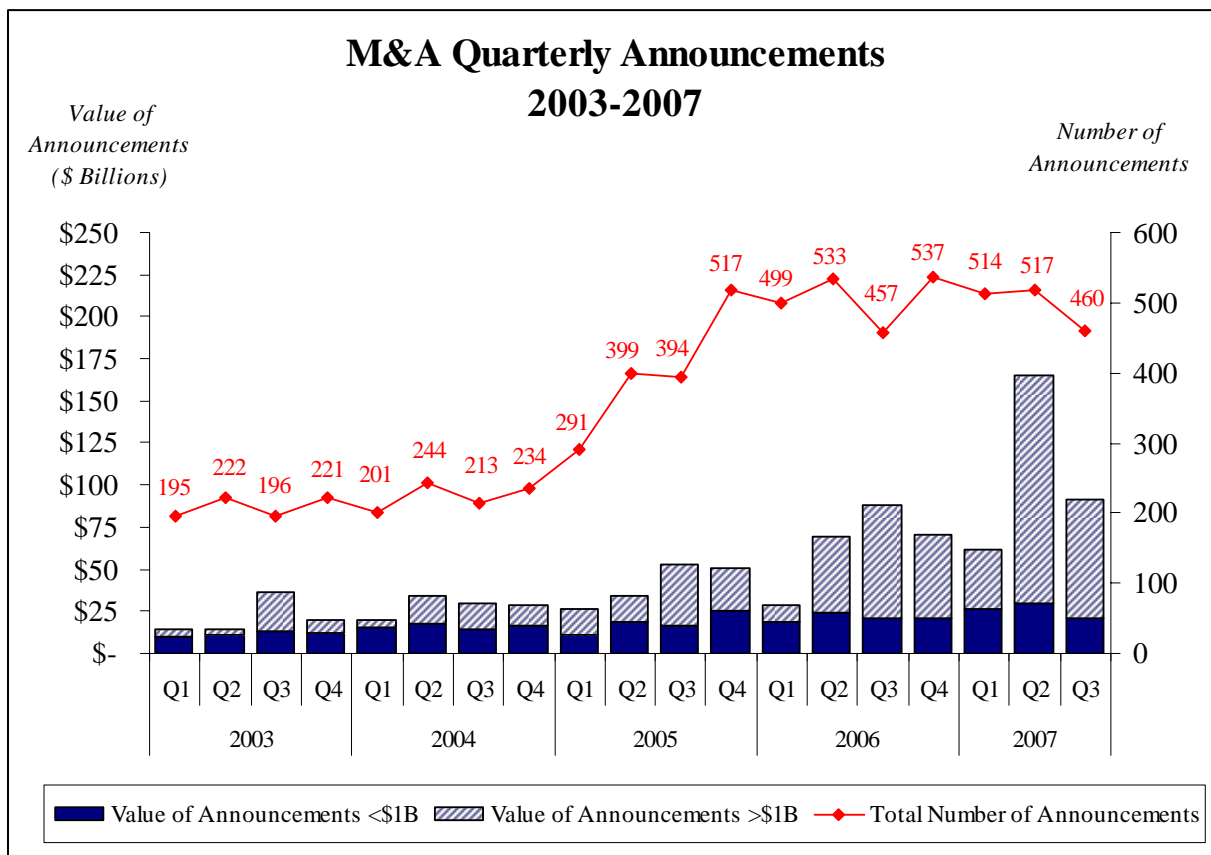
Mega-Deals

There were 12 “mega-deals” (transactions greater than \$1B) announced in the third quarter, which represented \$70B or 77% of the total M&A value. This was in sharp contrast to the whopping \$136B in mega deals announced last quarter (due in large part to the \$52B **BCE Inc.** acquisition) but remained comparable to the previous five quarters, where an average of 16 mega deals worth \$67B were announced.

The largest deal announced in the quarter was the \$40B acquisition of **Alcan Inc.** by **Rio Tinto Group**, a follow-up of the original \$36B bid from **Alcoa Inc.** in the second quarter.

Activity by Industry Sector

The **Industrial Products** sector led all industry groups by activity and value in the third quarter, with 118 deals announced worth over \$45B. In addition to the aforementioned Alcan deal, activity within this sector included the \$1.9B purchase of **Stelco Inc.** by **U.S. Steel Corporation**, representing the acquisition of Canada’s last major steel producer by a foreign competitor.



The **Consumable Fuels** sector was the second most active industry group in terms of both volume and dollar value, with 87 transactions announced worth over \$17B. This represented year-over-year increases of 18% and 20% respectively, led by the \$7B acquisition of **Western Oil Sands Inc.** by **Marathon Oil Corporation** and **WesternZagros Resources Ltd**, and the \$5B takeover of **PrimeWest Energy Trust** by **Abu Dhabi National Energy Company PJSC**.

Financial Sponsors

Financial sponsors accounted for approximately \$8.1B or 9% of total transaction value for deals above \$100M. By comparison, financials sponsors were involved in almost \$70B or 42% of deals greater than \$100M in the second quarter, which was skewed by the \$52B acquisition of **BCE Inc.** and the \$8.6B acquisition of **Thomson Learning** in Q2. Excluding these two transactions, however, the total value of deals greater than \$100M supported by financial sponsors still demonstrated a declining trend, which has continued into the first month of the fourth quarter. The two largest deals involving financial sponsors in the third quarter were the \$2.5B acquisition of **Legacy Hotels REIT** by **InnVest REIT**, **Caisee de dépôt et placement du Québec**, and **Westmont Hospitality Group**, and the \$1.2B takeover of **CHIP REIT** by **British Columbia Investment Management Corporation**.

Cross-Border Activity

Cross-border activity was again a very significant component of Canadian M&A activity in the third quarter, with 188 deals announced worth \$75B. This represented 41% of all M&A activity and 71% of total transaction value, compared to Q2 where cross-border transactions accounted for 38% of all M&A activity, and 83% of total M&A value. Continuing the historical trend, Canadian acquisitions of foreign companies exceeded foreign takeovers of Canadian companies by a margin of 2.2:1, however the value of foreign acquisitions exceeded Canadian acquisitions. The top three cross-border transactions in the quarter were the acquisitions of **Alcan Inc.**, **Western Oil Sands Inc.** and **PrimeWest Energy Trust**, which incidentally were also the top three largest deals announced in the quarter.

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

INDUSTRY GROUPS	2007		2006	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	307	78,896	302	16,727
Consumable Fuels	282	46,720	287	37,344
Real Estate	241	22,128	260	24,394
Consumer Products	95	6,211	79	2,954
Financial Services	109	16,974	79	8,299
Gold	22	7,797	35	14,172
Merchandising	93	11,985	93	13,693
Utilities	37	7,517	51	6,212
Communications & Media	52	87,248	47	4,759
Transportation & Environmental Services	39	6,071	62	4,355
Metals & Minerals	198	21,657	164	48,385
Paper & Forest	15	4,983	30	4,867
Pipelines	1	1,060	1	6
TOTAL	1,491	319,247	1,490	186,167
<i>Technology Watch:</i> (subsector of Ind. Prod.)	49	2,772	49	7,864

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

	2007		2006	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Canadians Acquiring				
Foreign Companies	389	70,271	366	52,252
Cdn Co's from Foreigners	18	4,941	35	12,955
Total	407	75,212	401	65,207
Top Foreign Target Country of Canadian Acquirors				
United States	221	35,227	United States	195 38,638
Foreigners Acquiring				
Canadian Companies	149	175,674	92	77,868
Foreign Co's from Cdn	38	3,154	48	9,294
Total	187	178,828	140	87,162
Top Foreign Acquiror of Canadian Located Companies				
United States	88	93,113	United States	57 32,146

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

Size	2007				2006			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Undisclosed	255	17	N/A		224	15	N/A	
1m-100m	999	67	18,003	6	1085	73	19,018	10
101m-250m	103	7	16,844	5	87	6	13,730	7
251m-500m	52	3	17,396	5	35	2	13,027	7
501m-1b	34	2	24,737	8	27	2	18,499	10
>1b	48	3	242,268	76	31	2	121,885	65

Largest Transactions Announced During Q3 2007

VALUE (*ESTIMATE)		NAME	ROLE	ANNOUNCED
US\$	38,100,000,000	Alcan Inc. Rio Tinto Group	Target Acquiror	12-Jul-07
\$	7,054,000,000	Western Oil Sands Inc. Marathon Oil Corporation WesternZagros Resources Ltd.	Target Acquiror Acquiror	31-Jul-07
\$	5,000,000,000 *	PrimeWest Energy Trust Abu Dhabi National Energy Company PJSC	Target Acquiror	24-Sep-07
\$	4,100,000,000	Aur Resources Inc. Teck Cominco Limited	Target Acquiror	3-Jul-07
\$	2,500,000,000	Legacy Hotels Real Estate Investment Trust Westmont Hospitality Group InnVest Real Estate Investment Trust Caisse de dépôt et placement du Québec	Target Acquiror Acquiror Acquiror	13-Jul-07
\$	2,362,000,000	DundeeWealth Inc. CI Financial Income Fund	Target Acquiror	24-Sep-07
US\$	1,858,000,000	Stelco Inc. United States Steel Corporation	Target Acquiror	26-Aug-07
US\$	1,600,000,000	Alabama National BanCorporation Royal Bank of Canada	Target Acquiror	6-Sep-07
US\$	1,480,000,000	Dakota, Minnesota & Eastern Railroad Corporation Canadian Pacific Railway Limited	Target Acquiror	4-Sep-07
US\$	1,400,000,000	IPC US Real Estate Investment Trust Behringer Harvard REIT I, Inc.	Target Acquiror	14-Aug-07
US\$	1,422,888,960	Quicksilver Resources Inc. Provident Energy Trust	Target Acquiror	12-Sep-07
\$	1,200,000,000	Canadian Hotel Income Properties Real Estate Investment Tr British Columbia Investment Management Corporation	Target Acquiror	1-Aug-07
\$	960,000,000	Husky Injection Molding Systems Ltd. Onex Corporation	Target Acquiror	28-Sep-07
\$	898,000,000	Rally Energy Corp. Citadel Capital Company	Target Acquiror	1-Aug-07
US\$	810,000,000	Banco del Desarrollo S.A. The Bank of Nova Scotia	Target Acquiror	31-Aug-07
\$	785,000,000	Esval S.A. Ontario Teachers' Pension Plan Consortia Financiero S.A.	Target Acquiror Vendor	10-Aug-07

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. (416-442-2121, toll free 1-800-661-7678, e-mail helpdesk@canwest.com).