

M&A Quarterly Report – Q3/08

Overview

The Canadian M&A market posted a sharp increase in deal value in the third quarter of 2008 reflecting a resurgence of “mega-deals” over \$1B. However, activity levels experienced a slight decline from Q2 as activity declined in the face of the prevailing financial crisis.

According to data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, 393 transactions worth \$54.7B were announced in Q3, compared with 424 deals valued at \$20.3B in the prior quarter, and 463 transactions representing \$91.4B in Q3 of 2007. Mid-market activity (transactions between \$1M and \$500M) continued to represent a key driver of M&A activity,

accounting for over 70% of overall activity.

Mega-Deals

There was a significant increase in the number of new transactions above \$1B in Q3, with nine new announcements worth \$38.5B, versus two transactions valued at \$3.5B in Q2. The increase in both activity and value in this segment placed the overall market at the same levels seen at the start of the M&A boom in Q2 of 2005.

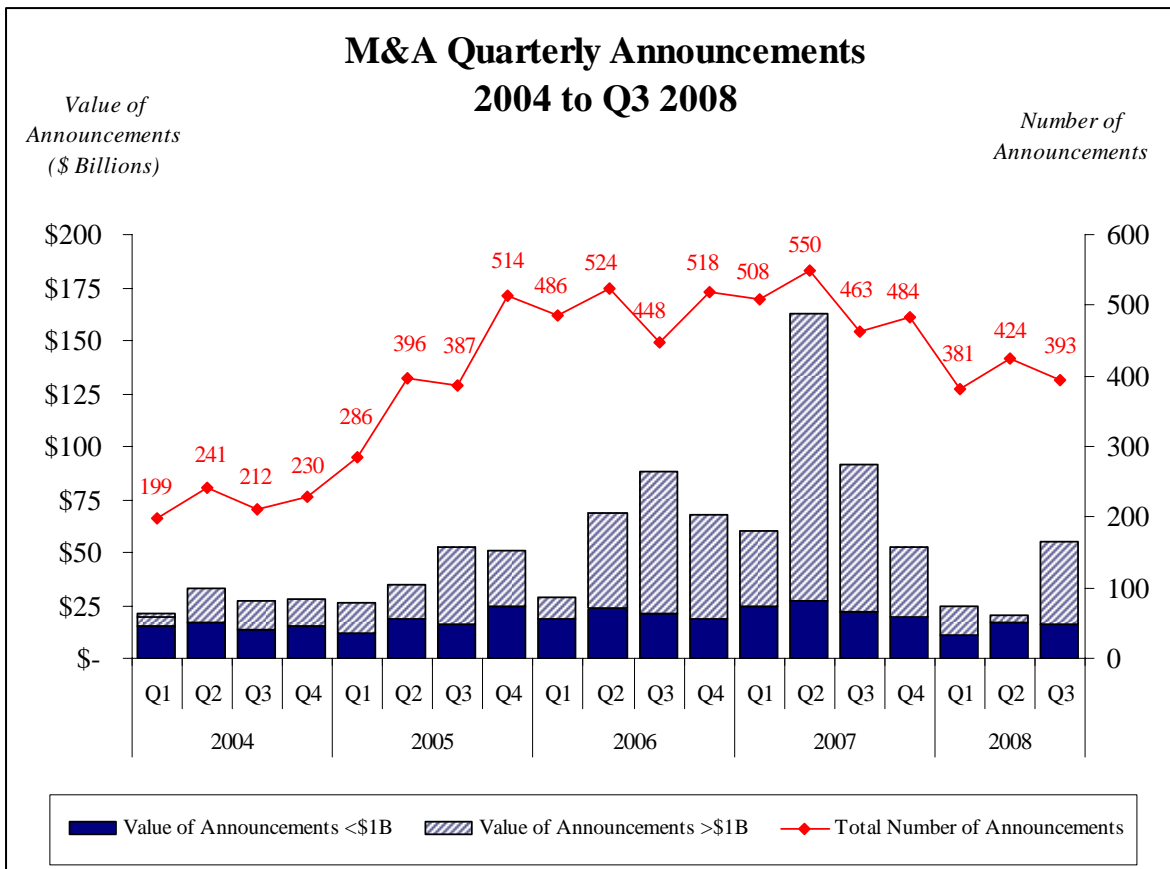
The largest announced transaction in the quarter was **Teck Cominco Limited’s** \$14.4B acquisition of **Fording Canadian Coal Trust**, followed by the \$8B proposed takeover of **TransAlta Corporation** by **LS Power Equity**

Partners and Global Infrastructure Partners.

TransAlta’s board determined that the offer undervalued the company and the bidders subsequently withdrew the offer in Q4 as TransAlta’s shares further declined below the offering price.

Industry Activity

For the sixth consecutive quarter, the **Oil & Gas** and **Industrial Products** sectors led all industries in activity with 103 and 87 announced transactions, worth \$14.5B and \$5.2B, respectively. The largest transaction within Oil & Gas was **Royal Dutch Shell plc’s** \$5.9B acquisition of **Duvernay Oil Corp.**, while the \$2B takeover of **Teranet Income Fund** by **OMERS** represented the largest deal in the Industrial



Products sector. Although M&A activity in **Metals & Mining** represented only 37 transactions in Q3, the value of these transactions exceed that of all other sectors at \$15.9B. This was largely attributed to the \$14.4B Teck Cominco acquisition.

Income Trust Activity

Activity in the income trust sector was propelled sharply higher in Q3 by the previously mentioned acquisitions of Fording Canadian Coal Trust and Teranet Income Fund. However, even in absence of the Fording transaction, activity within this group edged higher with 46 transactions worth \$3.6B compared with 41 deals valued at \$3.2B in the prior quarter.

Financial Groups

Financials groups were again active in Q3, posting the fourth consecutive quarter of increasing deal volume with 10 transactions (\$13.1B) compared with seven in the prior quarter (\$3.6B). In the category of transactions above \$100M, capital groups accounted for 22% and 26% of activity and value, respectively, consistent with the 19% and 26% posted in the prior quarter. The proposed takeover of TransAlta Corporation was the largest announced transaction sponsored by a financial group in the quarter, and was followed by the acquisition of Teranet Income Fund by **Borealis Infrastructure Management Inc.**, an investment unit of OMERS.

Cross-Border Activity

Cross-border transactions remained an important component of the overall market, contributing to 40% of all new announcements in line with the prior quarter. The relative value of cross-border deals also remained relatively consistent with the prior quarter, accounting for 55% of total transaction value versus 52% in Q2. Five of the eight largest deals in the quarter had a cross-border component, while three of these transactions involved a company in the Oil & Gas space.

Canadian acquisitions of foreign companies comprised 66% of cross-border activity, compared with 63% in the prior quarter. As in Q2, Canadian-led acquisitions exceeded those led by foreign companies by an almost 2-to-1 margin. However, the value of Canadian-led acquisitions dropped to 15% of all cross-border deals, a marked decline from 42% in Q2.

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

INDUSTRY GROUPS	2008		2007	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	282	9,691	309	76,045
Consumable Fuels	271	29,278	290	44,125
Metals & Minerals	142	20,679	176	22,067
Real Estate	115	3,841	264	15,981
Financial Services	86	5,595	101	21,010
Consumer Products	83	5,192	98	9,298
Merchandising	73	1,074	97	12,100
Utilities	46	13,619	40	58,523
Gold	32	7,028	19	7,715
Communications & Media	30	1,145	55	35,624
Transportation & Environmental Services	23	392	58	6,902
Paper & Forest	12	364	13	4,135
Pipelines	3	1,894	1	1,060
TOTAL	1,198	99,792	1,521	314,585
<i>Technology Watch:</i> (subsector of Ind. Prod.)	40	1,228	49	2,813

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

	2008		2007		
	# of Deals	Value \$Millions	# of Deals	Value \$Millions	
Canadians Acquiring					
Foreign Companies	301	19,234	395	71,219	
Cdn Co's from Foreigners	16	705	16	4,930	
Total	317	19,939	411	76,149	
Top Foreign Target Country of Canadian Acquirors					
United States	167	13,508	United States	227	35,114
Foreigners Acquiring					
Canadian Companies	114	34,553	144	175,037	
Foreign Co's from Cdn	41	4,448	38	3,175	
Total	155	39,001	182	178,212	
Top Foreign Acquiror of Canadian Located Companies					
United States	65	20,307	United States	87	92,724

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

Size	2008				2007			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Undisclosed	274	23	N/A		210	14	N/A	
1m-100m	800	67	14,444	14	1079	71	18,507	6
101m-250m	57	5	9,049	9	103	7	16,986	5
251m-500m	37	3	13,420	13	49	3	16,404	5
501m-1b	11	1	7,088	7	31	2	21,944	7
>1b	18	2	55,791	56	49	3	240,745	77

Largest Transactions Announced During Q3 2008

VALUE	NAME	ROLE	ANNOUNCED
US\$ 14,100,000,000	Fording Canadian Coal Trust Teck Cominco Limited	Target Acquiror	29-Jul-08
\$ 8,000,000,000	TransAlta Corporation Global Infrastructure Partners LS Power Equity Partners	Target Acquiror Acquiror	21-Jul-08
\$ 5,900,000,000	Duvernay Oil Corp. Royal Dutch Shell plc	Target Acquiror	14-Jul-08
\$ 2,066,882,895	Tanganyika Oil Company Ltd. China Petrochemical Corporation	Target Acquiror	25-Sep-08
\$ 2,000,000,000	Rothmans Inc. Philip Morris International Inc.	Target Acquiror	31-Jul-08
\$ 2,000,000,000	Teranet Income Fund Ontario Municipal Employees Retirement System	Target Acquiror	4-Sep-08
\$ 1,500,000,000	Gold Eagle Mines Ltd. Goldcorp Inc.	Target Acquiror	31-Jul-08
US\$ 1,300,000,000	Penfold Capital Acquisition Corporation OAO Severstal	Target Acquiror	22-Aug-08
\$ 1,200,000,000	Aurelian Resources Inc. Kinross Gold Corporation	Target Acquiror	24-Jul-08
\$ 923,000,000	First Calgary Petroleum Ltd. Eni S.p.A.	Target Acquiror	8-Sep-08
\$ 680,000,000	Solana Resources Limited Gran Tierra Energy Inc.	Target Acquiror	29-Jul-08
US\$ 627,000,000	Oncor Electric Delivery Company LLC Ontario Municipal Employees Retirement System Energy Future Holdings Corporation	Target Acquiror Vendor	12-Aug-08
US\$ 480,000,000	Oil and gas assets Total Holdings Nederland BV Talisman Energy Inc.	Target Acquiror Vendor	3-Sep-08
\$ 500,000,000	Xantrex Technology Inc. Schneider Electric SA	Target Acquiror	28-Jul-08
US\$ 442,000,000	E*TRADE Canada The Bank of Nova Scotia E*TRADE Financial Corporation	Target Acquiror Vendor	14-Jul-08
\$ 437,500,000	Connors Bros. Income Fund Centre Partners Management LLC	Target Acquiror	25-Sep-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).