

M&A Quarterly Report – Q3/09

Overview

While below the levels of a year ago, the Canadian M&A market continued to strengthen in the third quarter by posting a 12% increase in transaction volume and a 27% increase in deal value over Q2.

According to data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, 221 transactions were announced in Q3, up from 198 in Q2. The resurgence of transactions over \$1B also propelled deal value higher from \$23.8B in Q2 to \$30.2B in Q3.

Mid-market Deals

The mid-market (representing deals under \$250M) posted its second

consecutive quarter of higher transaction volume and remained a key driver to overall M&A activity. There were 198 mid-market transactions in Q3, representing 90% of all transactions, compared to 176 in the prior quarter.

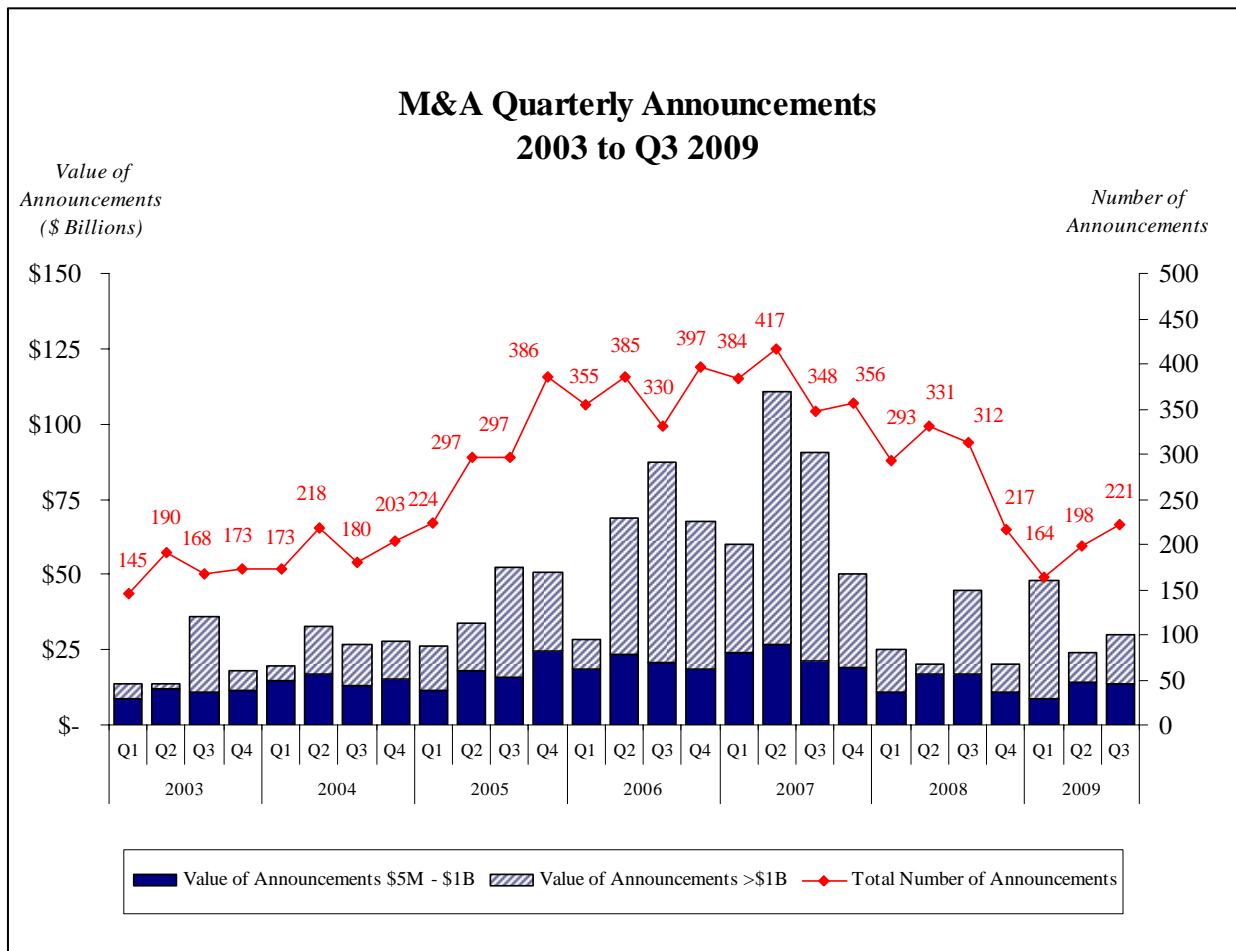
Mega Deals

The mega-deal segment of the M&A market (transactions greater than \$1B) sprung to life in Q3 with 9 announced deals. This activity compares to 2 mega-deals last quarter and 15 for the year-to-date. Most significantly, Q3 represented the highest level of activity in seven quarters. Transactions over \$1B accounted for \$16.4B, or 54% of deal value in the third quarter, compared to \$9.7B, or 41% of deal value in the previous one.

The largest transactions in the quarter included the \$5.6B combination of **Petrobank Energy and Resources Ltd.**'s Canadian business unit assets with Calgary-based **TriStar Oil & Gas Ltd.** to form **PetroBakken Energy Ltd.**, **Capital Power Corporation**'s \$2.6B acquisition of power generating assets from **EPCOR Utilities Inc.**, and **China Investment Corporation**'s \$1.7B investment in **Teck Resources Limited**.

Industry Activity

For the second consecutive quarter, the **Oil & Gas** sector generated the most M&A activity with 65 transactions, or 28% of the total for the quarter. **Industrial Products** was the second most active industry group, with 38 announced deals representing 17% of announced transactions. For the tenth



consecutive quarter, these two industry sectors led all industry groups in activity.

Oil & Gas also topped all other sectors in transaction value with \$10.6B worth of deals announced. The sector was led by the quarter's largest transaction previously mentioned. The **Utilities** sector was third in transaction value in Q3 at \$5.2B, due in large part to Capital Power Corporation's \$2.6B acquisition of assets from EPCOR Utilities Inc.

Cross-Border Activity

Cross-border activity for the quarter was flat with 90 announced transactions compared with 87 in Q2. Consistent with historical trends, Canadian companies were net acquirors of foreign-based targets by a ratio of over 2:1, but were outspent by their foreign counterparts by a 1.2:1 margin. These relationships reflect the relatively large size (on average) of Canadian companies targeted by foreign buyers.

Cross border transactions accounted for 6 of the 10 largest transactions in the quarter, including China Investment Corporation's investment in Teck Resources Limited, and the \$1.5B takeover of **Eldorado Gold Corporation** by Australia-based **Sino Gold Mining Limited**. These two transactions were the quarter's largest and second largest cross-border transactions, respectively.

Financial Groups

M&A activity involving financial groups bounced back somewhat in Q3 with 8 announced transactions over \$100M, compared to 2 transactions in Q2. This represented the highest level activity in this segment in four quarters.

Of note, the top 6 transactions involving financial groups were also cross-border deals, the largest of which was the Teck Resources transaction. **Ontario Teachers' Pension Plan** also announced two cross-border acquisitions in the quarter, including the \$415M acquisition of **Simmons Bedding Company**.

Income Trust Activity

The income trust sector posted 13 transactions in Q3, a decline from 18 announcements last quarter. Notwithstanding this decrease, deal value edged up slightly from \$1.5B in Q2 to \$1.8B in the current quarter. This was largely attributed to **Great Lakes Hydro Income Fund's** \$945M acquisition of **Brookfield Asset Management Inc.'s** Canadian renewable power generation business, which included Brookfield's 15 hydroelectric facilities.

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

INDUSTRY GROUPS	2009		2008	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Consumable Fuels	136	49,401	199	27,675
Industrial Products	123	14,098	219	9,127
Metals & Minerals	61	3,829	86	20,315
Financial Services	55	4,483	69	5,508
Real Estate	44	1,730	106	4,236
Gold	35	4,498	28	6,879
Merchandising	32	899	63	1,344
Consumer Products	26	2,778	67	5,362
Utilities	24	8,594	35	5,750
Communications & Media	19	8,883	29	1,045
Transportation & Environmental Services	14	550	22	388
Paper & Forest	9	296	10	275
Pipelines	5	1,850	3	1,904
TOTAL	583	101,889	936	89,808
<i>Technology Watch:</i> (subsector of Ind. Prod.)	13	3,261	44	1,236

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

	2009		2008		
	# of Deals	Value \$Millions	# of Deals	Value \$Millions	
Canadians Acquiring					
Foreign Companies	134	24,397	223	18,890	
Cdn Co's from Foreigners	11	2,049	16	820	
Total	145	26,446	239	19,710	
Top Foreign Target Country of Canadian Acquirors					
United States	62	10,528	United States	129	13,515
Foreigners Acquiring					
Canadian Companies	55	19,067	101	23,517	
Foreign Co's from Cdn	34	4,666	39	4,840	
Total	89	23,733	140	28,357	
Top Foreign Acquiror of Canadian Located Companies					
United States	29	2,917	United States	58	11,913

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

Size	2009				2008			
	# of Deals	%	Value \$ Millions	%	# of Deals	%	Value \$ Millions	%
Undisclosed	115	20	N/A		242	26	N/A	
5m-100m	356	61	8,660	8	568	61	14,110	16
101m-250m	52	9	7,944	8	61	7	9,676	11
251m-500m	30	5	10,103	10	38	4	13,853	15
501m-1b	15	3	9,936	10	11	1	7,088	8
>1b	15	3	65,245	64	16	2	45,081	50

Largest Transactions Announced During Q3 2009

VALUE	NAME	ROLE	ANNOUNCED
\$ 2,952,522,000	Canadian business unit assets PetroBakken Energy Ltd. Petrobank Energy and Resources Ltd.	Target Acquiror Vendor	4-Aug-09
\$ 2,640,525,000	TriStar Oil & Gas Ltd. PetroBakken Energy Ltd.	Target Acquiror	4-Aug-09
\$ 2,567,281,250	Capital Power LP Capital Power Corporation EPCOR Utilities Inc.	Target Acquiror Vendor	9-Jul-09
\$ 1,743,450,000	Teck Resources Limited China Investment Corporation	Target Acquiror	3-Jul-09
\$ 1,600,000,000	Canadian Hydro Developers, Inc. TransAlta Corporation	Target Acquiror	22-Jul-09
A\$ 1,700,000,000	Sino Gold Mining Limited Eldorado Gold Corporation	Target Acquiror	26-Aug-09
US\$ 1,130,000,000	CDMA business & LTE access assets Telefonaktiebolaget LM Ericsson Nortel Networks Corporation	Target Acquiror Vendor	24-Jul-09
US\$ 1,042,000,000	Odyssey Re Holdings Corp. Fairfax Financial Holdings Limited	Target Acquiror	4-Sep-09
US\$ 915,000,000	Nortel Government Solutions Incorporated DiamondWare, Ltd. Enterprise Solutions Business Avaya Inc. Nortel Networks Corporation	Target Target Target Acquiror Vendor	20-Jul-09
\$ 945,000,000	Hydroelectric facilities Great Lakes Hydro Income Fund Brookfield Asset Management Inc.	Target Acquiror Vendor	6-Jul-09
US\$ 650,000,000	MDS Analytical Technologies Danaher Corporation MDS Inc.	Target Acquiror Vendor	2-Sep-09
\$ 698,000,000	Natural gas properties Bonavista Energy Trust EnCana Corporation	Target Acquiror Vendor	16-Jul-09
\$ 665,300,000	Wave Energy Ltd. Crescent Point Energy Corp.	Target Acquiror	24-Aug-09

Note: Effective May 1, 2009 the inclusion criterion for the minimum deal value was increased from \$1M to \$5M. The number of transactions and aggregate deal value were revised retroactively.

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).