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CANADIAN M&A ACTIVITY – SECOND QUARTER 2006 REPORT

M&A Activity Soars to Record Levels

The Canadian M&A market reached record levels in the second quarter of 2006, according to data released today by Crosbie & Company Inc., a Toronto-based specialty investment bank. 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.

“What a time to maximize value,” said Ed Giacomelli, Managing Director at Crosbie & Company. “With the presence of domestic and foreign strategic and financial buyers, and the emergence of bidding wars, this market has it all.”

Metals & Minerals represented 46% of the transaction value in the quarter, including two of largest transactions in Canadian M&A history. “Mining is still leading the way, but virtually every sector experienced stronger levels of activity,” added Mr. Giacomelli.

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.

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 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.

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.

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.

The information above 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. Crosbie & Company Inc. provides specialized investment banking services to the middle market.

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