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CANADIAN M&A ACTIVITY – SECOND QUARTER 2008 REPORT

Mid-Market Shows Resiliency, Mega-Deals Wane

The Canadian M&A market showed continued resiliency in the second quarter of 2008 with an uptick in deal volume from the prior quarter, placing it firmly above the levels seen in late 2005 before the surge in M&A activity. However, the value of deals continued to show sharp declines posting the lowest level of aggregate deal value in almost five years as the fallout of the credit crunch slowed the number of large leveraged transactions. According to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database for the three months ended June 30, 2008, there were 416 new transactions announced in the second quarter of 2008 worth \$18.4 billion, compared with 377 transactions valued at \$24.5 billion in the prior quarter and a record 552 new announcements resulting in \$163.5 billion of transaction value during the blockbuster second quarter of last year.

While the mid-market continued to be a stalwart in the M&A landscape, accounting for 74% of deal activity and almost 70% of deal value, “mega-deal” activity stalled with only two transactions greater than \$1 billion recorded in the quarter. “Credit available for new large leveraged transactions evaporated in the quarter”, said Ed Giacomelli, Managing Director at Crosbie & Company. “The dislocation in credit markets in Q1 and overhang related to previously announced mega-deals took a toll on leveraged deals in Q2. However, strategic buyers continue to be active in this phase of the M&A cycle,” added Mr. Giacomelli.

The largest announced transaction was **Precision Drilling Trust’s** \$2.1 billion bid for **Grey Wolf, Inc.**, its third unsolicited offer in a month for the contract oil and gas driller. This transaction was followed by **Enbridge Inc.’s** \$1.3 billion divestiture of its 25% stake in Spain-based **Compania Logistica de Hidrocarburos CLH, S.A.** to a consortium of buyers led by **AMP Capital Investors** and including **Public Sector Pension Investment Board**.

By sector, **Oil & Gas** and **Industrial Products** continued to fuel the M&A engine, accounting for 47% of total transaction volume (99 and 95 new transactions, respectively). Collectively, these two sectors also accounted for \$9.1 billion in value, demonstrating its continued importance on overall M&A activity. In spite of a decline in average deal size from the prior quarter, Oil & Gas posted a 43% increase in new transaction volume. Financial groups continued to show more life with eight recorded transactions in the second quarter, led by **Ontario Teachers’ Pension Plan’s** 50% acquisition of **SAESA Group**, a Chilean electricity, transmission and generating company, for \$645 million. Following up on last quarter’s \$3.7 billion takeover of **CHC Helicopter**, **First Reserve Corporation** was again active in Q2, snapping up **Saxon Energy Services Inc.** for \$592 million.

Cross border activity continued to be an important driver of M&A activity, posting 169 transactions worth \$12.6 billion in Q2 representing 41% of overall transaction volume and 69% of total M&A value. In fact, the seven largest transactions in the quarter were cross-border deals, five of which involved a Calgary-based company in the Oil & Gas sector. For the third quarter in a row, acquisitions led by Canadian companies exceeded those led by foreign-based entities. However, foreign acquirers outspent their Canadian counterparts, bucking the trend established over the past two quarters.

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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