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CANADIAN M&A ACTIVITY – SECOND QUARTER 2009 REPORT

Signs of a Bottom or a Dead Cat Bounce? Second Quarter M&A Numbers Show Modest Rebound

The Canadian M&A market snapped out of three consecutive quarters of declining activity with a 28% increase in announced transactions in the second quarter. According to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada*, 205 transactions were announced in the quarter compared to 160 transactions in Q1. Despite higher transaction volumes, the aggregate value of these deals fell from \$47.6 billion in the first quarter to \$24.9 billion in the second quarter due to particularly thin activity in the “mega deal” segment of the market (transactions greater than \$1 billion).

Activity bounced significantly in June following a weak April and May, as well as Q1 which was one of the weakest quarters on recent record. “While far below the top-of-market conditions of 2007, the M&A market had a pretty respectable quarter given the macro-environment”, said Colin Walker, Managing Director at Crosbie & Company. “We are not yet out of the woods but valuations and psychology are beginning to improve. Some of the deal activity that ground to a halt for a few months seems to have resumed. But one has to still ask the question - was Q1 the bottom or are we seeing the proverbial dead cat bounce?”

A key area of strength this quarter was the mid-market (transactions valued under \$250 million) where activity rose by 26%. The mid-market remained a central component of the broader market, accounting for 88% of all transaction volumes with 181 announced deals.

The income trust sector picked up in the quarter with 18 announced transactions compared to seven in the previous quarter. Income trust deals in the second quarter were led by **Northland Power Income Fund**'s \$372 million acquisition of its manager and developer of power generation assets, **Northland Power Inc.**

Activity levels for cross-border M&A also rebounded strongly in the second quarter with 90 announced transactions compared to 56 in Q1. Of particular note, eight of the top ten deals in Q2 involved a foreign-based entity. As a result, almost 80% of all deal value in the quarter was cross-border in nature. In line with historical trends, Canadian acquirers accounted for the majority of cross-border deals (55% of the total), but were out-spent by foreign acquirers (1.75:1) which is consistent with historical trends and reflects the foreign appetite for buying larger Canadian companies.

The large deal segment of the market was weak in Q2 with only two mega deal announcements: the \$8.3 billion takeover of **Addax Petroleum Corporation** by China-based **Sinopec International Petroleum Exploration and Production Corporation**, and **Viterra Inc.**'s \$1.4 billion acquisition of Australia-based **ABB Grain Ltd.**

Financial groups also remained substantially on the sidelines this quarter, registering only two deals over \$100 million. The largest transaction in this category was the sale of **George Gillett Jr.**'s 80.1% stake in the **Montreal Canadiens** for \$500 million to an investor group led by the **Molson family**.

For the ninth quarter in a row, the **Oil & Gas** and **Industrial Products** sectors were the most active in the quarter, which collectively accounted for almost half of all transaction volume.

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 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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