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CANADIAN M&A ACTIVITY – THIRD QUARTER 2006 REPORT

All that Glitters Isn't Gold

The Canadian M&A market continued its record pace through the third quarter of 2006, according to data released today by Crosbie & Company Inc., a Toronto-based specialty investment bank. M&A activity was powered by a combination of factors including solid economic fundamentals, the availability of acquisition financing, and the continued strength in mid-market and cross-border M&A activity. Also significant has been the high activity in the metals and energy sectors. 420 transactions were announced in the quarter, representing a total value of \$90.3 billion. This value represents a quarterly high water mark, eclipsing the previous high of \$79.1 billion recorded during the tech boom in the second quarter of 2000. The Q3 results for 2006 benefited from the shift of the \$19.9 billion **Inco Limited** transaction from the second quarter after Brazilian-based **Compania Vale do Rio Doce** topped a previous bid from **Falconbridge Limited**.

For the first nine months of 2006, M&A activity also reached record levels. During this period, there were 1,430 announced transactions representing a total value of \$187 billion. Compared to the same period last year, the number of announcements and value metrics were up an astounding 32% and 64%, respectively. The number of transactions for the period set a new all-time record and are more than double the number reported for the same nine-month period in both 2002 (661 deals) and 2003 (613 deals). In terms of total value, the results for the nine-month period were essentially equal to that recorded during the same period in 2000 (\$188 billion).

“We are in a white-hot M&A market that is broadly based and would appear to have very strong legs going into the fourth quarter,” said Colin Walker, Managing Director at Crosbie & Company. Activity in the first nine months was led by strong showings in the base metals, oil & gas, industrial products, real estate and merchandising sectors. “It is proving to be an ideal time to sell businesses, and on very favourable terms.”

In the third quarter, the strength of the market was visible in both the large transaction and mid-market segments. In the large deal segment there were 18 transactions announced having values of over \$1 billion (mega-deals), representing a total value of \$69.8 billion; this is up from 10 transactions worth \$45.2 billion in the previous quarter. It is notable that the mega-deals in the third quarter alone were about equal to the total value of the transactions during the second quarter of 2006. Foreign appetite for large Canadian companies was evident in this segment with five of the ten largest transactions representing foreign acquisitions valued at \$36.3 billion in total. However, it is also notable that only one of these (the Inco acquisition) was a resource-based business.

The segment of the market below \$100 million in transaction value also continued to be a very significant driver of overall M&A activity. In the quarter, there were 315 of these transactions totalling \$5.5 billion. For the nine months, there were 994 transactions worth \$18.4 billion - representing 70% of total activity and reflecting an average transaction size of about \$20 million.

Cross-border transactions also continued to be a very significant contributor to the overall M&A landscape, representing 80% of total deal value and 35% of total deal volume during the first nine months of 2006. There were 501 cross-border transactions totalling \$150.2 billion in the three quarters of 2006 compared to 371 transactions worth \$81.9 billion for the same period last year. Consistent with the historical trend, Canadian

companies were generally more acquisitive of foreign companies with 363 transactions during the year-to-date period compared to 138 acquisitions of Canadian owned companies by foreigners.

Private equity groups and other financial sponsors were relatively quiet compared to recent quarters. The lone mega-deal in the quarter involving a financial player was **Fortress Investment Group's** \$3.1 billion acquisition of **Intrawest Corporation**, a leisure resort developer and operator. However, the recently announced decision to phase-out the tax advantages of Canadian income trusts are anticipated by many to become a catalyst for increased M&A activity involving financial groups in the future.

In terms of industry activity for the quarter, deals were broadly based with nine sectors having over 20 transactions and six sectors having over \$5 billion in total announced transaction value. Highlights are as follows:

Consumable Fuels (formerly Oil & Gas) was the most active sector with 91 transactions and second largest by value at \$17.0 billion. The largest transaction was **Canadian Natural Resources Limited's** acquisition of **Anadarko Petroleum Corporation's** Western Canadian subsidiary, **Anadarko Canada Corporation** for \$4.6 billion. Other significant Oil, Gas & Consumable Oil & Gas mega-deals included acquisitions by **Addax Petroleum Corporation, Harvest Energy Trust, Pengrowth Energy Trust** and **Denison Mines**.

Real Estate was the second most active sector, with 81 transactions valued at \$6.6 billion. A significant contributor for the quarter was REIT acquisitions which represented over half of the sector total.

The **Mining & Minerals** sector continued its brisk pace with 55 transactions valued at \$23.8 billion, up from a revised total of 49 transactions valued at \$20.7 billion in the previous quarter. Mining & Minerals was the largest sector by value for the quarter, driven by the Inco acquisition discussed previously.

Gold saw a significant increase in activity during the third quarter with 14 transactions valued at \$15.1 billion fuelled by strong bullion prices. Canadian companies **Goldcorp, Barrick Gold** and **IAMGOLD** all made billion-dollar-plus acquisitions during the quarter while Barrick Gold also unloaded its interest in **South Deep Gold Mine** for \$1.7 billion.

In the **Media** sector, **Bell Globemedia** completed a \$1.7 billion takeover of **CHUM Limited**. This sector has been relatively quiet in recent years although this transaction is one that had been anticipated for some time.

In the **Technology** sector, M&A activity was more brisk this quarter than it has been for some time - with 26 transactions totalling \$7.6 billion, a level not seen since the tech boom era in 2001. The largest transaction of the sector, and one of the largest deals of the quarter, was California-based **AMD's** acquisition of Canadian graphic chip manufacturer, **ATI Technologies**.

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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