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CANADIAN M&A ACTIVITY – THIRD QUARTER 2008 REPORT

Strong July Drives Surprisingly Robust Quarter

A quick start to the quarter led the Canadian M&A market to post a strong third quarter in the face of deteriorating economic conditions. According to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database the third quarter of 2008 saw deal values almost triple from \$20.3 billion in the previous quarter to \$54.7 billion despite a 7% decrease in volumes from 424 posted transactions to 393. A red-hot July with sharply higher transaction volumes and the strongest month in terms of deal values over the last twelve months was quickly followed by two of the weakest months since the beginning of the M&A boom in 2005.

“Strategic buyers continued to be bullish throughout much of the quarter, until reality changed,” said Ed Giacomelli, Managing Director at Crosbie & Company Inc., referring to the events of August and September that saw the Fed takeover of **Freddie Mac** and **Fannie Mae**, the collapse of **Lehman Brothers**, and the bailout of insurance giant, **American Insurance Group**.

“The magnitude of the financial crisis has already changed the flavour of M&A,” added Mr. Giacomelli. “In markets like this, objectives change and expectations get recalibrated, but deals can still get done.”

Although the mid-market was again the driver of Canadian M&A activity, accounting for over 70% of deal volume, it was the resurgence of the so called mega-deals (deals greater than \$1 billion) that boosted deal values during the quarter. Mega-deals represented 70%, or \$38.5 billion of M&A deal values in the third quarter, up significantly from \$3.5 billion in the previous quarter. The number of mega-deal announcements also swelled from two to nine in the third quarter with six mega-deal announcements coming in July.

While financial groups posted the fourth straight quarter of higher participation in the M&A market, it was the strategic buyers that propelled the M&A market in the third quarter. Strategic buyers accounted for eight of the ten largest transactions and represented approximately 74% of deal values posted during the quarter.

The largest announced transaction during the quarter was **Teck Cominco’s** \$14.4 billion acquisition of the 80% stake in **Fording Canadian Coal Trust** it didn’t already own. While Teck Cominco continued with the purchase in spite of market conditions, the \$8 billion bid for **TransAlta Corporation**, the second largest deal, was withdrawn in October by **LS Power Equity Partners** and **Global Infrastructure Partners**, apparently a casualty of the crisis.

The **Metals & Minerals** and **Oil & Gas** sectors were once again the largest sectors by deal value, accounting for 28% and 25% of announced transactions, respectively. Interestingly, virtually all sectors posted significant increases in deal values during the quarter. In terms of transaction volumes it was the Oil & Gas and **Industrial Products** sectors with the most announced transactions representing 25% and 21% of total deal volumes, respectively.

Cross-border activity declined to 157 transactions from 171 deals in the second quarter, but remained a vital component of the Canadian M&A landscape contributing to 40% of deal volume and 53% of deal values, roughly in line with the previous 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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