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CANADIAN M&A ACTIVITY – THIRD QUARTER 2009 REPORT

Continued Strengthening Points to a “New Normal” for Canadian M&A Markets

The Canadian M&A market edged higher for the second consecutive quarter providing further evidence to support the view that markets have stabilized. According to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, 221 transactions were announced in the third quarter, a 12% increase over the 198 deals announced in Q2. At the same time, the value of Canadian M&A transactions announced in Q3 increased to \$30.2 billion, up 27% from the prior quarter.

Strengthened performance this quarter reflects continued improvement in a host of market fundamentals including financing conditions for buyers, buyer psychology, and company valuations. “As a result of strengthening conditions, we have seen a return of many of the market participants that were sitting on the sidelines. Buyers are again considering M&A opportunities seriously”, said Colin Walker, Managing Director of Crosbie & Company Inc. In their report, Crosbie points out that strategic buyers, private equity buyers and providers of acquisition financing have all stepped up activity over the past couple of quarters. Mr. Walker added “it is now apparent that many industry sectors and companies were well positioned to weather the downturn, providing good ingredients for transactions”.

Despite the significant improvement relative to the apparent M&A market bottom in Q1 (164 transactions), activity remains well below the levels experienced prior to the beginning of the recession. “It seems like we could be in a new trading range relative to the 2005-2008 period” said Colin Walker. “Quarterly transactions have fallen from 300-400 per quarter during the top of the cycle period to something closer to 200-250 per quarter” he said. “Although many suppliers of capital to M&A transactions that emerged relatively recently have exited the market, we believe that the current activity level is stable and sustainable”.

The general improvement over the past two quarters has been largely driven by strategic buyers of mid-market companies, which represented 88% of total activity in Q3. However, there was also renewed activity in Q3 for larger transactions. There were 9 transactions of over \$1 billion in the third quarter worth \$16.3 billion, an increase from 2 transactions in the prior quarter which were valued at \$9.7 billion. The largest transactions in the quarter included the \$5.6 billion combination of **Petrobank Energy and Resources Ltd.**’s Canadian business unit with Calgary-based **TriStar Oil & Gas Ltd.** to form **PetroBakken Energy Ltd.**, **Capital Power Corporation**’s \$2.6 billion acquisition of power generating assets from **EPCOR Utilities Inc.**, and **China Investment Corporation**’s \$1.7 billion investment in **Teck Resources Limited**.

Once again, **Oil & Gas** transactions took the top spot in transaction volume by sector, posting 65 transactions worth \$10.7 billion. The top Oil & Gas transaction was also incidentally the largest transaction for the quarter. **Industrial Products** was the second most active sector, generating 38 transactions and \$3.7 billion in transaction value. In aggregate, these two sectors accounted for 47% of all M&A activity, and together led all sectors in transaction volume for the tenth consecutive quarter.

Cross-border activity in Q3 was similar to the prior quarter with 90 transactions (up from 87), representing 41% of total announcements. Consistent with historical trends, acquisitions made by Canadian companies abroad exceeded the number of foreign takeovers of Canadian companies by a margin of 2.2:1. However, the value of Canadian-led acquisitions only accounted for 45% of total cross-border transaction value. While the U.S. was once again Canada’s largest international M&A partner, representing 35% of cross border transactions, it is noteworthy that there were only 6 U.S. acquisitions of Canadian companies in the quarter.



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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