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## CANADIAN M&A ACTIVITY – FIRST QUARTER 2006 REPORT

### Best 1<sup>st</sup> Quarter of M&A Activity in 10 Years

The Canadian M&A market maintained its torrid pace in the first quarter of 2006, picking up where it left off in 2005, led by strong activity in the mid-market (transactions between \$1 million and \$500 million). Based on the data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, the total number of transactions announced during the first quarter of 2006 was 424, the most active start in over ten years, compared to 264 in the same period last year and 463 in the record fourth quarter of 2005. The total value of the announced transactions was \$25B compared to \$26B in the first quarter of 2005 and \$61.9B in the previous quarter.

“Judging by the strength in Q1, the outlook for M&A activity bodes well for 2006,” said Mr. Giacomelli, Managing Director at Crosbie.

Mid-market activity during the first quarter saw 327 transactions totalling \$12.5B, 50% of transaction value, significantly higher than the 201 transactions valued \$8.7B, 34% of transaction value, in the same period last year.

“The mid-market is a dynamic part of the Canadian M&A landscape,” said Mr. Giacomelli, “Increased globalization has made M&A more important to Canadian mid-market companies from a strategic standpoint.”

The strength in the mid-market was partially offset by a decline in mega-deals (transactions greater than \$1B), with only four mega-deals valued at \$8.6B in the first quarter of 2006 versus six mega-deals valued at \$15.0B during the same period last year and ten mega-deals worth \$44.1B in the prior quarter. All four mega-deals during the quarter had an international component to them, with three of the deals involving the acquisition of Canadian companies by foreign firms.

The resource sectors, fuelled by record high commodity prices for oil & gas, precious metals and base metals, have been a key driver of M&A activity, accounting for 38% of the transactions and 42% of the dollar volume compared with 23% of the transactions and 31% of the dollar volume in the same period last year. **Oil & Gas** was the most active sector by transaction value with 85 transactions valued at \$5.8B, lead by the **Carlyle/Riverstone Global Energy and Power Fund’s** acquisition of five **EnCana Corporation** gas storage facilities for \$1.7B. **Metals & Minerals** saw 55 transactions valued at \$3.8B, lead by **Glamis Gold’s** \$1.2B acquisition of **Western Silver Corp.**

“Look for the resource sector to continue to lead M&A activity,” said Mr. Giacomelli. “Resource companies are willing to pursue aggressive M&A strategies.”

The largest transaction in the quarter occurred in the **Merchandising** sector, with **Fairmont Hotels & Resorts Inc.** being acquired by **Colony Capital, LLC** and Prince Alwaleed’s **Kingdom Hotels International** for \$4.5B after initially being put in play by U.S. corporate raider Carl Icahn. **Financial Services** saw a surge of activity during the quarter with transactions worth \$2.8B lead by the \$1.25B purchase of **FirstCaribbean International Bank Limited** by **CIBC** and **Barclays Bank PLC**.

Financial sponsors continued to compete aggressively with strategic buyers in the M&A market in first quarter of 2006. Three of the seven largest deals in the first quarter and over 29% of the total transaction value involved financial sponsors, up from 13% of transaction value in 2005. **Colony Capital, Carlyle Group, Riverstone Holdings, Caisse de dépôt et placement du Québec, Onex Corporation** and **CAI Capital** were all active in the market during the first quarter.

Cross-border activity continued to be an important driver of Canadian M&A activity, with 39% of all M&A transactions and, more importantly, 90% of total M&A value having an international component. In line with historical trends, Canadian acquisitions of foreign companies outnumbered foreign acquisitions of Canadian corporations by a ratio of nearly 3 to 1. Acquisitions of foreign companies by Canadian companies made up 73% of all cross-border transactions, whereas the value of those transactions made up only about 34% of total cross-border M&A transactions. The United States was again Canada's main cross-border M&A partner. During the first quarter of 2006, 44% of Canada's 122 foreign acquisitions were in the United States, similarly the United States represented 57% of the 44 foreign acquisitions of Canadian companies.

*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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