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CANADIAN M&A ACTIVITY – FIRST QUARTER 2007 REPORT

Deals Under \$1 Billion Drive Record First Quarter Results

The Canadian M&A market continued its torrid pace during the first quarter of 2007, producing a number of new records. Based on the data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database, 483 transactions were announced in the first quarter of 2007 resulting in \$66B in transaction value, establishing a new all-time high-water mark for the first quarter. As Q1 usually tends to be weaker than the subsequent quarters, this puts us on track for another record year in 2007.

While the market showed broad strength in the quarter, an important contributor was the continued upswing in transactions of under \$1B, which also set a new quarterly record. Total value for this segment was \$25.3B, representing an all-time quarterly high. “We have seen a material increase in the contribution from the small to mid-cap segment over the past six quarters,” said Colin Walker, Managing Director of Crosbie & Company Inc. “This growth demonstrates how important M&A strategies have become for companies and shareholders across the entire economic landscape.”

“A confluence of positive factors is powering M&A,” Mr. Walker added. “These include business forces such as globalization, demographics, multiple bidders which help drive attractive valuations, the availability of flexible and historically low-cost financing, and a relatively strong business outlook that gives buyers the necessary confidence. It remains an ideal time to get deals closed.”

The large deal segment of the market remained solid in the quarter with the announcement of 14 transactions of over \$1B, valued at a total of \$41B. This was up from 4 transactions worth \$9B in the first quarter last year and 12 deals valued at \$38B in the fourth quarter of 2006.

Cross-border transactions continue to be a key dynamic in the Canadian M&A market. Cross-border deals represented 37% of the activity and 56% of the announced deal value for the quarter. However, at the larger end of the market, cross-border activity was more significant with 10 of the 14 announced mega-deals having an international component to them. The number of Canadian acquisitions abroad continued to exceed foreign acquisitions of Canadian companies by a ratio of 2.9:1, which is in line with prior periods.

Financial groups such as pension funds and private equity groups continued to be aggressive buyers and were a major factor in the market this quarter. Financial buyers participated in 23% of the deals valued above \$100M. Major private equity groups that were active in the quarter included Onex Corporation, Brookfield Asset Management Inc., Goldman Sachs Capital Partners, Morgan Stanley and Apax Capital Partners.

From an industry perspective, activity was fairly broadly based with transaction volume of over \$3B in eight sectors. Particularly active sectors included Industrial Products (90 deals, \$15.8B), Financial Services (46 deals, \$9.0B), Consumable Fuels (77 deals, \$8.4B), Real Estate (98 deals, \$7.5B) and Metals & Minerals (63 deals, \$7.2B).

While the sector with the greatest activity in Q1 was **Real Estate**, which reported 98 transactions (representing 20% of the activity but only 11% of the value), **Industrial Products** was the most significant sector in the quarter, representing 19% of the activity and 24% of the deal value. The most significant transaction in Industrial Products was **Onex Corporation's** acquisition of **Eastman Kodak's Health Group** for \$3B.

The two largest transaction of the quarter were Indian based **Hindalco Industries Ltd.**'s \$7B acquisition of **Novelis Inc.**, a spin-off of Alcan Inc., and Swiss based **Xstrata plc.**'s \$4.6B acquisition of **LionOre Mining International**.

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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