

June 9, 2009
For immediate release
Toronto

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CANADIAN M&A ACTIVITY – FIRST QUARTER 2009 REPORT

M&A Activity at Lowest Level in 6 years

The Canadian M&A market continued to weaken in 2009 recording the lowest level of announced transactions since Q1 2003. According to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada* there were 153 transactions announced in the first quarter compared to 223 in Q4 which represents a decline of 31% in activity. However, due to a substantial increase in the value of “mega deals” (deals greater than \$1B), the value of announced transactions increased by 103% to \$41.5B compared to \$20.4B in last quarter. Excluding mega deals, which represented 80% of the value of all deals in the quarter, the total value of transactions was \$8.2B, a decrease of 27% from \$11.3B in Q4.

“Limited availability of capital and a rapid deterioration in earnings depressed M&A activity in what has been one of the most uncertain markets ever,” said Ed Giacomelli, Managing Director at Crosbie & Company, a Toronto based investment bank. “The approach to M&A has definitely changed, but many buyers are still sitting on cash and looking at deals at historically attractive valuations. As the quarter progressed and a sense of calm started to return to the financial system, we saw a meaningful spike in activity,” added Mr. Giacomelli.

Once again, M&A activity in the mega deal segment was low with only four mega deals announced, unchanged from Q4, and down from seven in the same period last year. However, thanks to the \$19.2B merger of **Suncor Energy Inc.** and **Petro-Canada**, the largest deal announced during the quarter and the largest domestic deal since the BCE announcement, the value of announced mega deals in Q1 was \$33.2B, which is substantially greater than the prior quarter amount of \$9.1B.

The mega deals were rounded out by **Canada Pension Plan Investment Board’s** (CPPIB) \$6.4B acquisition of Australia-based **Macquarie Communications Infrastructure Group**, **Agrium Inc.’s** \$4.7B bid for U.S.-based **CF Industries Holdings Inc.**, and the \$2.9B acquisition of **Nova Chemicals Corporation** by **International Petroleum Investment Company**.

Most industry sectors posted significant decreases in deal activity over the last quarter. The **Industrial Products** and **Oil & Gas** sectors were once again the most active sectors, accounting for 24% and 14% of announced transactions, respectively. In terms of transaction value, Oil & Gas was once again the leading sector contributing \$22.3B, or 54% of overall M&A market with five of the top 10 deals in the quarter. Industrial Products was the runner-up with \$8.1B, followed by Communications & Media at \$6.9B, which is largely attributable to the \$6.4B CPPIB/Macquarie mega deal.

Cross-border activity declined by 48% over last quarter and by 59% over Q1 of last year, which was steeper than the decline in overall M&A activity. The 47 cross-border transactions in Q1 represented a smaller proportion of overall activity and value than last quarter with 31% of deal activity and 42% of deal value, down from 40% and 48% in Q4 respectively. Interestingly, when compared to Q1 of last year, the number of Canadian acquisitions of foreign companies declined by 69%, which is significantly larger than the 39% decline in acquisitions by foreigners. Transaction value for Canadians acquiring abroad was \$12.3B compared to \$5.2B for their foreign counterparts, as 2 of the top 3 deals of the quarter were cross-border transactions led by Canadians.

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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