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## CANADIAN M&A ACTIVITY – FOURTH QUARTER 2005 REPORT

### Ideal Conditions Produce Near Record Year

The Canadian M&A market concluded 2005 with a flurry of activity, including several high-profile hostile takeovers, recording the strongest year since the previous peak in the M&A cycle achieved in 2000. According to data released today by investment bank Crosbie & Company Inc., there were 1244 announced transactions in 2005, a 42% increase from the 875 deals in 2004. Total transaction value was \$166 billion, a 47% increase from the \$112 billion the prior year. Contributing to the increase were 34 transactions over \$1 billion (so called “mega deals”), totalling \$103 billion in value compared to 35 mega-deals valued at \$48 billion in 2004.

The strong M&A environment was the result of ideal market conditions: a resilient North American economy, highly accessible financing, strong balance sheets, and attractive valuations for sellers amid continued activity by income trusts and private equity groups. Although the increase in activity was broadly based in 2005, with 12 of 13 industry sectors experiencing either higher deal volume or transaction value, the natural resource sectors accounted for 33% of the deal volume and 49% of the total transaction value, including six of the ten largest transactions.

“With a strong wind in its sail, the M&A market has raced to one of the best years on record,” said Ed Giacomelli, Managing Director at Crosbie. “In contrast to the record year in 2000, the current M&A market is more broadly based and is still behaving rationally.”

The fourth quarter of 2005 saw the confidence of buyers result in a number of large hostile takeovers, lead by Barrick Gold Corporation’s US\$10.4 billion bid for Placer Dome Inc., creating the world’s largest gold producer. Arcelor S.A. made an unsolicited \$4.9 billion offer for Dofasco Inc. and won a bidding war with white knight ThyssenKrupp AG as consolidation continues among steel producers. U.S. corporate raider Carl Icahn made headlines by putting Fairmont Hotels & Resorts Inc. in play with a \$1.2 billion bid for majority control, and Jerry Zucker made a \$1.0 billion hostile bid for Canada’s oldest company, the Hudson’s Bay Company. Livingston International Income Fund launched the first hostile takeover attempt in the income trust sector with a \$240.3 million bid for PBB Global Logistics Income Fund.

“We expect strong conditions and positive market psychology to continue to drive activity into 2006,” said Mr. Giacomelli. “In the current M&A market, a well managed sale process is more likely to yield the seller maximum value.”

**Oil & Gas** was the most active sector representing 23% of the number of deals with 281 transactions and 24% of the total transaction value with \$40 billion. Energy trusts were involved in 121 deals, representing 43% of the transactions in the sector, as producers seek to replace depleting reserves. **Metals & Minerals** experienced record levels of activity with nearly \$22 billion in dollar volume, including Inco Limited’s \$12.8 billion takeover of Falconbridge Limited, the largest transaction of the year, topping a hostile bid from Xstrata plc.

“Soaring demand for energy and base metals has made Canadian resource companies highly profitable and attractive properties for targeting by domestic and international acquirers alike.” said Mr. Giacomelli.

**Gold** recorded over \$16 billion in transactions, as bullion prices soared above US\$500 per ounce, lead by the Barrick Gold - Placer Dome deal, and the resulting sale of Placer Dome assets to Goldcorp Inc. for \$1.8 billion. **Industrial Products** had another strong year with 240 deals valued at nearly \$18 billion including the Arcelor - Dofasco transaction. **Real Estate** experienced continued strength with 189 transactions and \$12 billion in dollar volume, an increase from 110 deals valued at \$7.7 billion in 2004. REITs represented the majority of the activity in the sector with 63% of the total transaction value.

Financial groups continued to be active in 2005, particularly on the buy-side, representing 13% of the total transaction value, similar to the 15% the prior year. Private equity groups were involved in 8 of the 34 mega-deals, including Bain Capital Partners, LLC's sale of a directory business to Yellow Pages Income Fund for \$2.6 billion. Other active capital groups included the Canada Pension Plan Investment Board, Onex Corp., Ontario Teachers' Pension Plan and the Caisse de dépôt et placement du Québec.

Once again, cross-border activity played a very significant role in the Canadian M&A landscape representing 37% of the total number of transactions and 61% of total deal value. With 27 of the 34 largest deals having an international component, the dollar volume of cross-border transactions increased 30% to \$101 billion up from \$77 billion in 2004 and the number of cross-border deals also increased 16% to 455, up from 393 the prior year. Canadian companies continued to exhibit a strong appetite for foreign companies, making 338 purchases valued at \$35 billion, nearly triple the number of foreign acquisitions of domestic companies. However, foreign companies made over \$65 billion worth of acquisitions in Canada in 2005, reflecting the strong local economy and international demand for Canadian natural resources.

*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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