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CANADIAN M&A ACTIVITY – FOURTH QUARTER 2008 REPORT

Sharp Decline in Activity Across all Segments of the M&A Market

The Canadian M&A market finished 2008 with the weakest quarter since the start of the M&A boom in 2005. According to data compiled by the *Financial Post Crosbie: Mergers & Acquisitions in Canada* there were 271 new transactions announced in the fourth quarter resulting in \$17.8 billion of transaction value. This represents a decline of 31% in deal volume and 66% in deal value relative to a surprisingly resilient third quarter. The total number of transactions announced in 2008 was 1,467 with a value of \$114.8 billion, representing declines of 27% and 64%, respectively, relative to a record year in 2007.

“Conditions have become quite challenging for getting many M&A transactions done given difficulties in raising debt financing and the constant bombardment of negative economic news.” said Ian Macdonell, Managing Director at Crosbie & Co, a Toronto based investment bank. “In recent weeks we have seen a sharp shift in the M&A mix with more transactions involving distressed assets as companies grapple with deteriorating operating results and challenges in refinancing debt obligations. We also expect to see more hostile bids as companies with strong balance sheets look to take advantage of the buying opportunities presented by current market valuations”.

The decline in M&A activity has been most pronounced in the “mega” deal segment (deals greater than \$1 billion). There were only four mega deals announced in the fourth quarter and 21 during all of 2008 as compared to eight in the third quarter and 60 in 2007.

The largest announced transaction during the quarter was **George Weston’s** US\$2.5 billion sale of its US fresh baked goods business to Mexican based **Grupo Bimbo S.A.B. de C.V.** followed by **Bank of Nova Scotia’s** \$2.3 billion acquisition of **Sun Life’s** 37% interest in **CI Financial Income Trust** and **Sinopec’s** \$2.0 billion acquisition of **Tanganyika Oil**.

The **Industrial Products** and **Oil & Gas** sectors were once again the most active sectors in the fourth quarter, accounting for 23% and 21% of announced transactions, respectively. However, virtually all sectors posted significant decreases in deal activity. In terms of transaction value, the Oil & Gas and **Consumer Products** sectors were the leaders with \$6.4 billion and \$5.0 billion of total deals announced, respectively. Total value for the Consumer Products sector was boosted by George Weston’s sale of its US baked goods business as well as its \$465 million sale of **Nielson Dairy** to **Saputo**.

Cross-border activity declined to 97 transactions in the fourth quarter from 141 deals in the previous quarter, but represented a similar proportion of the overall Canadian M&A landscape contributing 36% of deal volume and 44% of deal value. Consistent with historical trends, Canadian companies acquiring abroad represented 58% of cross-border transactions but foreign companies outspent their Canadian counterparts, accounting for 80% of the total value of cross-border activity in the quarter.

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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