

M&A Quarterly Report

Q1 2003

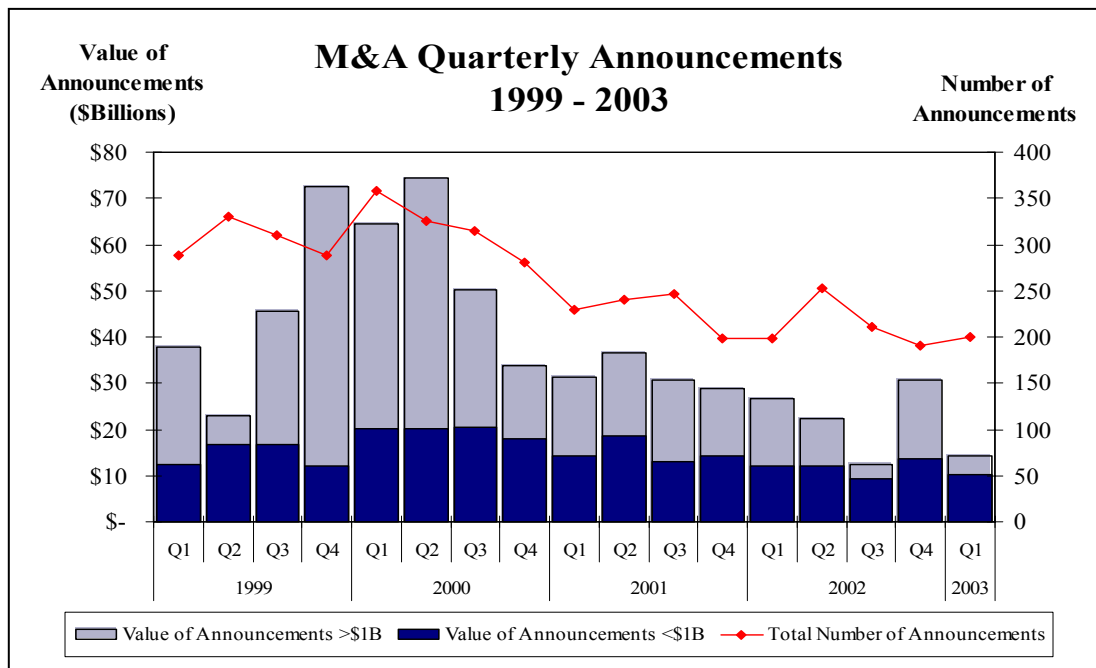
FIRST QUARTER 2003 OVERVIEW

M&A activity was fairly weak in the first quarter of 2003, with the number of reported transactions remaining at a level similar to that of the last few quarters and the dollar volume of transactions declining toward the level of two quarters ago. There were 200 reported transactions in Q1 2003, up slightly from the 197 reported transactions in Q4 2002 but roughly at the same level as that reported in 5 of the 6 most recent quarters. The aggregate dollar value of transactions for the quarter declined to \$14.4 billion from \$30.7 billion last quarter but remained above the \$12.4 billion “low water-mark” for this market cycle which appears to have been established in Q3 2002.

The small number and relatively large value of transactions in the so-called “mega-deal” segment (i.e. M&A transactions in excess of \$1 billion) accounts for much of decline in the overall numbers this quarter. Mega-transactions have been a major contributor to the M&A markets in recent years and were an important driver in the large increase in overall M&A value in the periods leading up to the top of the cycle conditions of 2000, as well as the drop we have seen since then. By way of reference, in 2000, which was the peak of the current cycle, there were 1,297 announced transactions representing \$234 billion in volume when there were 37 mega-deals worth \$144 billion.

For the most recent quarter, there were only 3 mega-transactions representing \$4 billion, down from 5 transactions representing \$17 billion last quarter.

Despite the sharp contraction in large transactions, the market segment represented by transactions under \$1 billion has shown far less variability. Compared to last quarter, the number of reported transactions under \$1 billion *increased* to 197 from 186, even though the dollar value of transactions fell by a relatively modest 25% to \$10.2 billion. Additionally, the decline in the number of announcements in this segment is down only by about a third from the top-of-the-cycle levels while



the total value of transactions is down by only half.

The performance of the M&A market this quarter reflects a variety of likely factors. These include continued uncertain macro-economic fundamentals, the level of business confidence, and as usual, industry specific dynamics. On the macro-economic front, a key impediment for transactions has been the lack of clear signs that an economic recovery is underway in the U.S. Furthermore, the impact of high energy prices and the geopolitical uncertainty and possible ramifications of war in the Middle East has weighed negatively on markets over the past quarter, making it hard for businesses to plan for the future with confidence. As a result of this environment, the market continues to reward predictability and punish negative surprises.

The elimination of some of these areas of uncertainty and our belief that there is some pent-up supply and demand for M&A transactions gives us cause for cautious optimism for increases in activity toward the end of the year.

Industry Sector Activity

This quarter, the most active sectors among the TSX's 13 sub-sectors were **Oil & Gas**, **Industrial Products** and **Real Estate**. Announcements for **Industrial Products** slipped 29% to 37 deals, totalling \$2.1 billion. The total value for this sub-sector was up 90% compared to the first quarter of 2002 largely due to the \$1.4 billion acquisition of the outstanding public float of **Du Pont Canada Inc.** by its parent **E.I. Du Pont de Nemours & Co.** We note that average reported transaction values for this sector were \$102 million which is roughly half of the average (\$238 million) experienced in 2000. Within **Industrial Products**, the **Technology** sub-sector remains in the doldrums with only 6 announcements representing \$192 million. In the **Oil & Gas** sector, there were 33 transactions compared to 16 for the same quarter last year, an increase of 106%. Total value in this sector was \$2.9 billion compared to \$13.2 billion last year. The 78% reduction in dollar value can be

ACTIVITY GROUPED BY INDUSTRY: Y-T-D TO MARCH 31

INDUSTRY GROUPS	2003		2002	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	37	2,143	52	1,130
Oil & Gas	33	2,872	16	13,246
Real Estate	30	957	22	2,304
Financial Services	19	1,691	20	2,132
Consumer Products	18	893	21	2,766
Gold & Silver	18	134	8	282
Utilities	11	906	13	1,375
Communication & Media	10	2,808	14	1,105
Merchandising	7	9	15	177
Transportation & Environ.	6	487	10	752
Metals & Minerals	5	676	6	253
Paper & Forest Products	4	428	4	936
Pipelines	2	368	1	283
TOTAL	200	14,372	202	26,741
<i>Technology Watch:</i> (subsector of Ind. Prod.)	6	192	8	149

CROSS-BORDER TRANSACTIONS: Y-T-D TO MARCH 31

	2003		2002	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Canadians Acquiring				
Foreign Companies	55	5,490	51	4,747
Cdn Co's from Foreigners	10	1,332	5	3,426
Total	65	6,822	56	8,173
Foreigners Acquiring				
Canadian Companies	17	2,400	32	3,079
Foreign Co's from Cdn	9	646	7	1,153
Total	26	3,046	39	4,232
Top Foreign Acquiror of Canadian Located Companies				
United States	12	2,142	20	1,160
Top Foreign Target Country of Canadian Acquirors				
United States	32	4,086	30	2,795

BREAKDOWN OF ACTIVITY: Y-T-D TO MARCH 31

Size	2003				2002			
	# Deals	%	Value \$ Millions	%	# Deals	%	Value \$ Millions	%
Undisclosed	67	34	N/A		75	37	N/A	
1m-100m	99	50	1,622	11	91	45	2,537	9
101m-250m	17	9	2,846	20	20	10	3,261	12
251m-500m	12	6	4,156	29	7	3	2,531	9
501m-1b	2	1	1,620	11	6	3	4,798	18
>1b	3	2	4,128	29	3	1	13,618	51

attributed to the absence of mega-deals such as the one that created **EnCana Corp.** in the first quarter of 2002. Despite the decline, compared to the same quarter last year, the first quarter performance of the **Oil & Gas** sector reflects an increase from the Q4 2002 when there were 29 deals reported with a total value of \$2.2 billion. Despite the decline in overall value, activity in the **Real Estate** sector remains strong with 30 transactions compared to 22 deals last year. Total value was \$957 million compared to \$2.3 billion for the same quarter last year. This represents a 36% increase in number but a 58% decline in value.

Various other sectors are worth special mention. The **Gold & Silver** sector remains very active despite the decline in total value. Eighteen transactions were reported compared to 8 last year, an increase of 125% while total value declined 52% to \$134 million. For **Communication & Media**, while only 10 transactions were reported, representing a decline of 29%, value increased to \$2.8 billion representing an increase of 154% compared to the same period of last year. **Communications** represented the second highest sector by value. Battered by the U.S. tariff effects, understandably down also is the **Paper & Forest Products** with 4 deals totalling only \$428 million.

Largest Transactions

There were only three transactions valued at over \$1 billion in the first quarter of 2003. **Moore Corp Ltd.'s** \$1.7 billion acquisition of **Wallace Computer Services Inc.** was the largest announcement this quarter, which boosted the numbers in the **Communications & Media** sector. The \$1.4 billion **Dupont** transaction discussed earlier was the second largest transaction announced for the quarter. **EnCana's** sale of the majority of its stake in **Syncrude Oil Sands Project** to the **Canadia Oil Sands Trust** for \$1.1 billion helped the **Oil & Gas** sector numbers.

Significant transactions for the comparable quarter of last year included the creation of **Encana Corp.** through **Alberta Energy's** \$9.2 billion acquisition of **Pan Canadian Energy Inc.**, **Petro-Canada's** purchase of **Veba Oil & Gas GmbH** assets for \$3.2 billion, and **Molson Inc.'s** expansion into South America through the acquisition of Brazilian brewer **Cervejarias Kaiser S.A.** from **Heineken NV** for \$1.2 billion.

Cross Border Transactions

Cross-border activity continues to represent a significant component of the Canadian M&A market. In Q1 of 2003, there were 91 cross-border deals worth \$9.9 billion. This represented about 46% of total announcements and 69% of the total dollar value this quarter.

During Q1, Canadian companies acquired more foreign properties than foreigners acquired Canadian businesses. Canadian companies acquiring foreign owned businesses represented 65 or 33% of the total reported transactions this quarter (and 47% of the total value), while foreign companies acquiring Canadian properties represented 26 or 13% of the reported transactions (and 21% of the total value). In other words, cross-border acquisitions by Canadian owned businesses represented 2.5x the number and 2.2x the amount of cross-border acquisitions of Canadian properties by foreigners. These numbers are generally in line with the relative northbound – southbound flows we have observed in M&A markets over a long period of time.

Mergers & Acquisitions in Canada

Largest Transactions Announced During YTD - March 2003

Value	(*Estimate)	Name	Role	Announced
\$1,657,660,000		Moore Corp. Ltd. Wallace Computer Services Inc.	Acquiror Target	16-Jan-2003
\$1,400,000,000		E.I. du Pont de Nemours & Co. DuPont Canada Inc.	Acquiror Target	19-Mar-2003
\$1,070,000,000		Canadian Oil Sands Trust Syncrude Oil Sands Project EnCana Corp.	Acquiror Target Vendor	3-Feb-2003
\$910,000,000		Ontario Teachers Pension Plan Board Canadian Pension Plan Investment Board DB Capital Partners Inc. Deutsche Bank AG	Acquiror Acquiror Target Vendor	21-Feb-2003
\$710,000,000		ARC Energy Trust Star Oil & Gas Ltd.	Acquiror Target	31-Mar-2003
\$435,000,000	*	Smurfit-Stone Container Corp. Smurfit-MBI Jefferson Smurfit Group PLC	Acquiror Target Vendor	27-Jan-2003
\$424,270,000		Woodbridge Co. Ltd. Bell Globemedia Inc. Thomson Corp.	Acquiror Target Vendor	7-Feb-2003
\$380,675,000		Talisman Energy Inc. Natural gas assets (U.S.)	Acquiror Target	29-Jan-2003
\$376,222,000	*	Societe generale de financement du Quebec F.F. Soucey et Assocites Inc. Paper mill (Que.) Enron Corp.	Acquiror Acquiror Target Vendor	21-Feb-2003
\$365,448,000		Dorel Industries Inc. Ampa Group	Acquiror Target	29-Jan-2003
\$365,304,000		TransAlta Corp. CE Generation LLC. El Paso Energy Corp.	Acquiror Target Vendor	24-Jan-2003
\$340,000,000		Brascan Corp. Hydro-electricity generating plants (Ont.) Ontario Power Generation Inc.	Acquiror Target Vendor	8-Mar-2003
\$322,400,000		Wheaton River Minerals Ltd. Gold and copper mining assets (Intern'l) Rio Tinto PLC	Acquiror Target Vendor	15-Jan-2003
\$300,000,000		Osmington Inc. Canadian Pension Plan Investment Board Shopping malls (Ontario) Cadillac Fairview Corp.	Acquiror Acquiror Target Vendor	13-Jan-2003

Source: Crosbie & Company Inc.