

M&A Quarterly Report

Q2 2003

**Overview – Continued
Absence of Large Deals**

Canadian M&A activity remained weak in the second quarter of 2003 despite the modest recovery that was anticipated. While the number of transactions announced in the quarter increased 9% to 219, the dollar volume declined 15% from Q1 to \$12.8 billion for the second quarter.

For the first half of the year, the dollar volume of transactions dropped over 43% to \$27.8 billion compared to the same period last year, reflecting the continuing decline in “mega-deals” (transactions valued over \$1 billion). Of the \$21 billion drop in transaction value for the year, 87% is a result of a decline

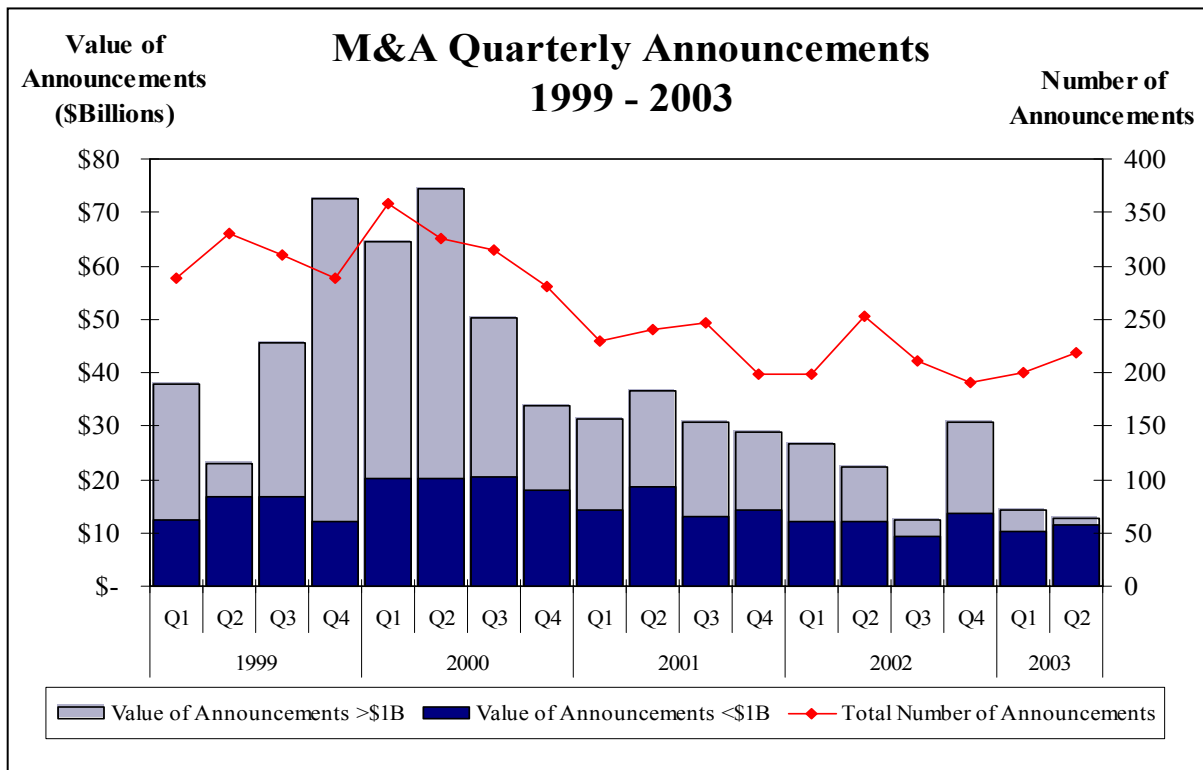
in mega-deals. In the second quarter, there was only one transaction in excess of \$1 billion, compared to three in the first quarter and seven in the first half of 2002.

While the large deal market has continued to contract, the decline in the mid- and smaller sized deal market has not been nearly as dramatic. The total number and dollar volume of transactions under \$500 million remained quite steady in the first half of 2003 compared to last year, with a modest 1% increase in both the number of transactions and dollar value. From peak levels in 2000, the number and dollar volume of transactions in the under \$500 million range has declined by

approximately 30% compared to the 80% for the whole market. The contraction has been much more significant for transactions over \$500 million – there were 41 such transactions totalling \$112 billion in the first half of 2000 compared to only 10 such transactions worth a total of \$10 billion in the first half of this year.

Industry Sector Analysis

For the first six months, seven of the 13 TSX sub-sectors posted declines in terms of the dollar volume of announced transactions, but the most significant sectors affected were **Oil & Gas, Utilities and Gold & Silver**. In particular, the dollar value of transactions in **Oil & Gas** dropped 68% from



\$16.2 billion last year to \$5.2 billion in 2003, again largely due to the absence of mega-deals in the sector. Last year, there were 3 mega-deals in Oil & Gas, including EnCana Corp. This year has certainly seen a slow-down in large deals in the oil patch, with only one large transaction in the sector during the first six months (Canadian Oil Sands Trust acquisition of the Syncrude Oil Sands project).

The **Gold & Silver** sector has also failed to see the high values of transactions last year. Despite a 42% increase in the number of announced deals in the first six months compared to last year, the average transaction size was significantly smaller, contributing to a drop in total dollar value of 89% to only \$400 million.

Declines were offset by increased transaction values in a number of sectors, including **Merchandising, Communications & Media, Industrial Products** and **Pipelines**, all of which were helped by the announcements of larger deals. In the **Merchandising** sector, Galen Weston's Wittington Investments Ltd. made an offer for Selfridges PLC valued at \$1.4 billion. Activity in the **Pipelines** sector included the proposed transaction involving Enbridge Inc.'s sale of its 50% interest in the Canadian segment of the Alliance Pipeline and its 100% interest in Enbridge Pipelines (Saskatchewan) Inc. to Enbridge Income Fund.

Cross Border Activity

Cross border deals mirrored the overall M&A market with a modest decline in the total number of cross border transactions and a more significant drop in the total dollar value for the first six months. There were 179 cross border deals worth \$16.5 billion to date this year, compared to 207 transactions totalling \$27.2 billion for the same period last year. Canadian acquisitions of foreign companies continued to outpace foreign acquisitions of Canadian interests by more than 2:1 in terms of both activity and transaction value.

ACTIVITY GROUPED BY INDUSTRY: Y-T-D TO JUNE 30

INDUSTRY GROUPS	2003		2002	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Industrial Products	95	4,435	110	2,974
Oil & Gas	59	5,214	49	16,176
Real Estate	57	2,640	46	3,338
Consumer Products	51	2,118	54	4,179
Financial Services	36	2,547	41	4,053
Gold & Silver	27	390	19	3,591
Merchandising	22	2,188	28	665
Utilities	20	1,361	28	8,703
Communication & Media	19	3,251	35	2,046
Transportation & Environ.	15	1,202	19	1,009
Metals & Minerals	9	730	13	358
Paper & Forest Products	7	478	10	1,397
Pipelines	3	1,273	2	529
TOTAL	420	27,827	454	49,018
<i>Technology Watch:</i>				
(subsector of Ind. Prod.)	19	330	17	561

CROSS-BORDER TRANSACTIONS: Y-T-D TO JUNE 30

	2003		2002	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Canadians Acquiring				
Foreign Companies	107	9,268	118	10,380
Cdn Co's from Foreigners	17	2,171	12	9,894
Total	124	11,439	130	20,274
Top Foreign Target Country of Canadian Acquirors				
United States	68	5,531	71	5,650
Foreigners Acquiring				
Canadian Companies	39	3,696	64	5,066
Foreign Co's from Cdn	16	1,319	13	1,857
Total	55	5,015	77	6,923
Top Foreign Acquiror of Canadian Located Companies				
United States	28	2,999	47	3,068

BREAKDOWN OF ACTIVITY: Y-T-D TO JUNE 30

Size	2003				2002			
	# Deals	%	Value \$ Millions	%	# Deals	%	Value \$ Millions	%
Undisclosed	129	31	N/A		155	35	N/A	
1m-100m	227	54	5,307	19	221	49	5,609	11
101m-250m	35	8	5,884	21	42	9	6,770	14
251m-500m	19	5	6,600	24	14	3	5,189	11
501m-1b	6	1	4,453	16	10	2	7,509	15
>1b	4	1	5,581	20	7	2	24,090	49

Mergers & Acquisitions in Canada
Largest Transactions Announced During Q2 2003

Value	(*Estimate)	Name	Role	Announced
\$1,402,752,000		Wittington Investments Ltd. Selfridges PLC	Acquiror Target	12-May-2003
\$905,000,000		Enbridge Income Fund Alliance pipeline Enbridge Pipelines (Saskatchewan) Inc. Enbridge Inc.	Acquiror Target Target Vendor	23-Jun-2003
\$710,000,000		ARC Resources Ltd. Star Oil & Gas Ltd.	Acquiror Target	1-Apr-2003
\$625,000,000		Methanex Corp. Nova Chemicals Corp.	Target Vendor	21-May-2003
\$593,110,000		Deutsche Bank AG Adria office tower Caisse de Depot et Placement du Quebec	Acquiror Target Vendor	14-Apr-2003
\$417,000,000		Canadian Oil Sands Trust Syncrude Oil Sands Project EnCana Corp.	Acquiror Target Vendor	11-Jun-2003
\$350,000,000		Rona Inc. Reno-Depot Inc. Kingfisher PLC	Acquiror Target Vendor	23-Apr-2003
\$350,000,000		Canadian Imperial Bank of Commerce Aeroplan	Acquiror Target	1-May-2003
\$331,000,000		Tomkins PLC Stackpole Limited	Acquiror Target	30-Apr-2003
\$275,000,000		Onex Corp. Magellan Health Services Inc.	Acquiror Target	28-May-2003
\$257,000,000		TransCanada PipeLines Ltd. Foothills Pipe Lines Ltd. Duke Energy Corp.	Acquiror Target Vendor	13-May-2003
\$240,000,000		Quebecor World Inc. Share buyback (Quebecor World Inc.)	Acquiror Target	3-Jun-2003
\$220,000,000		Suncor Energy Inc. Oil refinery and assets (U.S.) ConocoPhillips Co.	Acquiror Target Vendor	15-Apr-2003
\$220,000,000		Finning International Inc. Lex Harvey Ltd. RAC PLC	Acquiror Target Vendor	28-Apr-2003
\$200,000,000		Acetex Corp. AT Plastics Inc.	Acquiror Target	23-Jun-2003

Source: Crosbie & Company Inc.