

## M&A Quarterly Report – Q2/05

### Overview

The Canadian M&A market demonstrated continued positive momentum in the second quarter of 2005 based on data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database. Strong economic growth, stable interest rates and generally favourable liquidity conditions have created a solid foundation for M&A activity. The number of announced transactions increased to 283 in the quarter compared to 250 during the same period last year and 201 in the first quarter of 2005. The total value of announced transactions was \$29.0 billion during the second quarter of the year, compared to \$34.8 billion in the second quarter of 2004 and \$23.8 billion in the first three months of 2005.

### Mega-Deals

The mega-deal (transaction value over \$1 billion) segment of the market remained strong with six mega-deals in the second quarter with a total value of \$13.2 billion,

down slightly from the eight mega-deals totalling \$15.8 billion during the same period last year and consistent with the six mega-deals for a total of \$15.0 billion in the first quarter of 2005. The segment of the market below \$100 million in transaction value also remained robust with 187 transactions, up significantly from the 117 in the previous quarter and from 127 during the same period last year.

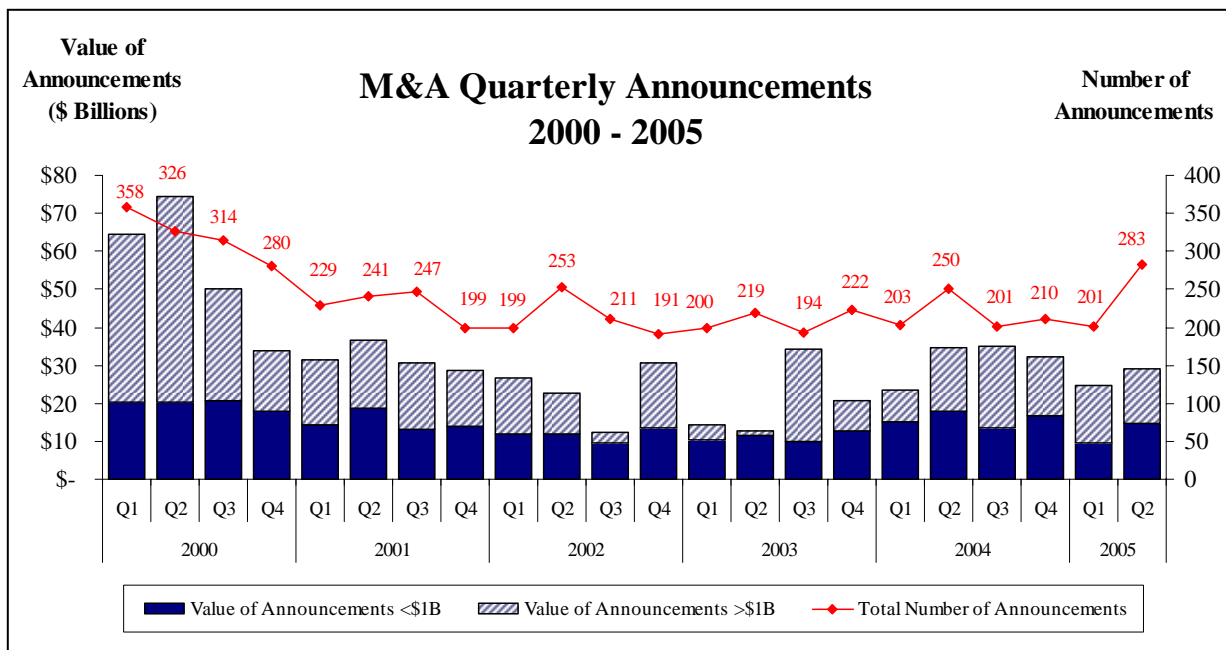
### Industry Activity

**Consumable Fuels** (previously **Oil & Gas**) was the most active sector with 71 transactions valued at \$10.4 billion, 36% of the total transaction value in the quarter, as oil prices hit an all-time high and the royalty and income trusts continue to fuel their growth through acquisitions. This sector was lead by **Precision Drilling Corporation's** US\$2.3 billion divestiture of its energy services and international contract drilling units to **Weatherford International Ltd.** Other significant deals included **EnCana Corporation's** sale of offshore oil &

gas assets to **Statoil ASA** for US\$2.0 billion and the acquisition by **Ontario Teachers' Pension Plan** in partnership with **AIG Highstar Capital II L.P.** of **InterGen N.V.** from **Royal Dutch Shell plc** and **Bechtel Group Inc.** for US\$1.75 billion.

**Real Estate** was also extremely active with 39 transactions valued at \$6.0 billion, an increase from 32 transactions totalling \$2.2 billion during the same quarter last year. REITs (real estate investment trusts) led the activity, participating in 28 deals. The largest announcement in the quarter saw the **Reichmann family** seek to sell **O&Y Properties** and **O&Y Real Estate Investment Trust** to a consortium led by **Brookfield Properties Corp.** for \$2.0 billion.

**Financial Services** experienced a resurgence of activity with total deal value reaching \$4.8 billion, led by the acquisition of **TD Waterhouse USA**, a subsidiary of **The Toronto Dominion Bank**, by Ameritrade Holding Corporation for US\$2.9



billion. The **Royal Bank of Canada** also announced a major deal with **Dexia BIL** of Luxembourg, merging their institutional investor services units into a new entity valued at \$770 million.

There were 50 **Industrial Products** transactions in the quarter, the second most active sector by deal volume, down marginally from 51 last quarter and 58 in the same quarter last year. Total deal value was a mere \$1.1 billion, down from \$4.2 billion in the last quarter and \$4.0 billion in the second quarter of 2004. The largest transaction saw **Nortel Networks Corporation**, fresh off its recent accounting difficulties, acquire Virginia-based **PEC Solutions, Inc.** for US\$448 million.

### *Active Financial Groups*

Financial buyers such as private equity groups and pension funds are playing an increasingly larger role in the M&A market. These groups represented approximately 20% of the overall M&A activity by transaction value in the first six months of the year versus 15% for all of 2004. With the increased availability of relatively inexpensive capital, lower investment return targets and diversification into alternative asset classes such as real estate and infrastructure projects, financial buyers have become formidable opponents when competing against strategic groups for transactions. **Canadian Pension Plan Investment Board, Ontario Teachers' Pension Plan, OMERS** and the **Caisse de Depot et Placement du Quebec** are examples of financial groups that were active during the quarter.

### *Cross-Border Activity*

Cross-border transactions continued to be a significant driver of the overall M&A activity, representing 62% of total deal value and 35% of total deal volume. There were 98 cross-border transactions totalling \$17.9 billion in the second quarter of 2005 compared to 122 transactions worth \$24.7 billion for the same period last year. The trend of Canadian companies acquiring U.S. companies continued – there were 41 such acquisitions compared to only 8 acquisitions of Canadian businesses by U.S. companies.

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

INDUSTRY GROUPS	2005		2004	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Consumable Fuels	102	12,513	75	15,604
Industrial Products	101	5,330	115	7,784
Real Estate	67	7,977	55	3,367
Consumer Products	47	1,089	41	3,622
Merchandising	36	1,122	24	4,754
Metals & Minerals	26	4,602	29	1,590
Utilities	26	9,028	24	7,658
Financial Services	24	5,033	35	3,099
Transportation & Environ.	20	682	10	126
Communications & Media	14	3,822	19	3,855
Paper & Forest	11	1,340	8	517
Gold	8	264	14	218
Pipelines	2	15	2	2,288
<b>TOTAL</b>	<b>484</b>	<b>52,817</b>	<b>451</b>	<b>54,479</b>

*Technology Watch:*

(subsector of Ind. Prod.)	7	203	18	2,350
---------------------------	---	-----	----	-------

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

	2005		2004		
	# of Deals	Value \$Millions	# of Deals	Value \$Millions	
Canadians Acquiring					
Foreign Companies	135	10,833	174	27,889	
Cdn Co's from Foreigners	16	6,829	11	2,125	
Total	151	17,662	185	30,014	
Top Foreign Target Country of Canadian Acquirors					
United States	70	5,374	United States	67	19,437
Foreigners Acquiring					
Canadian Companies	28	5,709	40	4,368	
Foreign Co's from Cdn	16	17,574	14	5,345	
Total	44	23,283	54	9,713	
Top Foreign Acquiror of Canadian Located Companies					
United States	20	4,944	United States	30	2,750

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

Size	2005				2004			
	# Deals	%	Value \$ Millions	%	# Deals	%	Value \$ Millions	%
Undisclosed	111	23	N/A		123	27	N/A	
1m-100m	304	63	7,082	13	231	50	5,806	10
101m-250m	25	5	3,714	7	44	10	7,080	13
251m-500m	21	4	7,301	14	28	6	9,922	18
501m-1b	11	2	7,074	13	18	4	12,247	22
>1b	12	2	28,146	53	18	4	20,873	37

## Largest Transactions Announced During Q2 2005

VALUE (*ESTIMATE)	NAME	ROLE	ANNOUNCED
US\$2,900,000,000*	Ameritrade Holding Corporation TD Waterhouse Group, Inc. The Toronto-Dominion Bank	Acquiror Target Vendor	22-Jun-05
US\$2,280,000,000	Weatherford International Inc. Energy services division International contract drilling division Precision Drilling Corporation	Acquiror Target Target Vendor	6-Jun-05
US\$2,000,000,000*	Statoil ASA Offshore oil and gas interests. EnCana Corporation	Acquiror Target Vendor	28-Apr-05
\$2,000,000,000*	Arca Investments Inc. Brookfield Properties Corporation Canada Pension Plan Investment Board O&Y Properties Corporation O&Y Real Estate Investment Trust	Acquiror Acquiror Acquiror Target Target	1-Jun-05
\$1,156,000,000*	Calloway Real Estate Investment Trust Shopping centres First Pro Shopping Centres Inc. Wal-Mart Stores, Inc.	Acquiror Target Vendor Vendor	11-May-05
US\$875,000,000	American International Group Inc. Ontario Teachers' Pension Plan InterGen N.V. Bechtel Group Inc. Royal Dutch/Shell Group of Companies	Acquiror Acquiror Target Vendor Vendor	25-Apr-05
\$1,000,000,000	Canada Pension Plan Investment Board Commercial real estate properties Ontario Municipal Employees Retirement System	Acquiror Target Vendor	15-Jun-05
€500,000,000	Dexia SA Royal Bank of Canada	Target Target	9-Jun-05
\$745,566,000*	APF Energy Trust StarPoint Energy Trust	Target Target	13-Apr-05
£259,000,000	Ontario Teachers' Pension Plan Northumbrian Water Group plc Suez S.A.	Acquiror Target Vendor	21-Apr-05

*The information above and on preceding pages 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. To subscribe to Financial Post Crosbie: Mergers & Acquisitions in Canada, contact CanWest Interactive Inc. (phone 416-442-2121 toll free 1-800-661-7678 e-mail [helpdesk@canwest.com](mailto:helpdesk@canwest.com)).*