

M&A Quarterly Report – Q3/05

Overview

The Canadian M&A market experienced its highest level of activity in the third quarter of 2005 since the technology boom of 2000, based on data compiled from the *Financial Post Crosbie: Mergers & Acquisitions in Canada* database. A resilient North American economy, record high energy prices, strong activity in the income trust sector, and continued cross-border activity, contributed to the favourable M&A environment in the quarter. The number of announced transactions increased to 304 in the quarter compared to 207 during the same period last year and 309 in the second quarter of 2005. The total value of announced transactions during the third quarter was \$49.9 billion, compared to \$29.4 billion during the third quarter of 2004 and \$29.8 billion in the second quarter of 2005.

Mega-Deals

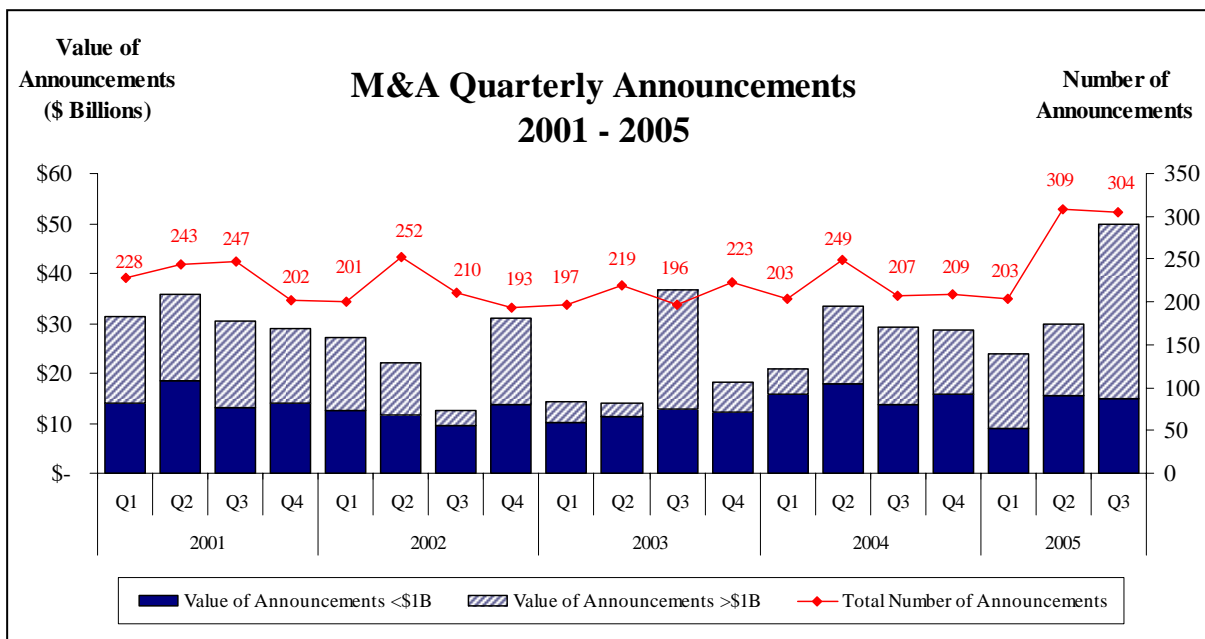
Mega-deal activity (transactions valued over \$1 billion) in the third quarter alone exceeded the total activity in the first with six months of 2005, with 12 deals and a total value of \$33.9 billion, up from the nine mega-deals totalling \$15.6 billion during the same period last year. The segment of the market below \$100 million in transaction value also remained robust with 193 transactions, up significantly from the 117 during the same period last year and the 187 in the previous quarter.

Industry Activity

Oil & Gas remained the most active sector with 78 transactions valued at \$16.4 billion. China continued to secure access to energy sources for its booming economy as **China National Petroleum Corporation**, China's

biggest oil producer, acquired **PetroKazakhstan Inc.** for US\$4.2 billion, and **EnCana Corporation** sold its oil and pipeline assets in Ecuador to Chinese state-owned **Andes Petroleum Company** for US\$1.4 billion. Other significant deals included the \$4.5 billion merger of **Acclaim Energy Trust** and **StarPoint Energy Trust** to form one of the largest oil & gas trusts in North America and the \$ 1.6 billion acquisition of **Deer Creek Energy Limited** by **Total S.A.** of France.

There were 57 **Industrial Products** transactions in the quarter, the second most active sector by deal volume, an increase from 55 last quarter and 53 in the same quarter last year. Total deal value also increased to \$3.2 billion, up from \$1.4 billion in the last quarter and \$1.3 billion in the third quarter of 2004. **Financial Services** experienced a surge of



activity with total deal value reaching \$6.8 billion, lead by the **TD Bank** which continued its US expansion with the acquisition of **Hudson United Bancorp**, and **Sears Canada Inc.**'s sale of its credit card portfolio to **J.P. Morgan Chase & Co.** for \$2.2 billion. **Real Estate** was also extremely active with 48 transactions valued at \$1.4 billion. REITs led the activity, participating in 31 deals.

The largest deal of the quarter occurred in the **Utilities** sector as **Kinder Morgan Inc.** acquired **Terasen Inc.** for \$6.9 billion.

Income Trust Activity

Over the past few years, income trusts have become a major component of the Canadian capital markets and this is reflected by their significant contribution to the level of M&A activity. Total income trust activity, including REITs (real estate investment trusts), energy trusts and other business trusts, grew to 82 deals valued at \$8.9 billion in the third quarter, up from 28 deals valued at \$4.0 billion during the same quarter last year. This represents 27% of the deal volume in the quarter and 18% of the total transaction value. It will be interesting to see how this activity is impacted going forward given the Department of Finance's announcement in September that it is reviewing the taxation differences between income trusts and corporations.

Cross-Border Activity

Cross-border transactions continued to be a significant driver of the overall M&A activity, representing 73% of total deal value and 36% of total deal volume. There were 296 cross border transactions totalling \$74.8 billion in the first nine months of 2005 compared to 252 transactions worth \$52.1 billion for the same period last year. The trend of Canadian companies acquiring U.S. companies continued – there were 126 such acquisitions compared to only 30 acquisitions of Canadian businesses by U.S. companies.

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

INDUSTRY GROUPS	2005		2004	
	# of	Value	# of	Value
	Deals	\$Millions	Deals	\$Millions
Consumable Fuels	186	29,046	104	19,399
Industrial Products	163	8,781	171	10,096
Real Estate	124	9,478	83	5,312
Consumer Products	71	5,821	60	9,213
Merchandising	58	3,260	37	5,554
Metals & Minerals	45	7,825	35	2,140
Financial Services	43	11,881	49	8,608
Utilities	36	16,439	36	13,960
Transportation & Environ.	34	3,670	14	251
Communications & Media	24	4,016	30	3,919
Paper & Forest	16	2,111	14	1,600
Gold	13	443	22	421
Pipelines	3	357	4	3,413
TOTAL	816	103,128	659	83,886
<i>Technology Watch:</i> (subsector of Ind. Prod.)	10	860	24	2,426

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

	2005		2004		
	# of	Value	# of	Value	
	Deals	\$Millions	Deals	\$Millions	
Canadians Acquiring					
Foreign Companies	202	17,430	183	34,372	
Cdn Co's from Foreigners	20	8,579	16	6,235	
Total	222	26,009	199	40,607	
Top Foreign Target Country of Canadian Acquirors					
United States	126	11,409	United States	99	27,807
Foreigners Acquiring					
Canadian Companies	50	27,597	42	7,152	
Foreign Co's from Cdn	24	21,155	11	4,306	
Total	74	48,752	53	11,458	
Top Foreign Acquiror of Canadian Located Companies					
United States	30	15,085	United States	36	5,574

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

Size	2005				2004			
	#	Value	#	Value	#	Value	#	Value
	Deals	%	\$ Millions	%	Deals	%	\$ Millions	%
Undisclosed	170	21	N/A		179	27	N/A	
1m-100m	526	65	11,598	11	349	52	8,939	10
101m-250m	47	6	7,122	7	55	8	8,815	10
251m-500m	29	4	10,163	10	38	6	13,502	16
501m-1b	19	2	12,749	12	27	4	18,116	21
>1b	24	3	62,091	60	27	4	36,462	42

Largest Transactions Announced During Q3 2005

VALUE (*ESTIMATE)	NAME	ROLE	ANNOUNCED
\$ 6,900,000,000	Terasen Inc. Kinder Morgan Inc.	Target Acquiror	1-Aug-05
US\$ 4,180,000,000	PetroKazakhstan Inc. China National Petroleum Corporation	Target Acquiror	19-Aug-05
\$ 4,500,000,000 *	StarPoint Energy Trust Acclaim Energy Trust	Target Target	19-Sep-05
US\$ 2,300,000,000	CP Ships Limited TUI AG	Target Acquiror	19-Aug-05
US\$ 1,900,000,000 *	Hudson United Bancorp The Toronto-Dominion Bank	Target Acquiror	12-Jul-05
\$ 2,200,000,000	Credit and Financial Services J.P. Morgan Chase & Co. Sears Canada Inc.	Target Acquiror Vendor	31-Aug-05
US\$ 1,702,000,000	Falconbridge Limited Xstrata plc Brascan Corporation	Target Acquiror Vendor	15-Aug-05
\$ 1,790,000,000	ID Biomedical Corporation GlaxoSmithKline plc	Target Acquiror	7-Sep-05
\$ 1,700,000,000	The Great Atlantic & Pacific Company of Canada, Limited METRO INC. The Great Atlantic & Pacific Tea Company, Inc.	Target Acquiror Vendor	19-Jul-05
US\$ 1,420,000,000	Oil and pipeline interests Andes Petroleum Company EnCana Corporation	Target Acquiror Vendor	13-Sep-05
\$ 1,600,000,000	Deer Creek Energy Limited Total S.A.	Target Acquiror	2-Aug-05
\$ 1,400,000,000	Vincor International Inc. Constellation Brands Inc.	Target Acquiror	27-Sep-05
\$ 1,000,000,000	Doane Pet Care Company Ontario Teachers' Pension Plan	Target Acquiror	29-Aug-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).