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M&A Activity Hit High in 2007

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A pair of multibillion-dollar oilpatch deals helped push Canadian merger and acquisition activity to its highest level in 2007, according to Toronto-based investment banking firm Crosbie & Co.

According to Crosbie, there were 60 transactions in excess of \$1 billion in 2007, with an aggregate value of \$275 billion. The tally compares with 51 "mega-deals" in 2006 valued at \$172 billion.

Included in the top five deals were Penn West Energy Trust's \$5.2-billion acquisition of Canetic Resources Trust and EnCana Corp.'s \$2.2-billion purchase of natural gas assets in Texas.

Other notable oil mergers included Enerplus Resources' \$1.4-billion purchase of Focus Energy Trust.

"Oil and gas has consistently been one of the top three sectors in terms of M&A," Ian Macdonell, Crosbie's managing director, said in an interview. "It's been a consistent performer and I would expect that to continue in 2008."

Even though the fourth quarter was the second-highest on record for the oilpatch, 2007 ended on a weak note overall with a continuation of the credit slump that started in the third quarter.

With 425 announced transactions worth \$52.5 billion, the fourth quarter represents the lowest level of M&A activity since the third quarter of 2005, Crosbie said.

Macdonell said the subprime crisis limited the number of leveraged buyouts by private equity groups and pension funds.

"The key issue is what happens to the economy in the first half of 2008 and whether the negative trend continues," he said.

Despite the slowdown in other sectors, oilpatch activity is expected to remain high, he added.

"The credit crunch will hold the market down in the first half of 2008, but the oil and gas sector is less dependent on credit, so it's managed to avoid that turmoil," Macdonell added.

The biggest oilpatch deals paled in comparison to the

\$40-billion acquisition of Alcan and the \$51-billion BCE deal in the middle of the year.

The financial services sector was the largest dollar value contributor to fourth-quarter activity, with 33 deals valued at \$14.3 billion. By comparison, the energy sector saw twice as many transactions, at 65, worth \$13.3 billion.

Alan Tambosso, president of Calgary-based Sayer Energy Advisors, expects the steady flow of oil and gas transactions to continue, but at a slower clip over the short term.

Trusts will continue to be acquirers even as a 2010 deadline to begin paying corporate taxes looms, while corporate mergers and takeovers will outpace the number of pure asset sales.

Credit woes will continue to be a wild card for smaller oil and gas companies that need to raise money, Tambosso added.

"To the extent that it (the credit crunch) has affected capital markets, any uncertainty in accessing capital affects their ability to grow," he said.