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CANADIAN M&A ACTIVITY – SECOND QUARTER 2005 REPORT

Best First Half M&A Activity in 4 Years Record Oil Prices Fuel Oil Patch Activity

The Canadian M&A market demonstrated continued strength in the second quarter of 2005, according to data released today by Crosbie & Company Inc., a Toronto-based specialty investment bank. A combination of further strength in the North American economy, record high oil prices, active financial groups, and continued cross-border activity, contributed to the favourable M&A environment in the quarter. 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 during the second quarter was \$29.0 billion, compared to \$34.8 billion during the second quarter of 2004 and \$23.8 billion in the first three months of 2005. In the first half of 2005, 484 deals were announced worth \$52.8 billion compared to 451 deals valued at \$54.5 billion for the same period last year.

“2005 is shaping up to be an excellent year in M&A activity, so far the best since 2001,” said Ed Giacomelli, Managing Director at Crosbie. “Strength in both the mega-deals and smaller transactions demonstrate the depth of M&A activity.”

Oil & Gas represented 25% of the deal volume in the quarter and nearly 36% of the total transaction value, including three of the six largest transactions in the quarter. There were 71 deals in the quarter, the highest level in over 11 years.

“In Canada, energy companies are taking advantage of this period of strong cash flow to grow through acquisition, particularly the income and royalty trusts which need to replace their declining reserves,” added Ed Giacomelli.

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 increased sharply with 187 transactions, up from the 117 in the previous quarter and from 127 during the same period last year.

Financial sponsors such as private equity groups and pension funds continue to exert their influence on 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 private equity, 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.

Oil & Gas was the most active sector with 71 transactions valued at \$10.4 billion. 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.

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. **Real Estate** was also extremely active with 39 transactions valued at \$6.0 billion. REITs (real estate investment trusts) led the activity, participating in 28 deals. The largest deal in the quarter saw the **Reichmann family** announce the sale of **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**, the US discount brokerage operations of **The Toronto Dominion Bank**, by Ameritrade Holding Corporation for US\$2.9 billion.

Cross-border transactions continued to be a significant driver of the overall M&A activity in the first half of 2005, however, the nature of the activity showed some significant changes. Cross-border M&A represented 77% of total deal value and 40% of total deal volume. While the volume of Canadian acquisition of foreign companies continues to outpace the number of foreign acquisition of Canadian companies by more than 3:1, this was not the case for the value of such transactions. For the period, the value of foreign acquisition of Canadian companies exceeded the value of Canadian acquisition of foreign companies by about 1.3:1, a sharp reversal from the 3:1 ratio in favour of Canadian acquisition of foreign companies for the same period last year. There were 195 cross-border transactions totalling \$41.0 billion in 2005, representing a significant decline in volume compared to 239 transactions worth \$40.0 billion for the same period last year.

The information above 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. Crosbie & Company Inc. provides specialized investment banking services to the middle market.

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