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CANADIAN M&A ACTIVITY – THIRD QUARTER 2005 REPORT

Strongest M&A Market in Five Years

The Canadian M&A market experienced its highest level of activity in the third quarter of 2005 since the technology boom of 2000, according to data released today by Crosbie & Company Inc., a Toronto-based specialty investment bank. 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.

“The M&A market is firing on all cylinders,” said Ed Giacomelli, Managing Director at Crosbie. “It should remain robust well into 2006.”

Oil & Gas represented 25% of the deal volume in the quarter and 33% of the total transaction value, including three of the ten largest transactions in the quarter.

“Demand for oil reserves is driving activity in the sector and continues to draw the attention of domestic and international acquirers alike, including China,” said Mr. Giacomelli.

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.

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.

“While fewer in number, foreigners have stepped up their acquisition of strategic Canadian businesses,” said Mr. Ed Giacomelli

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 remains to be seen how this activity will be impacted going forward given recent developments relating to the taxation differences between income trusts and corporations.

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.

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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