

# THE VANCOUVER SUN

August 20, 2009

## Green energy sector ripe for mergers and acquisitions TransAlta's offer for Canadian Hydro the most high-profile action to date

By Nicole Mordant, Reuters

Thawing in credit markets, uncertainty about carbon emissions penalties and a need for capital are helping to awaken dormant merger and acquisition activity in Canada's fragmented clean energy sector.

After a near standstill in dealmaking over the past year because of a lending freeze and grim economic conditions, at least two prominent deals have been announced in the past month, and company executives are hinting at more to come.

"Given the current market environment and the rebuilding of the credit markets, we expect it is reasonable to assume there will be an increase in M&A activity in the alternative and renewable energy sectors," the alternative energy team at Haywood Securities in Toronto said in a recent report.

Most prominent of the recent transactions is TransAlta Corp's \$654-million unsolicited bid for Canadian Hydro Developers Inc, the country's largest exclusively renewable power company.

TransAlta, which for nearly a century produced electricity mostly from coal and hydro, has shifted its focus to renewable energy sources such as wind and geothermal as it waits for clarity on carbon capture regulations and technology.

Stating that "now is actually a good time for companies with good balance sheets to be looking at assets," TransAlta

chief executive Steve Snyder said the Alberta-based utility will not stop at a Canadian Hydro acquisition.

"Our strategy is long-term steady growth," he said on a conference call on July 20, when the all-cash, bank-financed deal was unveiled.

"If we were to be successful, we would take time to absorb it," Snyder said, referring to the Canadian Hydro bid.

"We would still have a strong balance sheet at the end of it and then we would continue to look for opportunities on a go-forward basis."

Canadian Hydro has rejected TransAlta's offer, arguing that it is big enough to pursue its wind, hydroelectric and biomass projects on its own.

But many startup Canadian green energy companies don't have the same heft, management experience and market reputation as Canadian Hydro and will need to tie up with peers and rivals to comfort financiers, who are still not opening the lending taps wide.

"There is no question that the space is fragmented with smaller developers that lack an adequate capital base to advance their power projects," said Matthew Gowing, a renewables sector analyst at Research Capital in Toronto.

"It makes it challenging for them to be competitive," he said.

Beefing up to get better access to capital was a key reason behind last month's proposed union of three Canadian

geothermal producers — Polaris Geothermal Inc, Western GeoPower Corp and GTO Resources Inc — and U.S.-based RAM Power, another headline-grabbing green energy deal.

Small independent clean power project developers Plutonic Power Corp, Run of River Power Inc and Pristine Power Inc are possible candidates for deals, according to the Haywood Securities team, either as purchasers or targets for larger, possibly foreign players.

"There are a lot of international players who want to get into the Canadian market because it is at an earlier stage than European markets," Haywood analyst Tania Mciver said.

There has been speculation that GE, which has paired up with Plutonic on run-of-river and wind energy projects in Canada, could use the partnership as a stepping stone to a deeper investment in the country's renewables sector.

Research Capital's Gowing said Canada's Algonquin Power Income Fund, which operates hydroelectric, wind and natural gas-fired facilities, could also be a takeover candidate.

Earlier this year Algonquin teamed up with Halifax-based Emera Inc to buy and operate a small California power utility.

"Emera could be testing them out as operators of this California asset.

"Emera would be a logical candidate to take [Algonquin] out," Gowing said



## WESTERN GEOPOWER CORP.