

## Oil and gas could get Nexia's goat

Biotech firm seeks transformation

Sean Silcoff, Financial Post

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MONTREAL - Nexia Biotechnologies Inc. was a small firm with a neat idea: making spider silk by splicing genes from arachnids into goats and harvesting the silk protein, or "BioSteel" from their milk. BioSteel was demonstrated to be stronger and lighter than steel or Kevlar.

Between 1993 and 2000, Nexia raised \$67-million and went public. But by last year, the Montreal-based firm had spent most of its cash and sold part its business for shares in another speculative biotech outfit.

It was left with a herd of 40 "franken-goats," some patents and \$2.2-million in cash. "BioSteel remains an interesting research project, but the dilemma remains what is the end use of the product?" says founder Jeffrey Turner.

Enter David Tonken, the new chairman and chief executive. He sees a splendid future for Nexia, and it has nothing to do with goats, spiders or gene-splicing.

In November, he and Gregory Matthews -- both are Alberta lawyers -- paid slightly more than \$1-million to buy 26.5% of Nexia, now trading on a sub-board of the Canadian Venture Exchange.

Mr. Tonken admits he doesn't know much about the science, but he is an expert at resurrecting failed companies, and in that light, Nexia is a jewel. "It's an honest failure," he says. That means it has a clean balance sheet, a public listing, up-to-date financial statements and, best of all, \$50-million in losses a new, profitable owner could use against its tax bill.

Now, all Nexia needs is a new management team, and a new industry. Mr. Tonken figures oil and gas

is Nexia's best bet, but that depends on the management team he brings in.

"We don't have anybody yet, but we're looking," he says. What he's looking for someone with the know-how and track record to do a large deal and transform Nexia into a big, valuable and profitable company.

It's hard to disagree with the 48-year-old when he says, "I'm not Gerry Schwartz, by any means," but there's no denying he's treading on familiar ground. "My little niche is to take over companies that have failed and not to say, 'I am the answer to your problems as far as building a company and making it profitable,' but saying, 'this firm is undervalued' and putting the assets in the right hands," he says.

Mr. Tonken, a former organizer for the Alberta Liberal Party, is a scavenger of the corporate world, and he has plenty of company among the ranks of those trying to spin new life out of dying ventures. In the late 1990s, oil and gas and mining shell companies were reborn as Internet firms; a few years later, Internet firms were likewise being recycled.

Mr. Tonken, who now runs Nexia from his home in Edmonton, claims he has a 100% success rate making money on his turnaround ventures, though you probably haven't heard of most of his triumphs.

"The things you have to know and be able to do the right way with shell companies, you can mess that up," says Paul Farion, a lawyer with Bennett Jones LLP, a Calgary law firm where Mr. Tonken once worked. "But he's quite familiar with what you need to do in order to get these deals done."

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Over the past 15 years, Mr. Tonken has overseen 20 or 30 shell companies. His biggest success to date: buying into failed biotech developer Synsorb Biotech Inc. earlier this decade, getting former PanCanadian Petroleum CEO David Tuer to join and recapitalize the firm and turn it into TSX-listed Iteration Energy Ltd. (Mr. Tuer has since left), with a market value of more than \$300-million. Mr. Tonken and a syndicate of investors turned a \$5-million profit on their \$1-million investment.

This time he's betting \$600,000 of his own money on Nexia, more than he's ever invested.

As for the goats, they're alive and well on a farm in Ontario, and will be spun out into a separate firm -- along with the patents and other Nexia biotech investments -- to investors or sold to a buyer interested in trying to make BioSteel work. "My new wife would shoot me" if anything bad happens to the goats, Mr. Tonken says.