

# High-powered financier bankrolls B.C. deal

ARC Financial Corp. behind \$5.4 million investment in Vancouver-based waste-fuel conversion company

Glenn Drexhage

**A**RC Financial Corp., a private-equity powerhouse focused on the energy industry, has made just its second B.C. investment in a local start-up. However, an executive with the Calgary-based firm says more deals may be on the way.

Vancouver's **Nexterra Energy Corp.** recently announced the completion of \$5.4-million equity financing led by ARC Financial. The deal also featured **K.F. McCready and Associates**, a private investment firm from Calgary.

ARC, which accounted for \$5 million of the investment, is a long-established private equity firm that's invested roughly \$500 million in 100 early-stage companies.

ARC raises money from large institutions and invests in junior companies, mainly in the oil and gas industry.

However, a minority of the company's investments are made in firms involved with power and energy technologies, said **Allan Fowler**, an ARC vice-president.

Fowler said ARC has a global investment mandate, although most of its investments are made in Canada.

Its fourth fund, which is not yet closed, should be about \$400 million. The Nexterra investment comes under ARC's third fund, worth \$300 million.

The firm has backed only one other B.C. company. In August 2002, it began a \$3-million staged investment in **Membrane Reactor Technologies Ltd.**, a Vancouver company focused on hydrogen sourcing.

Nexterra, meanwhile, develops "gasification technologies" to convert waste fuels into

clean, low-cost energy as a natural gas substitute. The company began in May 2003 and has 10 employees, along with a development and testing facility in Kamloops.

**Jonathan Rhone**, Nexterra's president and CEO, said he co-founded the company along with sales and marketing director **Phil Beatty** and ARC.

**Kirk Falconer**, director of research at venture-tracking firm **Macdonald & Associates Ltd.**, said ARC's investment was "absolutely" an encouraging sign for Nexterra. "[ARC is] probably the country's leading private equity investor in the energy sector," he said.

"They would be a major presence in what you would call the clean technology sector as well as the traditional energy sector."

Although ARC has only made two investments in B.C., Fowler said it's possible that other investments could be made in the province this year.

"Particularly in power and power technology areas, there seems to be a fair bit of expertise in Vancouver," he said.

ARC decided to invest in Nexterra for a few reasons.

"We had been watching the company for about a year," Fowler said, noting that it had some units operating in the field, offering proof that its technology worked.

He added that most of ARC's sights are set on oil and gas firms.

"So we see a pretty high-price future for natural gas," he said. "And so we think there's quite a high value on processes or systems that are a replacement for natural gas if they can present a compelling economic argument."

Lastly, he praised the firm's management.



DOMINIC SCHAEFER

**Nexterra's president and CEO Jonathan Rhone: ARC brings "a really strategic look at energy markets"**

"They're very strategic in that they try to provide the highest-value product for the customer."

Rhone, 42, highlighted ARC's involvement in the equity financing. "They bring a really strategic look at energy markets and potential markets and so on."

He also underlined the involvement of K.F. McCready, whose founder **Ken McCready** is the former president and CEO of Calgary's **TransAlta Corp.** (TA: TSX; TAC: NYSE).

Currently, Nexterra is working with some B.C. forestry companies to develop energy

systems that run on wood waste, such as bark, sawdust and shavings, Rhone said.

Other potential sectors include oil and gas, power generation, coal, poultry processing and paper manufacturing.

Nexterra is at the pre-revenue stage, although that could change soon. Rhone said the firm has memorandums of understanding with two forestry firms to develop systems.

He's hesitant to give revenue projections, but said a single sale for a Nexterra energy system could range from \$2 million to \$8 million.