investeco
NEWSLETTER
Canada's First Environmental Investment Company Nov. 2008

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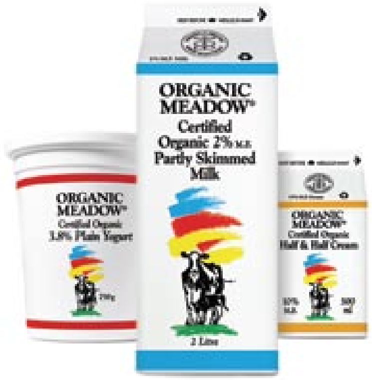
1. Investeco Sells Position in Canada's Leading Organic Dairy Company

Investeco has sold its interest in Organic Meadow back to the dairy co-operative that created the company, for over a 300% total return.

Organic Meadow, Canada's leading organic dairy company, is owned by a co-op of entrepreneurial Ontario organic dairy farmers. Investeco partnered with Organic Meadow in 2004, providing important expansion capital to help grow the business to the strong position it is in today.

"This is a great deal for our farmers. It shows the excellent shape of our business. Investeco has been an extremely valuable partner and has contributed much to the growth of our company over the last four years. We have thoroughly enjoyed working with them", stated Organic Meadow's Chairman, Ted Zettel. "We are now in a position to expand our Organic Meadow brand to new markets across Canada independent of external equity financing."

Andrew Heintzman, President, ICC stated, "This has been an ideal investment for us from start to exit. Investeco identified the significant growth opportunity in the organic dairy market and partnered with the leading company run by an extremely talented team of managers". He then added, "This investment has provided an exceptional internal rate of return (IRR) to our investors, with **nearly half of the capital from our first fund being returned from this one investment.** They can also feel proud that we helped put Organic Meadow on a solid footing for continued success".

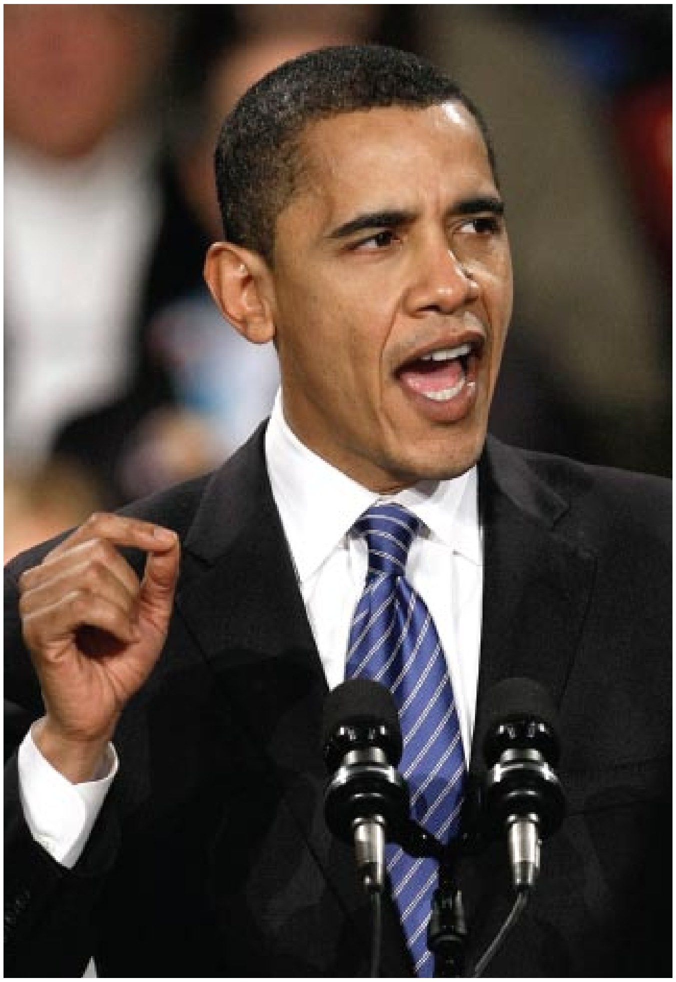


Michael Curry, a managing partner at Investeco, will remain on the Organic Meadow board. "Canadian families will continue to demand food that is grown locally in a sustainable way and Investeco is pleased to continue helping Organic Meadow", said Michael. "It is a great brand, with an exciting future".

Industry News

2. My "#1 Priority" is to Invest in the Green Economy. (Barack Obama, Nov.1 2008)

Environmental policy appears to be shifting in the US. President Elect Barack Obama pledged in a radio address on Nov. 1st that his "number one priority" is to invest $150 billion over the next 10 years in the environmental economy to create 5 million "green-collar" jobs. As part of this plan, Obama says he will increase the share of US electricity from renewable sources to 25% by 2025 (from 8% in 2008).



Obama has also committed $4 billion in tax incentives and $25 billion in loans to allow automakers to build facilities to produce energy-efficient cars, along with providing $25 billion in loans for the same purpose. Although the exact details of Obama's plan are still to be ironed out, his commitment to investing in the green economy is very positive news.

At the same time, as part of the $700 billion US bailout plan passed in October, US Congress has pledged an estimated $18 billion in financing and incentives for renewable energy and energy efficiency.

One of the largest tax incentives in the bailout plan will be for energy efficient electricity grids and products. For electricity producers, these incentives amount to close to $3 billion for "smart" electricity grids, and "smart" metering technology. For consumers, they include more than $1 billion for energy efficient homes and appliances, and about $750 million for plug-in electric vehicles. These incentives should spur market growth for efficient technologies, which is good news for their producers here in Canada.

Renewable energy production from sources such as solar, wind, geothermal and biofuels, will also receive major stimulus. The bailout extends a 30% investment tax credit to residential and commercial solar installations, and allows utilities to defer capital gains realized on the sale of solar facilities. It also creates or extends 10% investment tax credits for micro wind turbines and geothermal systems. Furthermore, biofuel producers may now immediately write off 50% of the cost of facilities that produce cellulosic ethanol. The total value of these renewable energy incentives is estimated to be $9 billion.

> "The bailout package is good news for environmental investors"

In addition to tax credits, the bailout package provides much needed new financing for construction of renewable energy production facilities. $800 million in new clean energy bonds will be offered to municipalities to finance facilities that generate electricity from wind, closed-loop biomass, geothermal, small irrigation, hydropower, landfill gas, marine renewable and trash combustion facilities.

By spurring growth of renewable energy and energy efficiency projects in the US, President Elect Obama's environmental commitment and the bailout package are good news for environmental investors. Given the capital intensive nature of renewable energy production and energy efficiency systems the new financing and facility tax incentives should help keep momentum building in the environmental economy.

3. The Smart Grid

The US bailout plan includes $3 billion in incentives for the development of the “smart grid”. But what is the “smart grid”, and why do we need it?

Most electricity grids are an all-you-can-eat buffet, says Thomas Friedman in his book “Hot, Flat, and Crowded”. It doesn’t matter whether you consume the high value peak-demand energy, or the lower value off-peak energy, you pay the same price. The grid is also like a non-market economy in this way. It cannot reflect demand and supply. And like any non-market economy, it causes resources to be mis-allocated and used inefficiently. In the world of electricity production, this means that consumers don’t pay for the true value of what they consume, and more polluting and expensive power plants are built than are necessary. This is the price of having a “dumb grid”.

Investeco believes that what is needed is a way for utilities and consumers to communicate supply and demand; a way to set appropriate prices from minute to minute; and a way to adjust consumption and supply accordingly. What is needed is the “smart grid”.

Then what is the smart grid? The smart grid is essentially the combination of the internet with the electricity grid. It will allow utilities to set prices based on demand, and allow consumers to decide what price they are willing to pay for electricity. Homeowners will be able to see exactly, second by second, how much they are paying . They will be able to set their appliances to run only when electricity has fallen below a chosen price (when demand is low). This will save homeowners money, and it will also save money for utilities, as they will have to build fewer “reserve” power stations to cover demand spikes on “super peak” days that only happen a few times per year (and threaten blackouts under the “dumb grid” system). The smart grid will also allow consumers to store cheap energy (either taken from the grid or from their own small-scale solar or wind generators) for use when energy is more expensive. And it will allow them to automatically sell the energy back into the grid when prices exceed a chosen level.

The smart grid is not a pipe dream based on far-off technology. Much of the first generation smart grid technology already exists (like programmable thermostats that can constantly receive updated price information.) Much more of it is just incremental steps away (like the storage and redistribution to the grid of electricity stored in hybrid vehicle batteries). Investeco believes that the use of the smart grid has the potential to save vast amounts of energy - and be very profitable - when mobilized on a wide scale. What is needed now is the investment to trigger this mobilization.

4. BC Hydro Buys Green Power

November 25th is the deadline for BC Hydro’s request for proposal for 5,000 Gigawatts of renewable energy capacity, primarily wind and run-of-river hydro. One of the largest RFP’s for renewable power in the country’s history, BC Hydro’s request is part of that province’s effort to have 90% of its energy come from green sources. The call is expected to attract up to 100 project proposals, including a number of high profile wind projects—such as a large offshore wind project

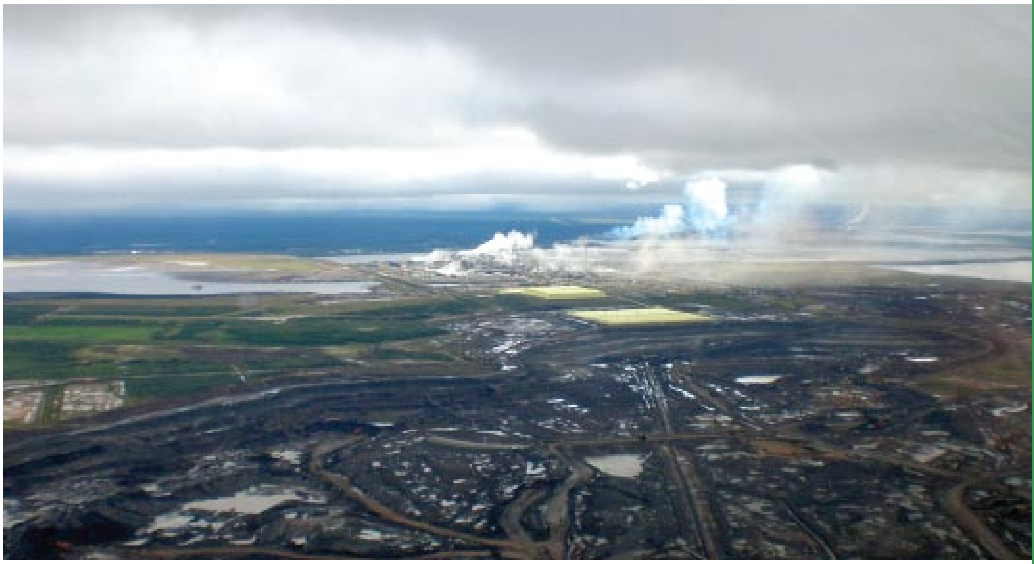
“ BC Hydro’s request is part of the province’s effort to use 90% renewable energy ”

from Naikun energy off of the famously windy Queen Charlotte Islands (aka Haida Gwai) and North America’s largest run-of-river project from Plutonic Power.

Investeco News

5. The Oil Sands at 1,000 Feet **By Investeco President Andrew Heintzman**

I'm a thousand feet in the air looking down, and what I see is a good visual representation of where our reliance on fossil fuel is leading us. I'm in a helicopter, on a tour of the Athabasca Oil Sands operated by Butterfield & Robinson called "Destinations at Risk". Below me, an open pit mine stretches for perhaps a kilometer, maybe more. Giant trucks crawl across the surface, carrying loads of black bitumen. On one side are two giant "tailing ponds", though in scale they are much closer to lakes than to ponds. On the other side is the processing plant and refinery of the Suncor operation, with flares burning and a huge smokestack that belches out a thick, grey plume of smoke. Surprisingly close to the refinery, the Athabasca River bends on its journey northward, even from this distance its murky brown colour slightly alarming.



The Oil Sands at 1000 feet

"What's the water like down there?" One of the other passengers in my helicopter asks the pilot over his speakerphone. "Not good," is the laconic reply. "Let's just say I don't think you'd want to eat the fish." We let it go at that.

Across the tundra one can see a number of such operations, the open-pit mines of the Oil Sands, where the bitumen comes close enough to the surface that the best means of accessing it is to rip off the top-layer of soil—the "overburden" as its called—to directly access the dark layer of bitumen saturated soil beneath. The process is inherently invasive, as huge swaths of tundra are torn up. It's also inherently inefficient. We have come a long way from gushers in the desert, where a single hole poked into the desert would release gobs of flowing oil. Now we are forced to strip off twenty meters of soil and excavate the earth below, separate the bitumen from the rocks, sand and water that is mixed up with it, and refine it into synthetic crude. Each step in this process consumes vast amounts of energy and money.

On the ground you get a different but complementary picture of this process. Take the trucks for example. I walked into the truck repair shop, and at first I couldn't see any trucks at all. Not because they weren't there, but rather because I was looking in the wrong direction. I was looking horizontally, how you might look for a regular truck. Instead, I needed to look up--way up--for all around me were trucks, but they were so large I had mistaken them for buildings. That's when I learned about the 797, the world's largest truck, which breaks any conventional definition of the word "truck." With its barrel open, it stands 50 feet tall. The driver sits 21 feet off the ground and must climb a ladder to get to his cab. The six wheels are 12 feet tall, and cost $60,000, each. Each 797 can carry 450 tons of raw ore, and uses 6800 liters of gas per filling. They cost $5.5 million a pop.

> "What's the water like? Let's just say
> I don't think you'd want to eat the fish"

We meet with George Poitras, an industry relation representative and former band chief for the Fort Chipewyan Cree, who live on the shores of Lake Athabasca. His community is on the very front lines of the battle over the Oil Sands. Mr. Poitras believes that high rates of cancer in his community are linked to toxins in the fish and animals that still represent most of the diet of his community. Indeed, strange deformities in the wildlife are frequently reported. When I was there, for example, they had recently caught a fish with two mouths. The Chipewyan Cree have intervened on a number of Oil Sands applications, but their concerns have never been listened to. In fact, amazingly, no application for an Oil Sands license has ever been turned down, even though the Fort Chipewyan Cree have actively opposed a number of projects.

Of course, the impact of the Oil Sands goes far beyond local environmental concerns. The implications for Canada's greenhouse gas emissions are staggering. The National Energy Board estimates that the production of the Oil Sands uses 21 million cubic meters of natural gas per day to develop the Oil Sands, and that this will rise to 61 million cubic meters per day. It is expected that Oil Sands could account for as much as 50% of the natural gas use of all of Western Canada.

This intense requirement for energy will play havoc with Canada's efforts to curtail emissions. In fact, according to the OECD's 2008 Economic Survey on Canada, emissions from the Oil Sands are expected to grow from 29 Megatons a year in 2006 to 108 Megatons by 2020; that's a staggering 271% increase over a period when Canada hopes to decrease our emissions by 20%.

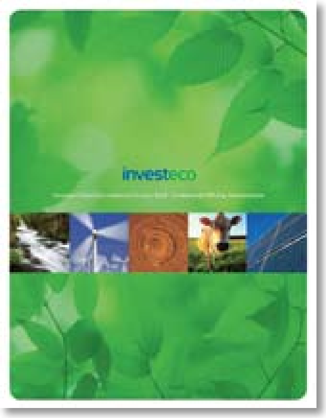
All this leads back to a simple reality: Canada must deal with our Oil Sands. Time has run out to bury our head in

Investeco President Andrew Heintzman & Investeco Director George Butterfield visit the Athababasca Oil Sands

the sand, to make excuses, to pretend that it's someone else's problem. To that end, the Pembina Institute has put together a list of steps that can be taken today to reduce the impact of the Oil Sands. It can be found at **www.pembina.org**.

6. Investeco Private Equity Fund III, L.P.

For information on investing in Investeco's private equity funds, please contact Investeco at **info@investeco.com**.



7. Crisis Brings Opportunity: Great Valuations in Investeco Global Environmental Sectors Fund

The dramatic market declines of 2008 thus far have created an opportunity to buy leading companies in the environmental sectors at very attractive prices. The table to the right shows how valuations of the fund's top ten holdings have changed since the beginning of the year. We believed these companies presented the best relative value in January, but we were careful to accumulate our positions slowly due to concern about overall market valuation. Recently, we have been accelerating our buying and still have more than 25% cash to put to work at current prices.

Current Top 10 Holdings	Price Dec. 31	Price Oct. 31	P/E on 2009 Earnings, as at Dec. 31	P/E on 2009 Earnings, as at Oct. 31
Siemens	$157.10	$60.15	21.3x	7.5x
ABB	$28.80	$13.15	17.1x	8.5x
Hain	$32.00	$23.24	20.6x	13.1x
Tomra	$38.50	$31.25	20.7x	13.4x
Nalco	$24.18	$14.12	20.3x	10.4x
Panasonic	$20.50	$15.50	15.9x	11.2x
Johnson Controls	$36.04	$17.73	15.5x	9.3x
Philips	$42.75	$18.50	21.7x	8.7x
Boralex	$17.25	$7.25	33.8x	9.9x
Interface	$16.32	$7.05	17.9x	9.9x

Souces: Thomson Financial, CBS Marketwatch, Google Finance, JP Morgan, Scotia Capital

8. Andrew Heintzman to Chair Premier's Climate Change Panel

Andrew Heintzman, President of Investeco Capital Corp., has been appointed chair of The Premier's Climate Change Advisory Panel for the Province of Ontario. The panel includes experts from the worlds of science, business and education, and it will provide advice on climate change strategies and policies to help the province meet its Go Green Action Plan targets for greenhouse gas reductions. "This panel will help us fight climate change and build a stronger, greener economy," said Premier Dalton McGuinty.

9. Biorem Completes $3 Million Financing

Biorem Inc., a clean technology air pollution control company in which Investeco's Fund I owns a stake, has completed a $3,000,000 debenture financing with Wellington Financial LP.

The debt financing was completed to bolster Biorem's working capital position to deliver on its current record level of Order Backlog and to execute its strategic plan to further grow its business.

In addition, the company believes that its recently announced advances in technology development will result in broader air pollutant treatment applications, and, consequently, greater demand for its products.

"Biorem is a clean technology air pollution control company that is expanding the use of our technology to a wider range of applications that allows us to enter new markets" says Peter Bruijns, President and CEO. "This funding will be used for working capital and the investment in R&D and sales resources to drive future growth in bookings and revenues."

Investeco is excited about the continuing growth of Biorem.

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