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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was down 2.02% in July, and the Northern Rivers Innovation RSP Fund (RSP Fund) was down 2.58%, meaning we are now -0.78% year-to-date in the Innovation Fund, and +0.61% in the RSP Fund. The returns of the Innovation Fund and its peer index are presented below, as of July 31st, 2007:

Average Annual Returns* to July 31, 2007*

	2007 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**	Inception***
Northern Rivers Innovation Fund LP	**-0.78%**	**-2.02%**	**-12.79%**	**-5.29%**	**40.77%**	**35.66%**	**36.26%**	**31.97%**	**--**
Northern Rivers Innovation RSP Fund	**0.61%**	**-2.58%**	**-11.17%**	**-3.44%**	**44.32%**	**32.77%**	**n/a**	**--**	**24.93%**
Globe Alternative Strategies Peer Index	4.25%	0.70%	1.39%	3.80%	7.86%	9.78%	10.05%	8.39%	7.06%

**Northern Rivers Innovation Fund LP inception date: May 8, 2001.
***Northern Rivers Innovation RSP Fund inception date: March 1, 2004.

I will be making a further investment in the Innovation RSP Fund on August 31st

With the recent credit crunch having given us the largest market decline since the 3 and ½ months leading into the 2003 Gulf War, I find myself compelled to take advantage of the remarkable declines in many of our core positions by making a further investment on August 31st, 2007. Unless we are headed into a global "Great Depression" (which I do not believe is the case), I can think of few scenarios under which the current prices will not look like bargains within 6-12 months, and possibly within a matter of weeks. The way I have added my own money to the RSP Fund over this summer follows precisely the suggestion I make to people when they ask me "when is a good time to invest in your fund?": I have staged my investments into the fund, dividing the total "committed capital" into several chunks, and have averaged in over time. I trust this particular investment on August 31st (coming as it is in the midst of dramatic financial market turmoil and after significant declines in many of the core positions) makes a strong statement about the confidence I have in the positions in the funds.

Taking a step back from the dramatic headlines and market gyrations gives some perspective

Even as bearish voices dominate the press and financial media, Tom "Steadyhand" Bradley (one of the founders of Philips, Hager and North) wrote in this past weekend's Globe and Mail: "In historical terms, volatile markets like we're experiencing now are not unusual, so I don't want to overplay it." Alex Ruus, who manages the Northern Rivers Conservative Growth Fund LP and the Northern Rivers Global Energy Fund LP (both of which have been great performers year-to-date) also adds a voice of calm in his monthly commentary, giving a welcome respite from the recent shrillness. I would encourage you to click on the link to his letter. Warren Buffet, of course, welcomes such crises and market declines.

It is also worth pointing out that:

1) RBC Capital Markets' "Risk Aversion Monitor" made an all-time high spike-peak last Thursday, August 16th. Every other time RBC's "Risk Aversion Monitor" has made a spike-peak, it has represented a good buying opportunity.
2) The US Federal Reserve said on Friday August 10th it would pledge further funds to the financial system (on top of the extraordinary recent repos) "as necessary". The last time the Fed made such a statement was just after the 9/11 terrorist attacks. The post-9/11 market bottom came five days after that statement, representing a bottom from which the markets bounced about 23% in the following six months.
3) Don Coxe had this to say: "We'll come out of this because the *global* economy is still fundamentally strong." Similarly, to summarize Chen Zhao, head of global strategy at BCA Research: "The world economy has too much forward momentum for a bear market to take hold."
4) This is the first 10% correction to hit the major global equity indices since the three months leading into the 2003 Gulf War. (The point being that going more than four years without even a 10% correction makes the accompanying turmoil feel particularly unpleasant and out of the ordinary.)

Having said all this, it is clear we are now going through a financial crisis. My base case is that the lowering of the "Discount Window" rate by the US Federal Reserve on Friday marked the beginning of a bottoming process.

Some perspective on historical financial crises, and what they have meant for stocks.

What does that mean for stock markets, and for the funds I manage? ISI, an economic research house in New York, has done some great work on historical financial crises and what they have meant for stocks. Financial crises in recent decades have included:

1) October 1987: Market Crash

2) December 1994: Mexican Peso Crisis
3) August to October 1998: Russian Debt default and Long-Term Capital Management (LTCM)
4) September 11, 2001: Terrorist attacks
5) July 2007: sub-prime crisis/fall-out and credit crunch.

The defining feature of each financial crisis is that, somewhere (and often on a global scale, if even within a specific financial niche) public financial markets of some sort or another seized up and stopped functioning. Usually, the crisis spawned or was defined by some interruption or disruption in the pricing that is supposed to go on in public markets.. (That is why I do not include the unwinding of the S+L Crisis or the unwinding of the NASDAQ bubble as financial crises: during the periods from 1989 through 1990, and from March 2001 to October 2002—other than 9/11—financial markets continued to function normally.) Each time, the crisis was met by a significant response by financial authorities, including significant liquidity injections by central banks, and lowering of central bank rates. In every case, a recession was avoided, and in every case, financial markets started bottoming processes simultaneous with, or within days or weeks of, the significant central bank intervention.[1]

The bottom-line is that *financial crises which are not followed by a recession historically have ultimately been good for stocks*, and caused corrections of no more than 10% before resuming the uptrend. Indeed, it appears that *by forcing central bank action, financial crises extend bull market cycles* without hurting stocks to an overt degree.

That sounds great, except for the fact that this financial crisis may bear the most similarity to LTCM in 1998 when stocks experienced a peak-to-trough decline of about 22% between July 20 and October 8, 1998, yet still had no accompanying recession.[2] Having experienced 10% declines in the major stock indices so far, does that mean we have another 10% or more to go

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[1] One of the tough issues in doing this analysis is whether to include the S+L Crisis and the unwinding of the NASDAQ bubble as "financial crises". I have chosen not to, because in 1989-1990 and in 2000 through 2002, financial markets never truly seized up (i.e., the real estate market may have arguably seized up in 1989-91, but at that point, there were few "public" market aspects to it. This is in contrast to the real estate market *now* which has a public face in the widespread MBS and CDO markets), and so central bank intervention never occurred in time to have averted those recessions. (i.e., the Fed did not actually ease rates and start re-liquefying the economy until *after* the US economy was essentially already in recession in 1990 and in 2001.)

[2] If one believes that the current situation bears most resemblance to the unwinding of the late 1980s US real estate bubble, or the unwinding of the NASDAQ bubble (both of which led to recessions), I think it is worth pointing out that the current situation appears to be a bit of a hybrid: we *are* unwinding a real estate bubble, ***but*** because the unwinding of *this* bubble has brought on a financial crisis (the seizing up of some mortgage-backed-securities and commercial paper markets), it has required the intervention of central banks—apparently *before* the onset of recession. One thing is clear: even if the US economy is currently weak, the rest of the world is doing very well. So…ironically, the fact that the unwinding of this bubble also brought on a *financial* crisis—and the resultant large central bank interventions—could ultimately be a reason that the unwinding of *this* bubble does not lead us into recession.

so that the losses are more in line with what occurred in 1998? I don't believe so, primarily for the following two reasons:

1) The Fed in 1998 did not make any adjustments to its administered rates until the stock market had already fallen 20%. This time around, the Fed has responded (albeit not yet with a cut in the Fed Funds rate) after a decline of 10%.
2) Valuations in 1998 were much higher than they are now: according to the Fed Valuation Model, the US equity markets were more than 20% over-valued at the end of July 1998. In contrast to 1998, the current correction started at a point where equities were nearly 20% *undervalued* using the same model, with the correction-to-date taking equities to 32% undervalued. Although this of course does not mean that equities can't fall further; it increases the likelihood that the valuation support to a bottom at current levels is solid.

Nonetheless, markets like these require staying power. We have it. Here's why.

The three elements of staying power in a financial crisis are:

1) **using little or no leverage.** Being levered at the wrong time can lead to forced selling. Although it is not specified in our offering memorandum, because I abhor debt both personally and professionally, I never allow myself to be more than 115% gross long, and in bad markets, I target net cash levels between 0% and 30% to avoid any risk of margin calls.
2) **having a solid investor base.** For a variety of reasons, some funds are subject to significant outflows during periods of difficult markets and volatile performance (which also leads to forced selling). We are not, and never have been. There are several reasons for this. One reason is that the large majority of our investors are still friends and family, and friends of friends and family. (In fact, the "founding family" of the firm still represents over 40% of the money in the Innovation Fund.) Another reason we have never experienced material outflows is that we are very upfront with our existing and potential investors about the kind of volatility that comes hand in hand with investing in the Innovation mandate. I make a point of highlighting the significant drawdowns we have had on a number of occasions over the six years of the fund's existence. In fact, I think I have scared more money *away* from the Innovation Fund than is currently in the fund. One of the most important reasons that the Innovation Fund does not experience redemptions is that its 6-year track record has demonstrated that periods when the fund has gotten whacked have been opportune times to invest *more* money in the fund. As indicated on the first page of this letter, I am personally taking advantage of the current weakness to invest more money on August 31st.
3) **confidence in the underlying value of portfolio positions.** In a liquidity driven financial crisis, good companies which are unrelated to the sectors in difficulty are put under tremendous selling pressure by investors that are forced to sell to meet liquidity

needs (see 1 and 2 above). Other investors who do not know enough about what they own can be simply scared out of a good stock. My "off the beaten path", rolling due diligence process means that—more often than not—I successfully stay on top of developments affecting the sustainable competitive advantages of my core positions. As such, in difficult markets, as long as the fundamental investment hypothesis remains intact for my core positions, I accumulate them on weakness. That is the case now, as it always has been.

Re-visiting a couple of beaten-up core positions: Point 3 above is a nice segue to take a quick look at a few of the core positions.

Western Goldfields: Actually, this one has held up better than most. From a June low of about $2.08, it hit a July high of about $3.10. It was quite a rude shock, however, when I saw a number of market-sell orders (probably margin calls) take it down to $1.75 within 20 minutes of the open on Thursday, August 16, 2007. (August 16th has been the bottom to date.) It closed Friday (the next day) at $2.44. Six features of Western Goldfields continue to make it a core position:

1) World-class management, starting with Randall Oliphant, former CEO of Barrick Gold. Randall convinced a top-notch mine-development team to join him from Barrick, including President Ray Threlkeld.
2) World-class resource: The NI43-101 resource now stands at close to 4 million of proven and probable gold ounces.
3) Location: continental USA means no political risk, and its fully permitted.
4) The company is fully financed to production, including all necessary debt and equity. (i.e., the only way to acquire shares now is in the open market.)
5) Management is exceeding expectations, having recently announced that the mine will be going into production in January 2008, 3-4 months ahead of the previous guidance. (That almost never happens in the mining industry…)
6) Valuation: with the mine going into production in January, Western Goldfields is in the process of being re-rated from a pre-production multiple of ½ times NAV to the 1 to 1.5x NAV multiple that a producer gets. Bottom-line: with an NAV in the $4-$5 range (depending on the assumptions you want to use), the stock should be in the $4.00 to $7.50 range by February 2008, only six months away.

Webtech Wireless: I have written about WEW's trials and tribulations in each of the past three letters. A notable development since my last letter is that the CEO bought 115,000 shares of WEW in the open market at the end of July. I look at this as positively as when Randall Oliphant of Western Goldfields bought several hundred thousand shares of WGI back in November 2006. WGI is now up almost 100% from Randall's purchase price, despite the recent market turbulence. My view on Webtech continues to be best summarized by a passage from my last letter: "…if one believes that over the next 3-12 months that IBM will win some

of the large opportunities it is co-bidding on with Webtech (which to me would indicate that the core investment hypothesis is still intact), then I would argue that Webtech should be somewhere between $5 and $10 in 12 to 18 months. Based on the contacts I developed at the EyeForTelematics2007 conference back in February, I am expecting a major IBM-partnered win some time in the next few months, but until that occurs, the stock will likely continue to be volatile in both directions." My only surprise here is that last week's market hit allowed me to buy shares of WEW in the $2.00 to $2.30 range.

Neptune Technologies and Bioresources: Boy, has this one been smashed. It started with a very unfortunate confluence of events that some shorts used (and abused) to their advantage: the family trust that Henri Harland had established in April 1996 was scheduled to *automatically* transfer control from Henri to his children when his youngest child turned 18. On May 18th, his youngest turned 18, and Henri ceased to be the sole trustee of the family trust; unfortunately, this showed up on SEDI as if Henri had sold 3.15 million shares of Neptune (which of course had not happened!). A handful of shorts jumped all over this, proclaiming to me and to internet chat rooms and in general Bay Street "chatter" that the CEO had just dumped 3.15 million shares. The panic selling that resulted from this and other misinformation campaigns by the shorts broke the "technical" back of the stock, leaving it vulnerable to the kind of markets that have developed this summer.

The irony is that *the company has never been stronger fundamentally*: cashed up from a brokered deal in December 2006 and upfront payments from their strong deal with Yoplait in the food ingredients area, they remain cash-flow positive even as they pursue a multi-faceted deal with a pharmaceutical company. In fact, management has delivered on everything they have promised to date, including the Yoplait deal, a research collaboration with Nestle, and a NASDAQ listing (which was granted right in the midst of the financial crisis, so had little or no impact.) Their ability to deliver in the food ingredients area as promised, as well as the fact that their European "composition of matter" patent was granted in May, gives me a great deal of confidence that they will also deliver on the deal with a multinational pharmaceutical company. The backdrop of a medical community in search of an HDL-(good cholesterol)-booster has not changed, nor has the historical record of pharmaceutical companies being willing to pay big dollars for HDL-boosting compounds. (Pfizer's acquisition of Esperion for US$1.3 billion in 2003 despite knowing that at least six more years of clinical trials lay ahead before there would be any chance of a successful launch is one such example.)

I also believe that the company will be making important additions to its Board of Directors, and forming an Advisory Board, as I have been encouraging them to do for some time. I take some comfort from the fact that two analysts have sum-of-the-three-parts targets on Neptune in the $17 to $36 area. Currently, the stock is trading at a discount to its value as a nutraceutical and food ingredients company, and you are getting the pharma call option completely for free. I have been shocked at the levels to which this stock has gone, and would be equally shocked if the stock is not substantially higher 6-12 months out, or perhaps much sooner—the way I look at valuing the company right now, all that is required for a boost back to the $5 area is a stabilization in the overall markets.

A thank you

I would like to extend a thank you to all of our investors. You appear to understand that periods of "volatility in the wrong direction" are part and parcel of the pursuit of high long-term returns. I very much appreciate your continued trust and confidence, and also extend a special hello to those who made a first *or* an additional contribution on July 31st—know that my recent personal contributions (made on May 31st, July 31st and upcoming on August 31st) indicate what I think about the future prospects for the Innovation Fund and RSP Fund.

The next closing for the Northern Rivers Innovation RSP Fund, the Northern Rivers Conservative Growth Fund LP and the Northern Rivers Global Energy Fund LP is Friday, August 31, 2007. As always, my colleagues and I will make ourselves available for meetings with interested parties. Please contact Robyn Graham, Vice President Sales & Marketing or Saree Ghosh, Sales and Marketing Associate for more information or to set up an appointment, or call 416-597-1226 to speak with any one of us concerning the specific funds we manage.

Best regards,

Hugh Cleland, CFA
Portfolio Manager

* Commissions, trailing commissions, management fees, performance fees and expenses all may be associated with investment funds. Please read the offering memorandum before investing. The average annual returns are the simple rates of return (1 month, 3 month, 6 months, and 1 year) or the historical annual compounded total returns (3 yrs, 5 yrs, and since inception). The annual returns are the historical annual simple returns for the 1-year periods ending December 31st or the simple returns YTD. All returns are net of fees. Rates of return shown do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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