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Dear Partners and Friends:

In a scary month for the markets, which saw the Dow down almost 8% (its worst May since 1940), the TSX Venture Exchange down 9.5%, and most European and Asian markets down over 10%, the Innovation RSP Fund ("RSP Fund") performed admirably (down only 1.3%), but the Innovation LP ("the LP") was hit hard, down 12.1%.

	Average Annual Returns to May 31, 2010*							
	2010 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	**-14.21%**	**-12.08%**	**-12.12%**	**-11.68%**	**-19.67%**	**-33.69%**	**-4.34%**	**6.49%**
Northern Rivers Innovation RSP Fund	**-5.77%**	**-1.26%**	**-6.30%**	**-2.84%**	**6.88%**	**-26.23%**	**1.47%**	**-1.29%**

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

Why such a big difference in performance?

There were a number of contributors to the difference, including the fact that Neptune is a significantly larger position in the LP than in the RSP Fund, and Neptune was down hard. The RSP Fund also has a larger position in two of our stocks that were UP on the month, and also has a position in SXC which had a great month. Unfortunately, eASIC raised money at a significantly lower price than where we were carrying it—eASIC is a position that is in the LP, but is not in the RSP Fund because it is not RSP-eligible.

The largest contributor to the performance differential, however, was the fact that the RSP Fund put 1% of its assets into a unit financing in Primary Petroleum (PIE on the TSX) in May; the unit was comprised of a common share at $0.08, and a full purchase warrant at $0.15; the stock closed the month at $0.43. The LP was not in a position to invest in this, having just put money into financings for Cymat (CYM on the TSX) and Senesco (SNT on the Amex). Both CYM and SNT are doing very well on an absolute basis, and relative to the terms of the deals we participated in, but it is difficult to compete with a stock that rises over 400% in one month.

How do the macro developments in May affect our base case?

I must admit to having been caught off guard by the violence in the markets in May. If we were to see dramatic effects in North America from the developing problems in Europe, I was not expecting to see them until closer to year-end. What has happened so far can certainly be accommodated by the base case (measures of credit distress are a long way from being as severe as seen in the 2008-2009 timeframe), but it is clear that risks to my base case have risen. The extreme oversold measures we are now seeing combined with a dramatic increase in pessimism and bearishness, should at least give us an opportunity to assess the quality of a summer rally which has likely now started. Tactically, the technical strategist at ISI (who is the technician with the best track record by far over the past 5 years) is calling for a summer rally; the strong (and unexpected) success of an auction of Spanish government bonds today may just be enough to be the catalyst to make this rally sustainable for at least a couple of months (finally). Even the famed Jim Rogers appears to have put some significance on this event, saying that now is the time to buy the Euro—at least for a bounce.

The companies in the portfolio continue to make progress from a business perspective

Vendtek will give a full business update and some guidance on milestones, etc., after it releases its FQ1 results, so I will reserve comment on Vendtek until then (other than to say that both Alex and I believe it is significantly undervalued at current levels). Aeromechanical has a critical two months ahead, and I am expecting strong developments, including the announcement of the final contract from the Aercap agreement it announced on February 9, 2010.

Webtech tucked an update on its insurance initiatives into the body of an announcement it made at the Telematics Detroit industry trade show: between its three insurance customers, it is now installing over 1,000 devices per month. Piecing together information from Scott Edmonds and Owen Moore given on conference calls, there is good reason to think we should see that rate at upwards of 2,000/month by the end of the year. Nick Agostino of Mackie Research also put out an excellent analysis of the value of Webtech's recurring revenue, concluding that the company's $25million/year in recurring revenue would be worth $0.85-$0.90/share *on its own*, even after applying a 50% discount to the multiples given to such revenue streams in existing "Software as a Service" (SAAS) companies. As Nick points out in the report, Webtech's excess working capital and tax-loss assets are worth another $0.15/share, and "the lumpy hardware business is available at no cost".

Neptune is in the process of closing a small financing, so I will reserve comment on business developments at the company until after that is done. I will, however, be attending the AGM on June 22, 2010. Calls I have received from some investors indicate that the proposed "shareholders rights plan" (otherwise known as a "poison pill") is controversial and unpopular. Investors appear not to like the proposed plan, and many have stated to me that they will oppose the plan on the proxy or at the AGM. I am studying my options, but it appears to me that the preferred option would be for Neptune to pull that provision before the AGM.

The three newest positions (Cymat, Senesco and Primary Petroleum) all have important milestones over the coming weeks. Cymat (discussed in the last letter), just announced its first design win with a customer in the military vertical, giving investors increased confidence in Cymat's chances of winning the upcoming US military RFP (which would be worth somewhere between $300 million and $700 million to Cymat). The decision on this RFP is scheduled to be released in Q4 of this year.

A quiet summer ahead?

Certainly not for me! I am re-doubling my efforts to realize value from our holdings, including a focus on rumblings that there are potential strategic buyers sniffing around a number of our portfolio companies.

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 indicated rates of return are the simple returns (YTD, 1 mo, 3 mo, 6 mo) or the historical annual compounded total returns (1 yr, 3 yr, 5 yr, and since inception). All returns are net of fees but 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. Commencing January 1, 2009, performance fees of 10% of net return above hurdle rate were paid by the Partnership.

The Fund invests primarily in North American equities with a sector focus on technology, healthcare and resources. Geographic and sector allocations may, however, vary significantly over time. Investments made are primarily in small cap companies believed to be trading at a discount to their intrinsic value and which offer innovative products and services and a sustainable competitive advantage. The Fund normally follows a more concentrated investment approach where the manager may overweight selected core holdings and industry sectors in which the manager has particular conviction and/or specialized expertise. The Fund may engage in short selling and may also use specified derivatives, such as calls and puts, warrants, index futures and exchange traded funds. In addition, the Fund is permitted to hold private entities that are not included on any public markets or indices. This may result in portfolio weightings and investment performance being substantially different from that of the S&P/TSX Composite, TSX Venture, Dow Jones Industrial or other market indices.