



Northern Rivers Capital Management Inc.
 Royal Bank Plaza
 North Tower, Suite 2000
 200 Bay Street, PO Box 66
 Toronto, Ontario
 M5J 2J2 Canada

Tel: 416.597.1226
 Fax: 416.597.8926

May 20, 2008

Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was up 4.10% in April, and the Northern Rivers Innovation RSP Fund (RSP Fund) was up 4.57%. The returns, as of April 30, 2008, are presented below:

	Average Annual Returns to April 30, 2008*							
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	-6.13%	4.10%	5.74%	-3.03%	-19.44%	32.00%	32.85%	26.66%
Northern Rivers Innovation RSP Fund	-7.43%	4.57%	4.32%	-4.46%	-18.20%	31.79%	N/A	17.67%

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

April was a strong month. May and the rest of the year look very promising.

Our strong April was essentially the story of Gastem, detailed in the April 18th letter. So far in May, Gastem has continued its upward move, and it has been joined by Webtech, which moved strongly with its May 16th analyst day and webcast (more on this later). First Gastem, now Webtech: I am expecting the rest of our core positions (including Neptune, Vendtek and Aeromechanical Services) to join Gastem and Webtech in strong uptrends in the near future, as catalysts materialize, and as the small caps play catch-up to the large caps.

Looking back, looking forward: the past year (and the next year) in the context of the recent bear market and the 7-year history of the Innovation Fund LP

A fact which took me by surprise—given the extreme gyrations in the markets and in the Innovation Fund so far this year—is that the low in the fund’s NAV during this bear market was actually August 31, 2007 (at 4,728.11). The April 30, 2008 NAV of 5,205.73 is, in fact, 10.1% higher than the August 31st low; and now, the strong moves in WEW and GMR have added 5% to the NAV *on their own* so far in May.

The April 30, 2007 NAV was the all-time high (to date) for the Innovation Fund LP, and represented a trough-to-peak move of 192.6% over 23 months (up almost 3-fold over almost-two years from May 31, 2005 to April 30, 2007). Unfortunately, the April 30, 2008 NAV is 19.4% below the April 30, 2007 NAV, representing the worst trailing 12 month performance in the 7-year history of the fund (inception date was May 8, 2001). Indeed, the last 12 months have been the most difficult and stressful 12 months of my career (compounded by the fact that many friends and family who had been watching me for the first six years of Northern Rivers’ life became new investors in my funds during the first four months of 2007). As was the case toward the end of the

period that had *previously* been the toughest stretch of my career, however, I believe the Innovation mandate is now poised to deliver a good stretch of strong performance. A look at the history of the Innovation Fund—and its alternating periods of strong performance and weak performance—reveals some interesting facts:

- 1) The recent months have represented the 3rd time in the history of the fund where the trailing 12-month performance has gone negative. The two prior periods where this happened were during the spring of 2003 and during the spring of 2005. The noteworthy (and very encouraging!) observation is that the *next* 12 months following those troughs were each up in the 70% to 90% range. (And, in the case of the trough in the spring of 2005, the following 23 months saw an almost 3-fold gain in the fund's NAV.)
- 2) Historical “peak-to-trough” and “trough-to-peak” data are as follows:
 - i) The Innovation Fund fell 12.2% peak-to-trough over the four months from May 31, 2002 to September 30, 2002. This was followed by a 17-month, 104.1% gain between September 30, 2002 and February 28, 2004.
 - ii) Over the 17 months between February 28, 2004 and May 31, 2005, the Innovation Fund was down 9.4%. (That period also included a 3-month drawdown of 16.84%, between February 28, 2005 and May 31, 2005.) That agonizing 17-month stretch was followed by a 192.5% gain over the 23 months between May 31, 2005 and April 30, 2007.

So where will we go from here, having just experienced our worst trailing 12-month return? If history is any guide, then that suggests the *next* 12-24 months should be much more pleasant for our investors. More importantly, if I am right that the core investment hypotheses for our core positions remain intact (and I believe they are), then the portfolio's fundamentals are on our side, too. Finally: if I am right about having seen the bottom of the bear market in the broader equity markets (as outlined in the last several letters, and re-visited below), then we will have *that* tailwind in our favour, too.

The message I want people to come away with is that historically, the toughest periods for the Innovation Fund have been followed by long periods of outperformance. This occurs because of the investment philosophy and approach I take in managing the portfolio. (The most important elements are that I take concentrated positions in companies that I believe are on secular growth paths, and that I am a buyer of my core positions on weakness, *as long as* the core investment hypothesis is intact.) Over the *next* 12-24 months, I look forward to reaping the rewards of having stuck to my disciplines during the *last* 12 months.

Some quick notes on Webtech's extraordinary analyst day

Judging by the reaction in the stock, Webtech Wireless truly “wowed” investors with their analyst day on Friday, May 16—this *despite* the fact that there was no Fedex contract announced on or before the event. Frankly, I was fearful going into the analyst day, mistakenly believing that Webtech needed to be able to showcase a Fedex win to make the day a success. This proved not to be the case. Management, (including the Exec.VP of Global Sales and Marketing who was speaking to investors for the first time), did a masterful job of laying out their vision, and going through a number of key-customer case studies. I think what blew investors away the most, however, was the testimony from customers who actually attended the luncheon, including representatives from Prolog (who is rolling out a high-volume consumer-automotive strategy in

Mexico, using an insurance company as the anchor customer), and ARI (which is one of the top five automotive leasing companies in North America, with a fleet in excess of 600,000 vehicles.)

In retrospect, I now see a “Fedex-less” analyst day as a big positive for the stock, because it allowed investors to focus on the enormity of Webtech’s *other* contracts and opportunities, whereas if Fedex had been announced that day, it would have overshadowed these other opportunities. Now, when the first Fedex deal is finally announced, this *transforming validation* can be the platform for the *next* up-leg in the stock. Technically speaking, there is a “gap” in the \$4-\$6 range from May of 2007 which is begging to be filled on the upside and I would like to think a Fedex announcement could be the catalyst to do just that. (Note: a replay of the event is available on Webtech’s web-site. At the very least, I would encourage people to fast-forward to the last quarter of the webcast to listen to the representative from Prolog talk about the roll-out in Mexico—it is worth every minute.)

Further to the subject of “transforming validations” amongst our core positions: Gastem experienced a “transforming validation” from Forest Oil on April 1st (discussed in detail in the last letter) that sent the stock from a close of \$0.79 on March 31st, to its current \$3.10 (close, May 16, 2008). I believe that Webtech will be the next core position to experience a transforming validation; we will see where WEW goes from here! I also believe that Neptune, Vendtek Systems and Aeromechanical Systems are all in line to experience their own transforming validations over the next 30-60 days. As they say: “when it rains, it pours”.

1990 parallel revisited, plus echoes of 2003

I touched on the 1990/91 bear market parallel in the January 21st letter, and detailed it in the February 20th letter (including some hugely bullish statistics on broad-based insider buying that occurred during January of 2008). This parallel continues to find support in many different measures, including the simple price movements of various indices, as follows:

- 1) Both the 2007/08 and 1990/91 bear markets saw the S&P500 decline about 20%
- 2) Two months after the October 1990 bear market low, the S&P500 was up 12% from its low, and testing its 200-day moving average; two months after the March 2008 low (taking us to mid-May), the S&P500 is up 13.5% from its low, and testing its 200-day moving average.
- 3) In the 1990/91 episode, the first test of the 200-day moving average failed. I believe the current “first test” of the 200-day moving average will also fail this time around.

The way things are currently unfolding (for example, with oil testing new all-time highs on an almost daily basis), I would expect to see a sharp correction in the 5%-7% range begin in the near-term, accompanied by a chorus of investors screaming “Sell in May, go away!” It will be scary, but it also finds a very solid (and perhaps comforting) parallel in the 6% correction that started 2 and ½ months after the October 1990 low—comforting in that in 1990/91, it was a prelude to new recovery highs (and a sustainable upside breach of the 200-day moving average) occurring within a few weeks of the correction running its course.

Related to the “sell in May, go away” correction that I am expecting: it ties in to the “echoes of 2003” I referred to above. What I mean is as follows:

- i) The bear market of 2000-2002 bottomed in October of 2002, but the market did not start moving sustainably higher until after the markets correctly anticipated the end of the “hot war” portion of Gulf War II in mid-March of 2003.

- ii) From mid-March 2003, the markets had a strong move off the bottom, amid much bearishness and high cash levels being held by institutions and retail investors.
- iii) I remember well the consensus “sell in May, go away” pounding in my ears during May of 2003. It was a chorus that we did well to ignore, as the S&P500 rose almost 15% in the six months between April 30 and October 31, 2003, and the Innovation Fund rose almost 65% during that same timeframe.

The bottom-line is that parallels with 1990/91 and the months following the dark-days of March 2003 suggest that we may actually have the wind at our backs over the summer and for the balance of 2008 (with the price of oil being the most likely potential “spoiler”.) Even if I am wrong in this belief, it bears repeating something that I wrote in the August 20, 2007 letter (just before the August 31, 2007 low in our NAV): “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 [of the Innovation mandate’s core positions] will not look like bargains within 6-12 months, and possibly within a matter of weeks.” Fortunately, that confidence in our core holdings has been borne out to date: we are already up over 15% from the August 31st NAV, and I believe we have a long way to go on the upside.

Next closing

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, May 30, 2008. I would like to remind our investors that I am always willing to take time to meet with them over the phone or in person, and would encourage people to set up a coffee or lunch by contacting Robyn Lyle at 416-597-0499. Please contact Robyn Graham, Vice President Sales & Marketing or Jeffrey Zicherman Sales Associate for more information regarding the other outstanding funds offered by the Northern Rivers team, or you can reach any of the portfolio managers at Northern Rivers via 416-597-1226 to discuss the specific funds under their management.

Best regards,



Hugh Cleland, CFA
Portfolio Manager

*Notes: 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.