



May 10, 2010

Dear Partners and Friends:

In a flattish month for the markets, the LP Fund did well, as a nice move up by Neptune was not fully offset by moves down in Webtech and Aeromechanical. The RSP Fund was hurt by a couple of positions which the LP does not hold, and ended up down on the month. April at least gave us a taste of the kind of upside torque that is latent in the portfolio, as the LP was up over 8% at one point during the month.

	Average Annual Returns to April 30, 2010*							
	2010 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
<b>Northern Rivers Innovation Fund LP</b>	<b>-2.42%</b>	<b>2.03%</b>	<b>2.64%</b>	<b>-6.97%</b>	<b>-0.41%</b>	<b>-32.23%</b>	<b>-2.33%</b>	<b>8.09%</b>
<b>Northern Rivers Innovation RSP Fund</b>	<b>-4.57%</b>	<b>-3.71%</b>	<b>0.80%</b>	<b>-4.62%</b>	<b>18.66%</b>	<b>-27.09%</b>	<b>1.64%</b>	<b>-1.11%</b>

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

**What a difference a weekend makes**

The week of May 3 to 7 was breathtaking, with the NASDAQ down almost 8% on the week, and an intra-day drop of over 900 points being registered for the Dow on Thursday. However, as I write this, the European country indices are seeing enormous up moves, ranging from +4.0% for the Swiss Market Index to +11.4% for the Spanish IBEX. The Bloomberg headline “EU crafts a \$962billion show of force to bolster Euro, halt global crisis” captures the catalyst pretty nicely. A policy move of this magnitude at least demonstrates that government and international bodies have learned that massive and early intervention is the best way to address contagion; why wait until massive financial and economic dislocations occur before acting (as was done in 2008)? Oddly enough, these kinds of gyrations do not fall outside of my “base case” macro and market scenario, and my view remains that the North American markets will end the year in the 0% to +10% range, as the economic and profit recovery continues through 2010 and into 2011.

**Neptune: the stock price is giving me heartburn, but the fundamentals are not**

Two of the most important aspects of Neptune’s overall business are that:

- 1) Their dietary supplements division is generating cashflow (projected to be +\$4million to +\$5million this year).
- 2) They have a high degree of control of the burn in the pharmaceutical divisions, where they can even decide to cut the burn to almost zero if necessary.

These two aspects of Neptune's business are very important in the context of developments last week: Neptune launched a financing of "up to \$15million" on Tuesday, May 4<sup>th</sup>, which was the first day of the "waterfall" we saw last week (obviously horrendous timing in retrospect). The importance of the two aspects mentioned above are that they are NOT doing this financing because they NEED to raise this money to stay in business, but because they (and Dundee and Paradigm, the two brokerage firms leading the deal) thought that Neptune had the opportunity to:

- 1) raise the capital which would allow them to dramatically accelerate their efforts (and value creation) in all areas of their business (dietary supplements, food ingredients, AND pharma); and
- 2) bring some large institutions into the stock as shareholders.

Regardless of what comes of the road show with Dundee and Paradigm this week, the good thing is that Neptune will be fine regardless of the outcome because—unlike "pure" biotech companies—Neptune generates cashflow that can fund at least a "barebones" pharma program without having to raise money in the public markets.<sup>1</sup>

### **Two new positions in the LP and RSP Funds: Senesco (SNT on Amex) and Cymat (CYM on TSX)**

Both positions were entered via recent financings that bolstered the companies' balance sheets; the pricing and terms of the financings gave us risk-reward profiles that are perfect for the Innovation mandate. In both cases, we established about a 1% position in the funds; in both cases, 12 month "worst case" downside should be no more than 50%, but upside potential is for a 5 to 10-fold move in the respective stock prices. I will give a brief outline of the investment hypothesis for Cymat in this letter, and save Senesco for a letter at a later date.

### **Cymat Technologies: a call option on an enormous US military opportunity**

I have followed Cymat since 2001. They have an aluminum 'foam' technology that has potential applications in auto parts, blast/impact mitigation and architecture/design. For most of its history, Cymat has been a 'bleeding edge technology' in search of an end-market. Auto parts manufacturers have been pursued for years, so far bearing no fruit. Blast mitigation has appeared to be a promising market, but until recently, was also one that bore no fruit. The "game-changing" development for Cymat in this market occurred when two retired US generals joined Cymat's newly-formed Advisory Board. According to a research report by Frederic Beausoleil of Laurentian Bank Securities, the two generals believe that Cymat has the best blast mitigation technology for military vehicles (such as jeeps and HUMVs), and they are helping to position Cymat favourably in a bid for retrofitting 60,000 vehicles in the US Marines and Army. If Cymat wins the bid, it would represent somewhere between \$300million and \$700million in revenue to Cymat, depending on how much of the value-chain that Cymat participates in. A win here would position Cymat's technology as the "industry standard" in blast mitigation systems for military vehicles, and would catapult the stock to multiples of where it currently trades. The financing we participated in was at \$0.18 per unit, where a unit is comprised of a common share at \$0.18, and a full purchase warrant at \$0.25 which expires 2 years from the closing date of the financing. With

<sup>1</sup> For example, in April, Neptune took in just over \$1.6million from the exercise of options and purchase warrants that were attached to the debenture financing they did in October of 2008. The expiry date of these options and warrants was April 30, 2010.

the two-fold exposure we have on the upside, and the one-fold exposure to downside risk, I think readers will understand the attractiveness of the risk-reward proposition that this investment offers.

**Vendtek: I am leaving for Vancouver today to attend the Annual General Meeting**

The entire Board of Directors (most of who have been appointed in the past 6 months) will be there, and this will be their first major public event since the stock started trading again on April 22. As such, it makes more sense to hold off on a more detailed discussion of Vendtek until the next letter, at which time I will have had the benefit of interacting with the new Board, and more time to understand where the company stands in terms of executing on their myriad opportunities.

Vendtek and Senesco will therefore be the likely foci of the next letter. In the meantime, I thank you again for your patience and trust. I am doing everything I can to continue earning it.

Best regards,

A handwritten signature in black ink, appearing to read "Hugh Cleland". The signature is fluid and cursive, with a large initial "H" and "C".

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.