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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was down 16.10% in August, and the Northern Rivers Innovation RSP Fund (RSP Fund) was down 16.01%, meaning we are now -16.75% year-to-date in the Innovation Fund, and -15.51% in the RSP Fund. The returns of the Innovation Fund and its peer index are presented below, as of August 31st, 2007:

	Average Annual Returns to August 31, 2007*							
	2007 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	-16.75%	-16.10%	-22.06%	-25.23%	14.09%	29.76%	31.32%	27.88%
Northern Rivers Innovation RSP Fund	-15.51%	-16.01%	-21.76%	-23.51%	16.67%	26.81%	n/a	18.22%

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

As previewed in the August 20th letter, I made a further investment in the Innovation RSP Fund on August 31st²

To quote from the August 20th letter: “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. 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.” I still feel the same way. I continued in the letter: “I trust this particular investment

¹ We have decided to remove reference to the Globe Alternative Strategies Peer Index in our communications. We found that this benchmark was not helpful to readers, as its composition is not widely understood and its calculation is subject to frequent changes. This index can still be found at Globefund.com

² It should be noted that I contributed NON-rsp money to the RSP Fund; the RSP Fund can accept non-registered contributions, and can be held either directly or in taxable, non-registered accounts.

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.”

Please take the time to read the August 20th letter

I know that every year, the August letter is the one which gets the lowest readership (because so many are—rightly—focused on enjoying the last weeks of summer). Yet it was probably the most important letter of the year. Knowing how badly the positions had been hit, and struggling to understand the implications of the macro developments, I agonized over it for weeks before finally grinding it out over the weekend which followed the climactic low on August 16th. I think it covers some very important subjects including 1) how I see the macro environment, 2) a review of past financial crises, 3) how I run the portfolio in periods of distress, and (most importantly) 4) how strongly I feel about the fundamentals of the core positions in the portfolio.³

I would also encourage you to view the replays of my last two appearances on BNN. I know it is more difficult to make time for something like this, but in the next week, we will be posting to our web-site (www.NorthernRiversFunds.com) both my Friday September 7th appearance on “MarketCall”, and my Wednesday September 12th appearance on “Small Caps”.

Hopefully, my discussion of at least five of our core positions can give some comfort to you that the portfolio is positioned for strong growth over the long-term.

What happened in August in the world-at-large?

It was clearly a dramatic and unusual month. It was (and still is) a classic “financial crisis”, with various financial markets “seizing up” with even the ability to price some assets (in the credit markets) vanishing. A few quotes and anecdotes convey how dramatic and unusual August was:

- 1) Professor Matthew Rothman of the University of Chicago was quoted in the August 11th Wall Street Journal saying: ‘events that our models suggested would happen once every 10,000 years happened every day for three days.’
- 2) Numerous mortgage-securities focused hedge fund “corpses” floated to the surface, with losses in the 30%-90% range.
- 3) The pounding that was being taken by funds that held mortgage-backed securities in July and early August spread to *all* types of funds, most extraordinarily in what are known as ‘Quant Funds’, or funds that invest based on “black-box” mathematical models which tell them which securities to be long, and which securities to be short. For example, Goldman Sachs’ “Global Opportunities Fund” was down 28% in August alone, as of August 14th (which was still not “the bottom”), before Goldman Sachs and

³ You can find the August 20th letter on our web-site, www.NorthernRiversFunds.com. Of course, each of you should have received an e-mail on August 20th with links to my letter and Alex Ruus’. If you believe you are not receiving your monthly e-mail with the portfolio manager letters, please contact Christine Bates at cb@NorthernRiversFunds.com

a handful of billionaires intervened to inject over \$2 billion of new capital into the Fund. Another Goldman Sachs fund, the “Global Alpha Hedge Fund” fell 22.5% in August, its biggest ever monthly decline.

- 4) RBC Capital Markets “Risk Aversion Monitor” hit its highest level since it was created more than eight years ago. This is a global composite of corporate and emerging-market bond spreads, stock market and currency volatility. Although this measure did not exist during the Crash of 1987 or the Russian Debt Default/Long-Term Capital Crisis of 1998, the measure reached on Thursday August 16th exceeded even the readings from 9/11 and the readings seen at the tumultuous end of the last bear market in August-September of 2002. (The positive perspective on this development is that prior spikes have corresponded with market bottoms; let’s hope the spike we saw in mid-August also corresponded with a market bottom!)
- 5) Canadian and US bank stocks were hit dramatically: peak-to-trough from their May highs, CIBC, the Royal Bank of Canada, and Citigroup were down 19.2%, 17.3% and 19.6% respectively.
- 6) The Fed and other central banks around the world made massive (but *temporary*) injections of liquidity (repos) into the financial system which dwarfed even the repos made after the terrorist attacks of 9/11. Then, on Friday August 10th, the Fed announced they were taking the never-before-taken step of making a *permanent* injection of liquidity into the US financial system by buying mortgage-backed securities. (Normally, the Fed will inject ‘permanent’ liquidity by buying government bonds with newly created money.)

Of course, all of the above culminated with the Fed making a surprise inter-meeting cut to the “Discount Window” rate before the markets opened on Friday August 17th, which led to a solid rally in global equity markets that day, and—in a pleasant surprise to most—the markets have mostly continued to rally, at least so far avoiding the “inevitable re-test” that everyone (including me) is expecting. (Fortunately, the Innovation Funds, too, are considerably higher than they were on August 31st, with positions like Webtech and Western Goldfields up 26% and 14% respectively in September, as of the close on September 13th 2007.)

And yet, amongst the panic, (legal) insider buying was at its highest level in years

Readers of this letter will know that I take legal insider buying and selling very seriously, and that studies have shown that insider buying (if it possesses certain characteristics) very often foreshadows good stock performance for the company involved over the following 6-24 months. A couple of notes on recent, legal insider buying:

- 1) Remarkably, the financial sector—which is the center of the financial crisis vortex—has seen insider buying reach levels not seen since 1994/1995 and 1990/1991.
- 2) In August, the “INK buy-sell ratio” (which appears in the Globe and Mail every Saturday) rapidly moved to levels not seen since 2002, and continued moving higher in September. The ratio is calculated by dividing the number of TSX-listed companies

with buy-only insider transactions by the number of companies with sell-only insider transactions. The current level of almost 1.6 is a strongly bullish statement regarding how TSX-listed company insiders view their own company's prospects, and levels like this have normally foreshadowed good returns for the TSX on a 6-24 month basis.

- 3) *A number of stocks in the Innovation Fund have seen notable insider buying, including Webtech Wireless, Vendtek Systems, Western Goldfields and Qustream.* I wouldn't be surprised to see insider buying emerge at other portfolio companies as well over the coming weeks.

Importantly, I continue to stick to the disciplines which have given us the high historical returns

The disciplines which have been the biggest contributors to our historical performance are:

- 1) Buying the core positions on weakness. (Cash is raised by selling non-core, or "farm team" positions.)
- 2) Constantly re-examining the "core investment hypothesis" of our portfolio positions to ensure they are intact. (Clearly, discipline #1 will only be exercised in the case of companies for which I believe the core investment hypothesis is intact.)
- 3) Attending the "off-the-beaten-path" conferences as part of the rolling due diligence process by which I assess whether a company's sustainable competitive advantage and core investment hypothesis are still intact. (For example, later this month, I will be attending the NBAA (National Business Aviation Association) conference as part of my due diligence process on a company which has a good shot at becoming a core position over the next few months.)

Emerging from the summer, I believe that the core investment hypotheses are intact (and in most cases stronger) for the core positions, including Webtech, Neptune, SXC, Western Goldfields, Kodiak Oil and Gas and Vendtek.

So what is one to make of the cross-currents out there?

I believe that the macro arguments I put forth in the August 20th letter still hold. An important aspect to those arguments is that, counter-intuitively, financial crises are often the *best* things that can happen to financial markets in terms of the following twelve months returns...all of the financial crises since the Depression bear that out. Of course, what is not clear is whether we are through the worst of the market response to the financial crisis, or only part way through.

The following points are also important to make:

- 1) Corporate profitability has never been stronger entering a financial crisis
- 2) Global growth has rarely been stronger entering a financial crisis
- 3) Other than 1984, equity valuations have never been lower going into a financial crisis

Importantly, on the margin, there are a few nascent signs that the credit crunch may be “handle-able” by the markets. For example, according to the Wall Street Journal on Wednesday September 12th, \$24.85 billion of Euro commercial paper was issued, more than offsetting the \$21 billion that matured. Also, last week saw the first significant declines in the various LIBORs (London Inter-Bank Offered Rates) which are the benchmarks off which so many consumer and commercial loans are set.

Nonetheless, it is clear that the risks of a US recession have increased, and financial market volatility will continue for a while. But as we negotiate our way through these markets, I want to reiterate to our investors that I believe the fundamentals in our core positions are stronger than ever, and (to quote again from the August 20th letter): “Unless we are headed into a global depression, I can think of few scenarios under which the current prices (for the core positions) will not look like bargains within 6-12 months, and possibly within a matter of weeks.”

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 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 August 31st—know that my recent personal contributions (made on May 31st, July 31st, and most recently on August 31st) indicate what I think about the future prospects for the Innovation 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, September 28, 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,

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

*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.