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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation LP) was down 8.17% in August, and the Northern Rivers Innovation RSP Fund (RSP Fund) was down 10.25%. As with July, the performance differential between the Innovation LP and the RSP Fund is explained almost entirely by the fact that the RSP Fund had a higher weighting in Gastem during August, a month that Gastem fell another 33.9% (after a 37.5% fall in July). The returns, as of August 31, 2008, are presented below:

| | Average Annual Returns to August 31, 2008* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 YTD | 1 mo. | 3 mo. | 6 mo. | 1 Yr. | 3 Yr. | 5 Yr. | Inception** |
| **Northern Rivers Innovation Fund LP** | **-22.52%** | **-8.17%** | **-24.10%** | **-17.86%** | **-9.13%** | **20.83%** | **18.70%** | **22.04%** |
| **Northern Rivers Innovation RSP Fund** | **-25.16%** | **-10.25%** | **-25.65%** | **-20.30%** | **-11.36%** | **20.11%** | **N/A** | **10.88%** |

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

August was a horrendous month for resource stocks. Expecting tough times in the resource sector, I went into August with the lowest resource weighting I have had in many years. Unfortunately, the resource stocks I did have were hit hard, some by more than 50%. Our two largest resource-related holdings (Western Goldfields and Gastem) were down by 21.9% and 33.9% respectively.

One of the most frustrating aspects of August is that my non-resource core positions (such as Webtech, Neptune, Vendtek and Aeromechanical) had little negative impact on the month's performance. Negative performance came almost entirely from my resource exposure (half from Gastem alone, and the other half from the collection of other resource stocks).

**It is at times like these that one must step back and take as long a view as possible**
In an effort to "step back from the window ledge" last week, I took a look at the returns of the TSX-venture exchange and the TSX Composite since December 7, 2001, and compared them to the returns of the Innovation LP over the same timeframe**. Here is what I found:

The TSX-Venture index was up 98.4% from December 7, 2001 to August 31st 2008, and (after a dreadful September so far) is now up only 45.9% from December 7, 2001 to September 16, 2008.

The TSX Composite was up 80.8% from December 7, 2001 to August 31, 2008, and (after a similarly dreadful September so far) is now up 60.5% from December 7, 2001 to September 16, 2008.

The Innovation LP was up almost 430% from December 1, 2001 to August 31, 2008, and—based on an estimate of a 10% hit so far in September—is still up approximately 390% since December 1, 2001.

In Summary: over the long-term, the Innovation LP has achieved significantly more upside than the indices from which we draw most of our investments.

Indeed, it was looking at these numbers that led Alex Ruus (one of the other Portfolio Managers at Northern Rivers) to exclaim: "Look, this is a huge opportunity. This is a chance for the people who missed the first seven years of the Innovation LP to participate in the next seven years." It is important to put this statement into the context of what is going on now, well into the throes of a bear market: powerful bear markets like the one we are in represent major "re-sets" in future potential return; yes, they take back a lot of the gains made during a bull market, but they load the spring for future returns for when market conditions allow fundamentals to drive stocks once more.

Please don't misunderstand what I am trying to do here. I am not trying to minimize or dismiss the agony that we are all going through as investors in the Innovation mandate right now. This is clearly an enormously stressful time. The point is that—whether we bottom in the next month, three months or longer—this far into a bear market is NOT the time to be pulling capital out of the market; rather, it is the time to be committing *more* capital (in stages) to the market.

**It is also at times like these that one must remind oneself of the basic principles and philosophies that drive one's investing**

The following three points are fundamental to my philosophy and approach:

1) I believe that the best way to generate wealth in the stock market is to identify and own the stocks of companies that have a "sustainable competitive advantage" and are on a long-term secular growth path, and own them through big ups and downs, as long as the core investment hypothesis is intact. (Research in Motion is a great example of a company that has had a sustainable competitive advantage that has allowed it to remain on a secular growth path for over ten years.) Over the long-term, those companies' stocks will be up no matter what the macroeconomic environment throws at them.

2) This second point is directly related to 1): As long as the "core investment hypothesis" is intact for a core position, I am a buyer as its stock goes lower. This is because, if I am right that the core investment hypothesis is intact and that the company is still on a secular

growth path, then FUTURE RETURNS GET HIGHER THE LOWER THE STOCK GOES. This point cannot be over-emphasized.

3) My risk–return philosophy is best summarized by the following: I would rather achieve 20% annualized returns over ten years with HIGH volatility than 10% annualized returns over ten years with LOW volatility. The history of the fund suggests that I am running the fund consistent with those parameters.

**I made further contributions to the funds I manage on August 31st, and plan to contribute more by the end of the year**

In fact, we will soon be sending out a notice informing people that we will be re-opening the Innovation LP effective September 30, 2008. The Innovation LP is the fund that has been in operation since May of 2001 and was closed to new contributions on March 31, 2007, because assets had exceeded a threshold ($100mm) at which I had always said I would close it to new money. It is important to note that we are not re-opening it because of a need to offset redemptions, but simply because it has fallen below the asset threshold (because of negative performance) that we had set as a level at which it would be appropriate to re-open it.

It is a strong signal that we already have commitments from Likrilyn Capital Corporation (the family office parent company of Northern Rivers Capital Management Inc.) to put more money into the Innovation LP upon its re-opening, and a number of family and friends have also already indicated they will do so as well.

**So how is the base case evolving amidst the current chaos and fear?**

A necessary (but not sufficient) condition for a bear market bottom is that the vast majority of central banks need to reverse their current tightening stance, and move in to a phase of monetary easing. The most important things that have happened in terms of putting in place this “necessary” (but not sufficient) condition are:

1) Oil has collapsed below $100, relieving much of the inflationary pressure that was causing most central banks around the world to maintain a tightening bias.
2) The condition of the world financial system is worse than most people imagined.

The reason these two conditions are important is because, up until recently, the vast majority of the world’s central banks were either raising rates or were in a tightening stance. The key point being that bear market bottoms cannot be put in while the majority of central banks are in a tightening stance. Recent developments with oil and the financial system should allow most central banks around the world to move rapidly to an easing stance, and probably to embark on dramatic easing campaigns by the end of the year (and hopefully sooner!)

So this means we now have the most important “necessary” condition in place for a bear market bottom. But how long will it take to be put in? How far will asset values fall in the meantime? And what will be the catalyst(s) for the bottom?

One point to make is that sentiment and many contrary indicators are at extreme levels, which should be supportive of the ability to put in a bottom. For example, the Investor's Intelligence Sentiment survey hit an 18-year low in bullishess last week, giving it an even lower number of bulls than in October of 2002 (which was the scary bottom of that horrendous bear market.) Also, the Put-Call Ratio hit 1.40 on September 15th, the same level it hit at the bottom in March. The VIX (a measure of fear in the markets) also hit levels only seen three times since the second half of 2002.

But the question remains: what will allow the markets to look ahead 6-9 months and (correctly, as opposed to incorrectly in the case of head-fake bounces) ascertain that a healing process will begin? My guess is that the growing clarity among Western central banks and governments that this is an unprecedented crisis will lead to concerted action, beginning in September or October. A "Resolution Trust Corp"-type entity set up by the U.S. Federal government to deal with toxic mortgages is probably another "necessary but insufficient on its own" ingredient to a healing process that gains traction.

What does this mean for the markets? There is certainly a possibility that the conditions are already in place for a market bottom within a few percent of where we are today. But my best guess is that there is another 10% downside in the overall indices before we finally get a lasting bottom. The thing is, the way things are unfolding, it looks like that 10% will be viciously swift, probably being over by the end of October, further reinforcing my belief that we are too far into this bear market to be pulling money out of the market; it is the time to (as we gasp and cringe in horror) to be staging more money IN.

**How are the core positions faring?**

The *stocks* (other than VSI and—sometimes—WEW) are not faring well, but the *companies* ARE. I wrote in the last letter that "I seek to identify and own core positions whose secular growth paths are immune from (almost) any macroeconomic outcome. The current group of core positions is exemplary in this regard, as—in the face of a dramatic global slowdown—they continue to secure the deals and partnerships necessary for their continued growth." Overall, I continue to be simultaneously horrified and excited as the future returns for the core positions go higher and higher; the critically important point is that the fundamentals continue to improve for the core positions[1], even as their share prices fall.

**Next closing**

The next closing for the Northern Rivers Innovation Fund LP, the Northern Rivers Innovation RSP Fund, the Northern Rivers Conservative Growth Fund LP, and the Northern Rivers Global Energy Fund LP is September 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

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[1] I had indicated in a recent letter that the only core position for which the fundamentals weren't improving was Aeromechanical Systems (AMA on the TSX-v). Fortunately, since I wrote that, the fundamentals for AMA have begun improving again too.

encourage people to set up a breakfast, coffee or lunch by contacting Robyn Lyle at 1-866-902-7060, ext. 222.

Please contact Jeffrey Zicherman, Sales Associate (ext. 237) or Robyn Graham, Vice President Sales and Marketing (ext. 236) for more information regarding the other funds offered by the Northern Rivers team, or you can reach any of the portfolio managers at Northern Rivers to discuss the specific funds under their management by calling the same toll free number above.

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 indicated rates of return are the simple returns (1 mo, 3 mo, 6 mo, since Dec. 2001) or the historical annual compounded total returns (1 yr, 3 yrs, 5 yrs, 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.

**The Innovation LP and the RSP Fund invest 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 funds normally follow 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 funds may engage in short selling. Short selling may provide the funds with opportunities for gains and risk mitigation when markets are volatile or declining. The same fundamental analysis is used in determining whether securities of a particular issuer should be sold short. The funds may also use specified derivatives, such as calls and puts, warrants, index futures and exchange traded funds. This may result in portfolio weightings and investment performance being substantially different from that of the S&P/TSX Composite Index/TSX Venture Index.