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Dear Partners and Friends:

Both the Northern Rivers Innovation Fund LP (the LP) and the Northern Rivers Innovation RSP Fund (the RSP Fund) finished 2009 on a positive note. For the year as a whole, the LP returned a disappointing 7.98%, and the RSP Fund returned a reasonable 29.86%. This letter will address i) why the performance of the two funds was so dramatically different, as well as ii) why neither fund lived up to my performance expectations, iii) what happened on a stock-by-stock basis in 2009, and iv) why there is a foundation for optimism as we enter 2010.

Average Annual Returns to December 31, 2009*

	2009 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	**7.98%**	**2.95%**	**-5.65%**	**-13.12%**	**7.98%**	**-28.67%**	**-2.71%**	**8.72%**
Northern Rivers Innovation RSP Fund	**29.86%**	**3.10%**	**1.08%**	**7.31%**	**29.86%**	**-22.80%**	**1.53%**	**-0.38%**

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

A discussion of 2009 is incomplete without reference to elements of 2008. To wit: the second half of 2008 and the first quarter of 2009 were a period of financial and economic turmoil not seen in the Western World since the Great Depression and World War II. It was turmoil that caused many once-dynamic companies and funds to be bankrupted, re-structured, or shut-down—on a *scale* not seen since the Great Depression.

We only managed to avoid this fate for the LP by making, in the first quarter of 2009, an extremely difficult decision—to impose a 2-year moratorium on redemptions, beginning on January 23rd, 2009. This was, however, a decision that allowed us to avoid a significantly worse outcome for our investors, and begin rebuilding a platform from which we will once again be in a position to make good gains. Indeed, between the second and fourth quarters of 2009, the RSP Fund was successfully “normalized”, and important steps were made toward normalizing the LP. (Note that the RSP Fund’s higher return is largely a reflection of the fact it was normalized more rapidly than the LP could be.)

The most important message for my investors as we enter 2010 is that—after a 2009 that was shaped by the impact of the normalization process, and by a number of unpleasant surprises at Webtech—we enter 2010 well positioned to realize the value that is in the portfolios and in the core positions.

The 3 main reasons that this year's returns did not meet my expectations, and why the RSP Fund dramatically outperformed the LP

<u>1) Hits from the private companies in the portfolios</u>: Over the course of 2009, we experienced a number of liquidity events (an IPO, an RTO, and one company being acquired by a publicly traded company). We also took a number of further write-downs, three complete write-offs and a handful of write-ups. (The write-ups occurred—with one exception—because of financings occurring at higher levels than our December 31, 2008 price.) The net effect of these developments was still a material net negative for both funds' performance.

In terms of the process of "normalization" (ie., getting the weighting of privatecos down to the 10% area): as of today, the weight of privatecos in the LP was around 26% and the weight of privatecos in the RSP Fund was just over 11%. You can see that the RSP Fund is essentially normalized by this measure, but that we still have a ways to go for the LP. Note that I *do* expect to reach a weighting of 10% in the LP by the end of 2010, as most of the remaining privatecos are in a position to either go public or be acquired during the year.

One can also see how this aspect of the portfolios contributed to the performance differential between the LP and the RSP Fund: because the LP started 2009 from a higher weighting in privatecos, and privatecos were a source of net negative performance for both funds, the LP experienced a bigger hit from the private side of the portfolio than the RSP Fund.

It is fair to characterize 2009 in the private portion of the portfolios as being rather "Darwinian": the private companies which survived the freeze in the financial markets and the dramatic economic downturn now as a group should represent a source of upside for our investors in 2010. (What has happened to the three companies which became public in 2009 is supportive of this contention: all three are trading higher than the prices at which we were carrying them at December 31, 2008; one is trading only 16% higher, but the other two are now trading about 100% higher than where we were carrying them at the end of 2008.)

<u>2) Webtech Wireless</u> was the single largest hit to performance in 2009. Relative to the June 30, 2009 NAVs, WEW caused a 15% hit to the LP's NAV, and about a 5% hit to the RSP Fund's NAV. I must acknowledge that I was ambushed by WEW in 2009. It was especially shocking because Webtech's analyst day in May provided a great opportunity to talk with many of Webtech's channel partners, who were all getting good traction in terms of selling Webtech's telematics systems.

Unfortunately, two "events" set the stock on a downward spiral for the second half of 2009: first, the August announcement of the acquisition of Grey Island Systems. This in fact should have set up WEW for a strong Q4, but the final straw for the market's patience with WEW came when they reported a dismal Q3 in November. In fact, these results ultimately catalyzed the Board to move ahead without the two founding shareholders, and install the former CEO of Grey Island as COO and the former CFO of Webtech as the CEO. Upon learning of these moves, I immediately polled many of the major shareholder groups: I found that the largest shareholder had in fact acted as one of the primary catalysts for the changes, and another large shareholder was explicitly supportive after the fact. After confirming support from other institutional shareholders and analysts, my biggest concern was to make sure that key customer and channel relationships were secure, and I was quickly able to ascertain that, too.

Critical to the future success of Webtech is traction in the insurance vertical, because this is where Webtech can develop substantial streams of monthly recurring revenue from just a small number of customers. Fortunately, Webtech already has a solid foothold here, and this is a primary reason for my continued support of Webtech, even through the recent nightmares:

1) GNP (the Carlos Slim-controlled Mexican insurance company) will be putting marketing and promotion dollars behind the commercial launch and roll out in 2010, and I look forward to accelerating traction here.

2) The 18,000 unit rollout with a UK-based insurance company is continuing, and provides an excellent "proof of concept" for customized and/or pay-as-you-use models for the insurance industry.

3) Webtech has 3 pilots with US insurance companies; if we start to see phased commercial roll-outs with just one of these household names, this would ensure that WEW has an extremely strong 2010-2011.

Importantly, the new CEO has indicated to me that he intends to make a further investment in the stock of WEW. I expect that other members of the Board are likely to follow this lead once the Q4 results "blackout" is over. This, plus a commitment to profitability, plus Webtech's positioning in the insurance industry and continuing evidence that they have technology leadership in fleet telematics means I am putting my support behind the new management team.

3) Vendtek Systems

VSI is an odd and extremely frustrating situation because (according to public statements) the business has performed well (during the course of the worst financial and economic conditions since the Great Depression). Yet, because the stock has been halted since late January of 2009, we are carrying it at approximately half the price at which it closed on December 31, 2008.[1]

The bottom line is that despite the market turnaround in the latter three quarters of 2009 (which saw many stocks up materially from their December 31, 2008 levels) we marked Vendtek at a price representing a decline of almost 50% in 2009. Of course, this means that TWO of our largest positions (Webtech and Vendtek) were down on the year. You can imagine my frustration, especially when the Vendtek situation seems in many ways unrelated to the health of the underlying business.

The point is that neither the dramatic turnaround in the markets nor the strong business fundamentals of Vendtek have had a chance to reflect themselves in the *price* of Vendtek. I expect they will over the course of 2010, after an initial sharp sell-off when the stock resumes trading. I look forward to being able to discuss Vendtek in a lot more detail once the financial and business development disclosures are made sometime in the near future.

In contrast to WEW, things DID go well for NTB, AMA, SXC and eASIC

Neptune had a great year. It started the year at $0.62 and ended the year at $2.16, for a 248% return. Many developments occurred in 2009 which reinforce my contention that Neptune's Acasti division is on the path to "pharmaceuticalizing" krill oil, much the same way that Pronova pharmaceuticalized fish oil (to produce a drug called Omacor). The fact that several US institutional investors have showed up as shareholders on publicly available shareholder lists, and

[1] Once again, because Vendtek was a larger position in the LP than in the RSP Fund, it meant that the LP took a bigger hit than the RSP Fund from the write-down taken on Vendtek.

have been steadily accumulating NEPT on NASDAQ since mid-year reinforces my belief that 2010 will be a breakout year for Neptune.

Aeromechanical too, had a solid year. The stock started the year at $0.20, and ended at $0.53, for a 165% return. The strategic relationship (for manufacturing and for selling to the military) with Sierra Nevada Corporation, and the partnership with L-3 (the incumbent monopolist in the "black-box" market) are 2 developments which have secured a great future for AMA. The time I spent with a key executive from NetJets Europe also suggested that 2010 would be a breakout year for Aeromechanical in the business jet market. A model using what appear to be conservative installation assumptions for L-3 puts Aeromechanical's cash flow for 2011, 2012 and 2013 at $20million+, $50million+ and $90million+. If they can achieve anything like those numbers, we will be happy shareholders of AMA for years to come.

SXC also had a spectacular year, with its market cap going well over $1billion after management proved that the acquisition of NMHC was even more accretive than promised. Revenue, cash flow and free cash flow all exceeded analyst expectations by an enormous margin in 2009. It was a sad fact of the Q4/08-Q1/09 environment that SXC was one of the stocks that was sold to meet redemptions in the LP; it remained a position in the RSP Fund all year.

eASIC made some spectacular breakthroughs, both from a technology standpoint and from a customer adoption standpoint. In a year when many venture-funded companies forced "pay-to-play" financings on their investors, or were simply left to die, eASIC raised more money on terms that were among the best I have seen from Silicon Valley over the past 12 months. Of the technology investments in his VC funds, Vinod Khosla (former GP of Kleiner, Perkins, Caufield, and now GP of Khosla Ventures) remains most excited about the prospects of eASIC. Using Cavium (CAVM on the NASDAQ) as the best comparable, an IPO would appear to be likely in the first half of 2011.

"New positions" figured more and more prominently in the RSP Fund as it was normalized during the course of 2009

The LP has only recently been sitting on enough cash to begin making investments outside of the portfolio positions which existed in early 2009. The RSP Fund, on the other hand (because of its small size and pre-existing regulatory limits on position sizes) was able to "normalize" quite early, and hence was able to put new money to work in companies such as:

1) OncogenX, OGXI on the NASDAQ, cost base US$5.47, currently over $18, with much of the position having been sold in the $15 to $30 range.
2) Sensio, SIO on the TSXv, cost base $0.48, currently at over $2.50, with much of the position having been sold between $2 and $4.
3) Absolute Software ABT on the TSX, cost base $5.72 and is currently around $6.70. ABT is a position that we have owned for most of the past six years and was added to recently in tax loss selling season.
4) Lakeshore Gold, LSG on the TSX, cost base $3.07, now around $3.90.

Two new micro cap farm team positions that have been added to the RSP Fund are ISee3D Inc., ICT on the TSXv, cost base $0.75, now around $1.00 and ISeeMedia, IEE on the TSXv, cost base $0.16, now around $0.20. Normalization of the RSP Fund also allowed me to return to some long-time favourites in the resource area such as Major Drilling (MDI on the TSX) and Continental Precious Metals (CZQ on the TSX), both which have done well for us in the past.

The bottom line is that the fundamentals of the underlying positions in both funds lead me to be optimistic about the possibilities in 2010, as the LP joins the RSP Fund in a fully normalized state.

Next month, a macro look at 2010

In the meantime, I thank you again for your patience and trust. My promise to you is that I will continue to work hard to uncover more secular growth companies with sustainable competitive advantages, and I will simultaneously work hard to catalyze the value that I believe is being created by the companies in these portfolios.

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.

The LP: There was a pricing error in one of our private companies that occurred in October 2009 and has been corrected. The NAVs for October 31, 2009 and November 30, 2009 were overstated by 2.3% and 2.4% respectively and will be restated for the purpose of reporting past performance. Corrections will be made for the unitholder purchases that occurred during the months affected.

The RSP Fund: There was an over provision of expenses in June 2009 which was corrected in November 2009. As a result, the NAVs for June 30, 2009 through September 30, 2009 should have been higher by between 1.3% and 1.5%. There was also a pricing error with respect to one of the fund's private company investments that affected October 2009 which was corrected in December 2009. The effect of these two changes is that the reported NAV for October 31, 2009 was understated by 0.7% and that for November 30, 2009 was overstated by 1.0%. The NAVs for each month will be restated for the purpose of reporting past performance. Unitholder transactions that occurred during the months which require the unitholder to be made whole will be paid for by the manager and not the fund.