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Dear Partners and Friends:

February was an excellent month. The Northern Rivers Innovation Fund LP (the Innovation Fund) was up 6.25% in February, and the Northern Rivers Innovation RSP Fund (RSP Fund) was up 5.82%. The returns, as of February 29<sup>th</sup>, 2008, are presented below:

	Average Annual Returns to Feb. 29, 2008*							
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
<b>Northern Rivers Innovation Fund LP</b>	<b>-5.67%</b>	<b>6.25%</b>	<b>-0.80%</b>	<b>10.63%</b>	<b>-17.28%</b>	<b>25.36%</b>	<b>32.47%</b>	<b>27.47%</b>
<b>Northern Rivers Innovation RSP Fund</b>	<b>-6.09%</b>	<b>5.82%</b>	<b>-0.34%</b>	<b>11.22%</b>	<b>-14.93%</b>	<b>24.35%</b>	<b>n/a</b>	<b>18.89%</b>

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

The week ahead is a pivotal week, with Bear Stearns having just been bought (as I was writing!) by JP Morgan for \$2/share, and the next meeting of the US Federal Reserve governors occurring on Tuesday, March 18<sup>th</sup>. Six weeks from now, it seems equally likely that the broad equity indices could be up 10% from current levels or down 10% from current levels. With the right kind of dramatic action from the Fed and other financial authorities this week, we could see the 10% bounce scenario; in the absence of the necessary action, another 10% decline in the broad indices seems inevitable. We are positioned with the highest cash balance that we have had in a long time, and an array of at- and out-of-the-money puts that will become very valuable in a substantial market decline, but will not hit us too hard if the bounce scenario unfolds.

**Various credit measures showing significant distress again**

Although U.S. LIBOR measures (discussed in the September 2007 letter) have declined very markedly from the August-September highs (in the 5.75%-6.0% range) to the 2.75%-3.05% level, various market rates for consumer and business loans have not declined nearly as much, and many have actually increased materially again since late January. To illustrate, we will look at US consumer mortgage rates, and the “TED Spread”:

- 1) The average U.S. 30-year fixed-rate mortgage rate has gone from 7% in August, down to 6% in January, but is now creeping back up to the 6.6% area<sup>1</sup>, despite continued declines in LIBOR.
- 2) The TED Spread is the difference between the US 3-month T-Bill interest rate and US 3-month LIBOR. It is a reflection of risk perception within the financial system. It has typically ranged

<sup>1</sup> From HSH Associates Financial Publishers, “3-year Graph of Fixed-Rate Mortgages”

between 20 and 60 bps, but during August of 2007 it ballooned to the 150-200bps range, and hit an all-time high of 250 bps at year end, before contracting again to a low of 78 bps in February. Unfortunately, the TED Spread has again ballooned out to 152 bps as of Thursday March 14<sup>th</sup>.

These moves in credit spreads and market rates have put us back in the type of crisis to which central banks and fiscal authorities have historically successfully responded (having taken to heart the lessons learned from The Great Depression), thereby ultimately putting bottoms (as scary and violent as they may be) into equity markets. Again: the week ahead will be crucial.

### **In the midst of this crisis, (legal) insider buying in our core holdings continues**

Since May, most of our core positions have seen insider buying. And in all cases where insider buying occurred, the stocks are higher since the buying took place: Webtech, Aeromechanical Services, Vendtek Systems, Western Goldfields and Gastem among them. It's a great sign that the insiders feel the same way about their company's fundamentals as I do.

It makes for an interesting contrast to look at insider behaviour preceding some of the recent blow-ups in a couple of small and mid-cap Canadian tech companies that we did not own. In one case, the CEO sold about 1/3 of his holdings in March of 2007 when the stock was between \$3.50 and \$4; the stock has been heading down almost continuously since; the company recently warned and guided down, causing the stock to plunge as low as \$1.14. In another case, the four founders of the company each sold over 10% of their holdings in the September/October 2007 timeframe when their stock was between \$6 and \$7. Six months and two profit warnings later, the stock is at \$1.19.

I bring up these examples, and the contrasts with insider behaviour in our core holdings, to highlight why we pay so much attention to insider buying and selling, and to highlight one of the many reasons why we continue to feel very good about the strength of the fundamentals in our core positions, even as the global crisis continues to unfold around us. We can feel confident about our continued accumulation of the core positions, feeling like we are "buying alongside" the management and boards of those companies.

### **Two quick notes on Webtech and Neptune**

Keeping track of obscure developments at our core positions is part of what I do, and two recent, obscure developments at Webtech and Neptune are, I hope, preludes to some very significant developments for both companies in the near future.


With respect to Webtech: I have followed the job postings on their web-site for quite some time; the web-site now indicates that the posting for "Program Manager, Memphis Tennessee" has been filled. It is logical to expect that this means what I hope it means (particularly when putting it in the context of Webtech's January 23<sup>rd</sup> press release), and I am hopeful that FedEx, IBM and Webtech are anxious to make a big splash at the EyeForTelematics2008 conference on March 26<sup>th</sup> and 27<sup>th</sup>. I will be going to that conference to meet face-to-face once again with the IBM and FedEx contacts that I first made at EyeForTelematics2007. They are the contacts who have been so important in maintaining my belief that Webtech would ultimately be awarded the FedEx contract. Hopefully we will all be "raising a glass" to the biggest coup in the telematics industry for years.

With respect to Neptune: intellectual property is an important aspect of this story, and as such, from time to time I do patent searches in relevant areas. During one such search of the European Patent Office's (EPO) site last June, I found that a critical "composition of matter" patent had been granted to Neptune on May 31, 2007. (Indeed, I believe it is no coincidence that the Yoplait and Nestle deals followed shortly thereafter.) However, EPO patents are not considered *issued* until 9 months after they have been *granted*. An odd wrinkle to this process is that, during the nine months between granting and issuing, granted patents can be opposed, BUT (and this is crucial) the opposition has no impact on whether or not the patent ends up being issued. So, back in June, I made a note in my calendar that February 29<sup>th</sup> was nine months after the granting;<sup>2</sup> my anticipation of the issuance of this patent is particularly high because I believe that this composition of matter patent is particularly important to what will develop in Neptune's pharmaceutical initiatives, and *news of its issuance* should be a significant catalyst for developments there, and for appreciation in the stock.

### **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 Monday, March 31, 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 31<sup>st</sup> 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.

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<sup>2</sup> The passing of the February 29<sup>th</sup> deadline is the development which is both recent and obscure.