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Dear Partners and Friends:

2010 got off to a rough start, as sovereign spreads<sup>1</sup> in two of the PIIGS<sup>2</sup> widened materially—most dramatically for Greece and Spain, with Greece’s situation being severe enough to stoke fears of a cascading contagion. Both the Northern Rivers Innovation Fund LP (the LP) and the Northern Rivers Innovation RSP Fund (the RSP Fund) were down on the month, essentially in line with the markets, because a few of our positions (AMA and WEW in particular) took a beating.

Thankfully, so far in February, a number of our positions are up in the 10%-30% range, and we have made up the lost ground.

	Average Annual Returns to January 31, 2010*							
	2010 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
<b>Northern Rivers Innovation Fund LP</b>	<b>-4.93%</b>	<b>-4.93%</b>	<b>-9.37%</b>	<b>-18.91%</b>	<b>0.38%</b>	<b>-30.94%</b>	<b>-3.79%</b>	<b>8.00%</b>
<b>Northern Rivers Innovation RSP Fund</b>	<b>-5.32%</b>	<b>-5.32%</b>	<b>-5.37%</b>	<b>0.40%</b>	<b>24.83%</b>	<b>-25.23%</b>	<b>0.31%</b>	<b>-1.29%</b>

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

**What is my macro and market base case for 2010?**

In 2009, markets performed admirably from April through to the end of the year, as they responded first to the avoidance of outright financial and economic Armageddon, and then anticipated (correctly) an unexpectedly strong bounce back in profits and economic activity from the deep trough of Q1-09. So where does that leave us for 2010?

My expectation is that markets will be choppy in 2010, as economic growth does a one-step back, two steps forward, one (or two) step back routine. There’s a good chance the markets end the year in the 0%-10% range, with a lot of noise and bipolar behavior in between. The good news is that a market like that should still leave room for companies demonstrating secular growth characteristics, profitability and growth catalysts to shine.

Although there are plenty of reasons to worry about the global economy, I don’t believe that we fall back into the economic or financial abyss. The history of second years after BIG bear markets like we had is “stunningly, consistently, overwhelmingly positive”<sup>3</sup>—suggesting that my expectation for 0%-10% market returns in 2010 may be exceeded, confounding all expectations that I am aware of (i.e., I do not know anyone expecting 2010 to be a good year in the markets).

<sup>1</sup> The “sovereign spread” represents the difference between bond yields issued on international markets by the country in question versus those offered by governments with AAA ratings

<sup>2</sup> PIIGS is the acronym coined for the fiscal basket cases of the EU: Portugal, Ireland, Italy, Greece and Spain.

<sup>3</sup> Quoted from Ken Fisher’s Forbes article from the February 8, 2010 issue “Recovery, Part Two”.

I will discuss aspects of the macro backdrop in more detail in upcoming letters, but here want to use what I have learned during the process of this year's audit to update our investors on the status of the largest privateco positions within the portfolios.

### **Discussion of developments within the private companies**

I will start with the 2 oil and gas private companies within the funds. One is a North Sea oil producer. Their first well went into production in April of 2009 at about 10,000 barrels per day of oil, and has exceeded expectations by a dramatic margin (in terms of consistency of production volumes, and the lack—so far—of water cut). Their second well is expected to be on stream by late 2010 or early 2011, and given its proximity to the first well, is expected to be of similar characteristics to the first. They are exploring opportunities to work with or merge with other companies with good opportunity sets. A merger, or takeout or IPO is a likely event in 2010.

The other private oil and gas company in the portfolio is one that has over a half million acres of extremely prospective land in southern Tunisia. Exploration success by other companies in the immediate area has been 90% since 2000. The last exploration wells drilled there are 5 for 5, with all being considered economic discoveries (with one flowing 23,500 boe/d of gas and condensate—truly an elephant gas well—and the others being considered primarily Silurian oil wells.) The company has completed and analyzed a major 3D/2D seismic program over the course of late 2008 and 2009, and is now ready to drill. The part of Tunisia they are in is generating a lot of excitement for the Silurian oil prospects there, and the 3 wells that this company will drill this year will test for both the Silurian oil zones and the elephant Ordovician gas zones. A very unique factor that this company has going for it is that the Chairman is the son-in-law of the President of Tunisia—these kinds of connections are obviously extremely valuable in the international context.

I have discussed our investment in a “smart metering” private company in the past. The detailed analysis and update obtained through the audit preparation process indicated that although progress has been delayed by delays in the release of Obama's “smart grid” stimulus money, they have made important wins in the UK and the US in 2009, and are considered to be emerging as among the top 3 “smart grid” systems providers. They are also well into the process of raising another round of money via a global investment bank—at a level that I would expect to be higher than where we are currently carrying it.

An investment in a private gold company that we have had for a while appears to be turning into a roaring success. They have an asset in a Western European country with a 2007 NI 43-101 compliant resource of 650,000 ounces of gold; the updated NI 43-101 to be published very shortly is expected to show that resource having grown to over 1 million ounces. The zinger here is that the company has assembled a gold industry “dream team” for their Board of Directors, ranging from the former CEO of Aurelian Resources, to the CEO of Osisko Mining and the CEO of Colossus Gold. This company raised money at \$0.75/share in December, which represented a lift of about 30% relative to where we had been carrying it. An IPO is expected in the first half of 2010 at a significantly higher price.

The deep dig I did on eASIC starting in December uncovered very encouraging developments—developments which suggest that eASIC should be able to follow in Cavium's footsteps (CAVM on NASDAQ), and get an IPO done in the first half of 2011 at a valuation between \$500 million and \$1 billion. So what has happened to indicate we have good visibility to that path?

For starters, there were two enormously significant commercialization milestones that were achieved that have expanded eASIC's addressable market by an order of magnitude:

- 1) eASIC proved they can create commercial-scale ASSPs from eASIC's proprietary programmable fabric (*meaning that they can now compete in the \$60 billion ASSP market*), and
- 2) eASIC transitioned a number of customers from programmable ASICs (which use eASIC's proprietary programmable fabric, and typically compete only with FPGAs) to standard ASICs (*meaning that they can now compete in the \$20 billion+ ASIC market*).

The bottom line is that eASIC went from being able to compete *only* in the FPGA space (*a \$3.6 billion annual market*) to also being able to compete in the much larger ASSP market and ASIC markets. Those are obviously game-changing developments for eASIC.

On a customer-specific scale, developments with two of eASIC's Tier1 customers demonstrate the kind of traction that eASIC is ALREADY getting in the FPGA market, and the dramatically improved visibility that eASIC has for their 2010 and 2011 revenue and profitability:

- 1) One of these two customers spends about US\$150million/year on FPGAs. This company has told eASIC that they plan to migrate much of their FPGA spend to eASIC over the next 2-3 years. Given that \$1 of FPGA spend converts to about \$0.60 of eASIC spend, that would suggest that eASIC will have \$50-\$75 million revenue/year from this customer within 2-3 years.
- 2) The other of these two customers spends about US\$200 million/year on FPGAs. This customer has told eASIC that they are converting 30%+ of their FPGA business to eASIC in 2010! Because of the lag between design/tapeout/commercial volume shipments, this will show up mostly in 2011 revenue, translating into over US\$35 million in revenue from this customer alone in 2011 (based on 60% of 30% of US\$200 million).

### **Some of our privatecos *are* going public; others are raising money as needed**

It is worth noting that the 3 privatecos in the Funds that went public over the last 4 months are all up materially from where we were carrying them when they were private. (One, in fact, is up over 100%.) We also had one of our privatecos purchased from us for cash at the price at which we were carrying it. Although we are big fans of this company, it was clear that—given the capital markets strategy of the VC group that was in the process of financing the company—the company would not be public for 2 years or more, so we decided to accept the company's offer to buy our shares. Several of our privatecos raised further rounds of private money over the last 3 months—all at higher prices than where we were carrying them: one raised money above \$25/share, which compares to our prior carrying value of about \$18. Another privateco in our portfolio financed on January 29<sup>th</sup> at \$0.75/share—which was 100% higher than where we had been carrying it. I mentioned earlier in the letter that the private gold company we own financed in December at \$0.75/share. I point out these recent developments to help my investors understand two things:

- 1) That there IS good value and prospects are good in the approximately 25% of the LP that is still in private companies (the RSP fund is closer to 14% privatecos), and I expect that this portion of the portfolio will provide good returns over the next 1-2 years.

2) I am still of the opinion that it was the right decision *not* to liquidate our private portfolio at the rock-bottom-distressed prices we would have had to accept if we were to have sold them in the Q4-08 to Q2-09 timeframe.

**Vendtek will (finally) be the focus of the next letter**

I look forward to explaining why I think Vendtek is likely to give us strong returns in 2010 and beyond. In the meantime, I thank you again for your patience and trust. I am working hard every day 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.