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August 11, 2009

Dear Partners and Friends:

July was the inverse of June for global indices vis-à-vis the Northern Rivers Innovation Fund LP (the Innovation Fund) and the Northern Rivers Innovation RSP Fund (RSP Fund). In June, the funds were up strongly, while global indices were flattish; in July, global indices were up strongly, while the two funds were flattish. The simplest way to explain the July returns for the two funds is that, although Neptune had a strong month, Webtech pulled back, and movements in the other positions mostly offset each other; our low resource weighting explains much of the difference between global indices and the funds.

	Average Annual Returns to July 31, 2009*							
	2009 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	26.59%	1.86%	19.64%	23.79%	-48.35%	-15.49%	1.37%	11.31%
Northern Rivers Innovation RSP Fund	20.73%	1.13%	15.59%	22.58%	-48.75%	-15.03%	-0.10%	-1.74%

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

The base case still appears intact

It still appears that the US economy will bottom in Q3 or Q4 of this year. In fact, the preponderance of evidence from the last month was strong, suggesting that the US economy may have even bottomed (*at least* temporarily) in July, leading both Goldman Sachs and ISI to raise their forecasts for US GDP growth in the second half of 2009 to a 4% annualized rate. The big divergence in forecasts comes in 2010, where ISI is forecasting 4% real GDP growth, and Goldman Sachs is expecting a return to “below trend” growth (0% to 2%). Under either scenario, returns in US and global equity markets should avoid anything resembling 2008, and could in fact be quite strong. Either scenario should provide a permissive backdrop for large gains in our core positions.

Webtech has made an immediately accretive and strategically brilliant acquisition

I was planning on writing about Intelgenx (IGX on the TSXv) this month; it is a core position which has laid the fundamental foundation for tremendous returns over the next 1-2 years. The acquisition of Grey Island Systems (GIS on the TSXv) by Webtech (WEW on the TSX) in an all-stock deal has upstaged that plan, however, and calls for an explanation of why I believe this is such a good move by Webtech.

Combined entity WEW now trading at a PEG ratio of ¼ (!!)

The ratio of a company's P/E to its growth rate is a measure that was popularized by Peter Lynch in his book "One up on Wall Street", and it is still a measure widely used by investors today. The idea is that, if you can buy a rapidly growing company for a P/E that is less than its growth rate, it is likely a good investment opportunity. (For example, if a company growing at 30% per year is trading at a P/E of 20, then its PEG ratio is 2/3, and that company's stock should prove to be a profitable investment.¹)

So, when one uses the metrics provided on the Webtech/Grey Island conference call of Friday, August 7, and in their post-deal investor PowerPoint, one arrives at a three-year annualized growth rate of over 40%, and 2010 adjusted EPS (which is what analysts use) in the 12c-15c range. Using the current price of \$1.32 for WEW gives a 2010 P/E in the 9 to 11 range; put this P/E into the PEG ratio with a growth rate of 40%, and one arrives at a PEG ratio of about ¼. If you have read "One up on Wall Street", you know Peter Lynch would salivate at a PEG ratio this low. When one realizes that the 40% growth rate and these EPS numbers are based on existing business and business channels, and wins that management has already indicated it expects to happen (i.e., nothing particularly heroic is necessary), it becomes even more compelling.

What else do I like about the acquisition?

Frankly, this acquisition was probably the most accretive—with the most and best business synergies—of the possible acquisitions Webtech could have made at this point. It is an excellent transaction for both companies. Here's why:

- 1) The transaction essentially doubles the size of Webtech's revenues on a trailing basis, and is accretive to WEW's EPS, CFPS, RevPS and cash/share from day one.² (As per above, adjusted earnings for 2010 should be in the 12-15cents/share range; on WEW's stock at \$1.32, this is a very compelling P/E of about 10.)
- 2) The combined entity will have about 75,000 telematics subscribers from day one, with a total of 67,000 monthly-pay subscribers, plus 8,000 enterprise subs with Fedex that pay fees annually. Once Webtech signs the next (and much larger) division of Fedex, it should cement the combined entity's position in the top ten (maybe even top five) of *full-service* telematics providers on a global basis.
- 3) The combined entity will have about \$2 million/month in recurring revenue, or \$24 million/year. (The company becomes breakeven on a cashflow basis from recurring revenue ALONE when recurring revenue hits \$2.3 million/month!)
- 4) Management is sticking with guidance for 40%+/year annual revenue growth. This was their guidance from before the deal was announced, and is now their forecast for after the deal closes. (Actually, running the numbers from the PowerPoint shows 45% growth.)
- 5) Grey Island's \$12 million in cash and equivalents as of March 31, 2009, strengthens an already solid Webtech balance sheet.

¹ Peter Lynch goes through the math of why buying companies trading at a PEG ratio of less than 1 normally translates into strong investment returns, but I will not present this here.

² If one does the math as if the entities were combined starting January 1, 2009.

- 6) This transaction should prove to be a catalyst to get US brokerage firms and institutions involved with the stock.
- 7) Webtech's and Grey Island's product lineups are very complementary, with Webtech and Grey Island rarely coming across each other in competitive bids: Grey Island dominates the government/municipal vertical in North America, and (importantly) only has sales in North America; Webtech is in three other verticals, and has broad international distribution and strong channel partners that can begin selling Grey Island's high-end (\$40/month ARPU³) products globally (Webtech's ARPU is about \$25/month). Note: this is one of the synergies that leads management of both companies to contend that organic growth should actually *accelerate* for the combined entity.
- 8) Grey Island's founding entrepreneurs (including the CEO) have signed a lock-up deal, and are taking WEW stock *only* (no cash), as they see the combined entity (post-deal WEW) as the way to realize the highest value for their GIS shares.

Bottom-line: the investment proposition—particularly to institutional investors in Canada AND the US—has improved dramatically.

1) The combined entity is STILL a rapidly growing company (40%+ per year organic growth for the combined entity, with the potential for *up to 100% per year organic growth* if the insurance vertical kicks in strongly over the next eighteen months, and/or we see wins on automotive assembly lines).

In addition to the growth aspect of the combined entity, we now have

- 2) a dramatically lower valuation (with a combined entity that should do \$80 million+ revenue and 12-15 cents EPS in 2010, with WEW currently at \$1.32), and
- 3) a market cap for the combined entity of over \$100million (which is the cut-off threshold for many institutions), and
- 4) strong US capital markets partners coming to the table this fall.

The trading volumes we are now seeing (in part because of the arbitrage) should also help the post-deal trading volumes remain at a sustainably higher (and more attractive) level than prior to the deal. For example, the WEW-equivalent volume (WEW + (GIS times the exchange ratio)) was over 1.1 million shares on each of the first two trading days following the announcement of the deal. If Webtech can announce the next Fedex divisional win before the Grey Island acquisition closes (as I expect), and if a US brokerage firm partners with Webtech this fall (as I expect), then I would not be surprised to see WEW trading on high volume in the \$2.50-\$3.50 range by the end of October⁴, with much higher prices ahead as the company realizes on the business, cost and capital markets synergies of the acquisition over the coming eighteen months.

Thank you again for your patience and trust. Know that I am working hard to catalyze the value that I believe is being created by the companies in these portfolios. My initiatives to get more

³ ARPU = Average Revenue Per Unit

⁴ A break above \$2, which is almost assured in the event of the next Fedex win, has a very powerful technical count, into the \$2-\$4 range.

analyst coverage for our public companies and efforts to partner investment banks with my private companies appear to be moving well.

August 31st Next LP Closing

The next closing for the Northern Rivers Global Energy Fund LP, the Northern Rivers Conservative Growth Fund LP, the Northern Rivers Innovation Fund LP and the Northern Rivers Innovation RSP Fund is August 31, 2009. The Northern Rivers Conservative Growth Fund (mutual fund) offers daily valuations and is both RRSP and TFSA eligible.

As always, my colleagues and I are available for meetings with clients and interested parties. Please contact Jeffrey Zicherman, Sales Associate at 416-597-8508 or Robyn Graham, Vice President Sales & Marketing 416-597-3890 for more information or to set up an appointment, or call 416-597-1226 to speak with any one of us directly concerning the specific funds we manage. Our toll free number is 1-866-902-7060.

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 Fund. 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.