



Northern Rivers Funds
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Dear Partners and Friends:

The Northern Rivers Innovation Fund (“the LP”) was up over 6% in July and the Innovation RSP Fund (“the RSP Fund”) was up 1.3%. The returns as of July 31 are set out below.

	Average Annual Returns to July 31, 2010*							
	2010 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	-28.14%	6.45%	-26.36%	-24.42%	-38.71%	-35.94%	-9.40%	4.35%
Northern Rivers Innovation RSP Fund	-21.27%	1.33%	-17.50%	-16.84%	-16.51%	-28.86%	-3.51%	-3.99%

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

After the horror that was May and June, July was a blessed relief. But it did little to get us back to where we want to be. You will be hearing from us in the September-October timeframe about a strategy for the Innovation LP that will give us the best chance of getting back to, and then back above, the historical peaks of the fund.

In the meantime, I will continue my practice of giving a brief synopsis of the major developments in each of the core positions, and a summary of any major changes in the portfolio.

Aeromechanical: largest contract in their history announced on July 29, 2010

Aeromechanical Services (AMA on the TSXv) attended the Farnborough Air Show in the UK from July 19-25. The company shared booth space with channel partner L-3, and received some very favourable press coverage about the airline/aerospace industry’s need for the real-time data-streaming and analytical tools that Aeromechanical provides. I am unsure whether the Farnborough exposure, and close link to L-3, played a causal (or merely coincidental) role in finally catalyzing a potential customer to become an existing customer, but it was one of the nicest surprises I have had in a while when on July 29, Aeromechanical announced the largest contract in their history. The contract is “to install afirs(TM) UPTIME(TM) on 34 turboprop aircraft, the entire fleet of a regional Scandinavian airline that is a subsidiary of an international aviation holding company.” Basic Googling revealed that the airline is SAS—the largest airline yet to make a substantial purchase of Aeromechanical’s hardware, software and services.

One of the most surprising aspects of this win is that it was not part of the “pipeline” that management had discussed at the AGM or in the company’s prior quarterly updates. This means that Aeromechanical has a higher probability of hitting its targets for the year, and is hopefully at the beginning of a string of good surprises—replacing the bad ones that have been far too common. If this win is an indicator that potential customers 1) now have a good understanding of the value proposition provided by afirs/UPTIME, and 2) are now in a financial position to undertake initiatives such as installing afirs/UPTIME, then the activity we see in terms of closings within Aeromechanical’s pipeline could be quite dramatic this Fall. At the very least, from my perspective, it is yet another sign that the investment hypothesis that has driven me to stand by this company through good times and bad is still intact—and finally gaining visible traction.

Webtech’s July: 10,000 unit purchase order for a UK-based insurance company AND success with a US insurance company

Webtech continues to disappoint with its quarterly results, which is rather frustrating because it appears that a number of important parts of its business are beginning to get traction. The silver lining on the disappointments is that they are forcing cost-cuts and a search for efficiencies that should bear fruit in Q3 and Q4. I have written on numerous occasions that penetration within the insurance vertical is a critical ingredient to Webtech providing substantial returns from current levels. The announcement on Friday, July 9 of a 10,000 unit PO by its UK-based distributor for a UK-based insurance company is solid evidence that Webtech is gaining traction with its offering for the insurance industry.

With respect to Webtech’s efforts with US-based insurance companies, a couple of analysts dug up a press release put out by USAA, the 6th largest insurance company in the US:

“USAA has recognized four businesses that have significantly contributed to USAA’s success through stellar service and commitment to the association, with its inaugural Strategic Supplier Excellence Awards...The following award winners were announced at the 2010 USAA Strategic Supplier Summit last week: **Innovation Award – AT&T:** AT&T has shown excellence as a USAA longtime strategic supplier through delivering several innovative solutions, including a pilot program to promote safe driving by teen drivers. The solution provides real-time feedback on an individual’s driving skills and is a valuable coaching tool for teens and parents.”

Although not mentioned by name, it is clear that Webtech is AT&T’s partner in this program, and this initiative is evidence that we may finally see traction with US insurance companies, to add to Webtech’s success with insurance companies in Mexico and the UK.

Bottom-line: evidence continues to build that the investment hypotheses are strengthening for our core positions

The following cannot be emphasized enough: I wrote following the conclusion of the -65% year we experienced in 2008 that “If I had arrived at the end of 2008 with...a portfolio of *fundamentally* broken companies, I would have thrown up my arms in despair, apologized deeply

to all of my supporters, and closed down my funds.” The key aspect to the current situation is that none of the core positions are fundamentally broken companies. To the contrary, developments like those seen in July for Aeromechanical and Webtech continue to suggest that their business models are gaining traction, and the stage is being set for strong future returns. I hope to be hearing of similarly reinforcing developments from these and the other core positions over the coming months.

Best regards,

A handwritten signature in black ink, appearing to read "Hugh Cleland". The signature is fluid and cursive, with the first name "Hugh" written in a larger, more prominent script than the last name "Cleland".

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.