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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (Innovation Fund) was down 4.06% in June, and the Northern Rivers Innovation RSP Fund (RSP Fund) was down 5.61%. The performance differential is explained almost entirely by the fact that the RSP Fund had a higher weighting in Gastem during June, a month in which Gastem fell 37.5%. The returns, as of June 30, 2008, are presented below:

	Average Annual Returns to June 30, 2008*							
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	-2.07%	-4.06%	8.60%	-2.07%	-5.58%	33.96%	31.08%	26.70%
Northern Rivers Innovation RSP Fund	-4.99%	-5.61%	7.33%	-4.99%	-7.92%	32.86%	N/A	17.64%

**Northern Rivers Innovation Fund LP inception date: May 8, 2001.

**Northern Rivers Innovation RSP Fund inception date: March 1, 2004.

Context: this June was the worst June for the Dow Jones Industrial Index since 1930. It was the kind of month—a month during which the world was re-engulfed in a financial panic—that could have seen a replay of August 2007 for the Innovation mandate. Fortunately, some big wins on puts (as previewed in the last letter), meant a reasonable portion of the damage was offset, and the Innovation Fund was down only 2.07% year-to-date as of June 30, despite two of our core positions (Gastem and Neptune) having fallen 37.5% and 20.7% respectively in June.

How is the base case and outlook evolving with oil above \$130 (Part 2)?

Oil has certainly been the ‘spoiler’ for the generally positive scenario I wrote about back in the May 20th letter. In the June 16th letter, I addressed two “spoiler scenarios” which I will re-print here:

- 1) Positive scenario: oil starts to fall soon, allowing the financial sector to hold the March lows, and the overall market to begin working its way back up.
- 2) Negative scenario: Oil stays at current levels or goes higher, causing the financial sector to penetrate the March lows on the downside, and likely causing the overall markets to re-test their March lows.

As we now know, scenario 2 unfolded, with oil continuing higher (to a high of \$147!) from the June 16th level of \$134, causing the financial sector to plummet, and the overall markets to re-test or penetrate their March lows.¹

With oil having now fallen almost \$15 in four days, I now see three possible, oil-centric scenarios:

- 1) Oil continues falling rapidly, putting a bottom in the markets, as inflationary pressures recede.
- 2) Oil continues on a downward trajectory, giving the markets a chance to bounce, but the bounce ultimately peters out, and the markets fall to new lows as participants realize that the damage from oil is already done, and a recession plays out.
- 3) Oil rapidly returns to new highs, and the markets go to new lows quite quickly.

Recognizing there is some possibility that the markets have already seen their bear market lows this week, my best guess is that the lows are still ahead, likely in the mid-August to mid-October timeframe.

With such a miserable backdrop, however, and with most sentiment measures at extreme levels such as those seen at important market bottoms, it is important to remember a few key investment principles, such as these below from Legg Mason's June 2008 Month-End Commentary:

“The best buying opportunities in the market most often occur during periods of discouragement and pessimism...Legendary investor John Templeton was famous for urging that investors ‘buy at the point of maximum pessimism’...Our job as investors is to assess each situation on a probabilistic basis, looking for opportunities that offer the greatest reward for the risks assumed.”

This reference to “periods of discouragement and pessimism” and assessment of probabilities and risk is an appropriate segue to a discussion of Neptune, a core holding that has been hit very hard over the last year, and particularly since mid-June.

The risk-reward outlook for Neptune on a 1-5 year basis has rarely been better

Neptune's stock price has been falling for over a year now, even as the fundamentals have improved markedly over that timeframe. The good news for investors looking forward (as opposed to tearfully looking back) is that a huge amount of price risk has been taken out of the stock, and much fundamental risk has been taken out too.

¹ It is worth noting that between December 31st 2007 and July 15th 2008, crude rose 52.6%, while the Dow fell 17.4% and the MSCI World Index declined 13%, its worst showing in 38 years.

Neptune paying a dividend??? Or is something else going on here?

A very recent development requires some interpretation: on July 17th, Neptune announced a dividend which will be paid by the issuance of notes that are redeemable “by the obligor at any time...either in cash or in kind, including in equity securities of the obligor of such notes.” Given that I have been pushing for some time to have Neptune spin-out their “pharma opportunity” into a separate company, and given that the dollar amount of the dividend is truly irrelevant, I am speculating (hoping!) that this dividend represents a creative way to begin the process of achieving the end for which I have been pushing. A key point is that, *if someone wants to receive this dividend, they need to own NTB by the close of trading on July 28th*.

Neptune’s sum-of-three-parts valuation

An advance warning on what you are about to read: many of the numbers discussed will seem VERY large, particularly in relation to Neptune’s current market cap. That is the point; that is why I continue to believe Neptune represents the biggest single source of potential upside in the Innovation mandate over the next 3-5 years. As I know the numbers will seem unbelievable to some, I am offering to discuss any of the numbers or any of the statements in detail with anyone over the phone or in person. That is a sincere invitation that I hope some people will take me up on.

I look at Neptune as a “sum of three parts”, each representing a distinct business and path to value-creation that I believe will allow NTB to get to somewhere between \$20 and \$50 within the next three to five years. I will address each of the three parts, in order of potential, long-term value, from lowest to highest:

- 1) I believe that the currently-cash-flow-generating **nutraceutical (Omega-3s plus)** business is worth between \$3/share and \$6/share. (Recent distribution deals with large companies such as Costco and Croda Healthcare indicate that more value than I currently expect may ultimately be generated by this division.)
- 2) The **food ingredients** business (i.e., adding NTB’s ‘food ingredient’ to products like milk, yoghurt, fruit bars, juices) is potentially worth somewhere between \$200mm (which is the valuation of Burcon, one of the comparables in this space) and \$1billion (which is **Martek**’s current value--MATK on NASDAQ) i.e., somewhere between \$5/share and \$25/share within the next 3-5 years. (More on this below.)
- 3) The **pharma** opportunity is potentially worth somewhere between \$1.2billion (the amount Pfizer paid for **Esperion** in December 2003) and \$1.8billion (the amount GlaxoSmithKline paid for **Reliant**) on a three to five year basis. The next point is the crux of the argument: *Neptune is following the path to value creation pioneered by Pronova/Reliant, as Pronova “pharmaceuticalized” fish oil for the treatment of high triglycerides, then sold the U.S. marketing rights to Reliant, who in turn sold themselves to GSK for \$1.8billion; Neptune is following a similar path to “pharmaceuticalizing” krill oil; Neptune is on that path, and I believe it will get there. Perhaps this part of the investment hypothesis is best summed up as follows: **IF***

*Pronova/Reliant was able to pharmaceuticalize FISH oil and create \$1.8billion of shareholder value in the process, **THEN** there is no reason that Neptune can't pharmaceuticalize KRILL oil and create a similar amount of shareholder value over the next five years.*

A critical validation for Neptune's efforts in pharma occurred in 2007 when Dr. Steven Nissen joined Neptune's Scientific Advisory Board. I discussed the significance in some detail in the October 19, 2007 letter, but it bears repeating that he is the Chairman of the Cleveland Clinic Department of Cardiovascular Medicine, and Immediate Past President of the American College of Cardiologists. I expect we will be hearing about his efforts on Neptune's behalf before the end of 2008, and believe that his presence is one more validation of my contention that Neptune will be able to pharmaceuticalize krill oil in much the same way Reliant pharmaceuticalized fish oil.

I have discussed the pharma comparables in detail on several occasions in the past, but have not gone into detail on the food ingredient comparables before, so here are some quick notes on them, which will give you an idea of valuation in the food ingredients space, and why I think Neptune's food ingredients business *alone* could be worth between \$500million and \$1billion on a 3-5 year basis:

Burcon (BU on TSX-v) Burcon's *only* business is food ingredients. Burcon is expected to start selling soluble proteins to beverage companies in 2010 or 2011. It has a \$200mm market cap, with (to repeat) no revenue expected until 2010 or 2011. (Contrast that with Neptune, for which only one of *three* divisions is a food ingredients division; Neptune's food ingredients revenue should start this year or early next—from fruit bars or a similar product—and revenue from deals with Nestle and Yoplait should start in 2009.)

Martek (MATK on NASDAQ): Their only business is food ingredients, too. Martek sells *marine-algae*-derived Omega-3s to food companies. (This contrasts with Neptune's krill-derived Omega-3s) The majority of Martek's revenue is from selling their Omega-3s to baby formula manufacturers. Currently, the company has a US\$1.2billion market cap, but most relevant to Neptune's valuation is the following: Martek's market cap went from US\$230mm to US\$800mm as their revenue went from \$9million on a trailing 12 month basis to \$46mm on a trailing 12 month basis. (Neptune's trailing 12 month revenue is currently \$8.9million, and with recent distribution deals, is expected to grow rapidly over the next 12-24 months.)

Final thoughts

Although we would be happiest if the markets had put in their bottom already, we feel that the positioning we have with our disaster puts should allow us to mitigate at least a portion of the damage that further market downside would likely bring upon our long positions. In addition, amid the turmoil, we can't help but feel we are getting the opportunity to accumulate our core positions at extraordinary prices—prices that we believe will ultimately prove to have been extraordinary bargains.

July 31 Next LP 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 July 31, 2008. Please also ask us about our two mutual funds, managed by my colleague, Alex Ruus and me.

As always, my colleagues and I will make ourselves available for meetings with 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 concerning the specific funds we manage.

Best regards,

A handwritten signature in black ink, appearing to read "Hugh Cleland". The signature is written in a cursive, flowing style with a large initial "H" and "C".

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 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.