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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was down 4.40% in March, and the Northern Rivers Innovation RSP Fund (RSP Fund) was down 5.73%. The returns, as of March 31, 2008, are presented below:

	Average Annual Returns to March 31, 2008*							
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
<b>Northern Rivers Innovation Fund LP</b>	<b>-9.83%</b>	<b>-4.40%</b>	<b>-9.83%</b>	<b>-6.38%</b>	<b>-19.64%</b>	<b>25.56%</b>	<b>32.37%</b>	<b>26.27%</b>
<b>Northern Rivers Innovation RSP Fund</b>	<b>-11.47%</b>	<b>-5.73%</b>	<b>-11.47%</b>	<b>-7.94%</b>	<b>-19.13%</b>	<b>24.83%</b>	<b>N/A</b>	<b>16.77%</b>

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

**Things have changed dramatically for the better since March 31<sup>st</sup>**

On April 9<sup>th</sup>, I sent an “Interim Update” to investors in the Innovation Fund and the RSP Fund. I think it is appropriate to include it in its entirety here. Elaboration on some topics that were only briefly touched on in the e-mail will follow:

“March 31st capped off the worst trailing 12 months in the almost seven year history of the Innovation Fund. But as is so often the case, just when things appear most dire and bleak, they start to change for the better. And the Innovation mandate has indeed seen dramatically positive changes since March 31st (*including a dramatic leap in our portfolio holdings so far in April!*)

The positive changes started with the U.S. Federal Reserve intervening in the financial markets in mid-March in dramatic and innovative ways. As one of my savviest mentors put it, the "Bear Stearns bottom" was the best bottom he has seen in 20 years (i.e., since 1987).

Also, a number of dramatically positive developments have occurred at a number of our core positions. In at least two cases (Neptune and Vendtek), the developments represent platforms for transformational change in these companies for years to come.

*The most astonishingly positive development, however, came in a now-core position--a natural gas exploration company called **Gastem**. Here is what happened: Gastem's exploration partner in*

a portion of their Quebec landholdings is Forest Oil, a \$5+ billion market cap, NYSE-listed company. On April 2nd, Forest announced a "major gas discovery" in Quebec [in a formation that is called the Utica Shale]; in their presentation to analysts that day, Forest made compelling arguments that the Utica Shale is as good as or better than the Barnett Shale, a prolific and world-renowned shale in Texas that has spawned many multi-billion dollar market-cap natural gas producers. Based on the numbers provided by Forest, Gastem is arguably worth well over \$10 per share, and as such, we expect to be with Gastem for years. The best part of all this is that the Innovation mandates collectively have over 7mm shares of exposure to this stock which has gone from \$0.79 on March 31st, to over \$2.70 at the time of writing this note. The math is very good for our investors indeed.

For me, the Gastem situation strongly validates our approach and philosophy: this position was gradually accumulated over the course of a year, as a result of the combined due diligence efforts of myself and Alex Ruus (who brought to bear his five years of experience as a reservoir engineer with Chevron Canada). It validates our approach of doing intense due diligence on undiscovered or emerging stories, and our belief that accumulating large positions in deeply-researched situations is the best way to build wealth in the stock market over time.

I believe that a number of our positions are on the verge of transforming validations such as that just experienced by Gastem (Webtech would be a good example), and that March 31st has likely marked an important turning point for the Funds. In fact, if I am right, the 2-3 years ahead will be the third time in the history of the Innovation Fund that a painful 12-18 month period has been followed by a period where our investors reap the rewards of accumulating our core positions through a period of painful weakness."

I touched on a lot of important topics in that "Interim Update", but promised to elaborate on a few of them in the 'upcoming letter' (which is this one), so here I go...

### **Many important positive developments have occurred in the macro environment**

To quote from the March 17<sup>th</sup> letter: "The week ahead [March 17-21] 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 U.S. 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."

Fortunately, the extraordinary actions of the Fed during the week of March 17-21 have put some kind of a bottom in the market; I just re-read my February 20, 2008 letter, and if the points I made there hold (including some very notable points about insider buying), then I think it is likely we have seen the bottom for this bear market. Having said that, if bull markets usually climb a "wall of worry", this one will be climbing a "wall of terror" because (as I also wrote in the February 20<sup>th</sup> letter), the economic news and headlines will continue to get worse for some time. It is noteworthy that a retired Bay Street trader who made a fortune for himself and his firm by buying into the teeth of the 1987 crash wrote me an e-mail on March 16<sup>th</sup> which read: "...just got home Sunday night late and heard the Bear Stearns news. If the technical analyst at Raymond Jones is

right with his bottoming call, it will be one of the best I have ever seen.” Well, at least so far, it continues to look like it was one of the best bottoms he has ever seen. (An absolutely stunning development is that the Dow Transports—composed of trucking, rail and courier companies, and thought to be the most directly economically sensitive of the indices—is now back to levels it was last at in the April to July timeframe (of 2007), BEFORE the sub-prime crisis began roiling the markets and economy!!!)

**For the Innovation mandates, the story of April has been the story of Gastem, up 3-fold so far in April**

I first mentioned Gastem as a “strong contender for being elevated to ‘core’ status in 2008” in the December 20, 2007 letter; a discovery made by Forest Oil and Gastem, and announced on April 2nd (discussed on page 2 of this letter) has now made Gastem a core position.

The reason investors are so excited about the Forest/Gastem discovery is that Forest has declared to the world that they are sitting on a large position in a brand-new shale-gas play, along the lines of the Jonah Basin and Barnett Shale. These two shale plays have each propelled one or more small or micro-cap natural gas *exploration* companies into multi-billion dollar market cap natural gas *producers*. (Ultra Petroleum is the leading example, having gone from around \$50 million market cap in 2001 to about \$13 billion now.)

Forest’s presentation on April 2<sup>nd</sup> made many comparisons of the Utica to the Barnett Shale, including:

- 1) The Utica has a similar areal extent to the Barnett;
- 2) The Utica is shallower than the Barnett, and thicker than the Barnett;
- 3) The Utica has “Excellent rock properties—comparable to the Barnett Shale”

Together, these characteristics indicate that the Utica has the potential to be as good as or better than the Barnett for natural gas production. To own a significant portion of a company with substantial exposure to the newest shale-gas resource play is a great position indeed.

Here are a few of the reasons we like Gastem so much:

1) A quick comparison of Forest’s Utica to Gastem’s Utica is very favourable for Gastem:

- Gastem has 157,700 net acres* in the Utica Shale, between their 4 Quebec Utica properties, and their 65% interest in 29,000 acres of Utica Shale in New York State. (NOTE: this is a fact that very few investors are aware of; most investors have focused only on the 16,800 net acres Gastem has in the Yamaska play with Forest; few investors realize Gastem’s net Utica acreage is so large.)
- Forest has 269,200 net acres* in the Quebec Utica Shale, and gained \$1 billion in market cap in 2 weeks on an estimated 4.1tcf of net resource potential on their 269,200 net acres;
- Applying Forest’s numbers, and a range of recovery rates, to Gastem’s properties indicates Gastem could have somewhere between 2tcf and 3.4tcf of net recoverable gas on their 157,700 net acres, suggesting that GMR’s market value can increase MUCH more than the

\$120mm it has increased since the Forest announcement. An overly simplified (but still useful) way to look at it would suggest that if Forest got \$1billion in incremental market cap for 269,200 acres (and 4.1tcf of gas), then GMR should get at least \$580million incremental market cap for 157,700 acres (and somewhere between 2tcf and 3.4tcf). \$580mm would equate to an incremental \$8.50/share in value for GMR.

- 2) A highly-ranked analyst put together a “sum of the parts” analysis of Gastem’s NAV, showing that Gastem’s six parts together had an unrisks NAV of over \$40/share. (It should be noted that a play at this stage of development will typically be risked down to somewhere between 10% and 25% of unrisks NAV, suggesting it would be reasonable to see Gastem in the \$4-\$10 range over the next year if development activities continue as favourably as Forest believes they will.)
- 3) Gastem is the only player in the Quebec Utica which also has a substantial position in the very prospective New York State Utica Shale and Marcellus Shale. Whereas the Quebec Utica will not see commercial production likely until late 2009 or 2010, Gastem should be able to tie-in New York Utica and Marcellus gas starting in Q4/08.
- 4) Net recoverable “gas in place” is typically valued at \$1-\$1.50/mcf for companies in resource plays like this. A number of sophisticated analysts and fund managers have suggested that “gas in place” in Quebec should be valued at \$2/mcf because gas in the eastern U.S. and Quebec sells at a premium to Nymex. If one applies \$2/mcf to Gastem’s net tcf numbers from 1), you get a resource value for Gastem of between \$4 billion and \$6.8 billion. (I am not suggesting Gastem should be trading at such an enormous market cap already, but just pointing to some of the metrics that would support Gastem trading at over a \$500mm market cap this year.)

The bottom-line is that, although the stock will continue to be very volatile, and should be considered a high-risk/high-reward proposition, there appears to be considerably more upside than downside for GMR shares at the current price of \$2.37.

A final note on Gastem and what it says about how we operate at Northern Rivers: it is worth pointing out that funds under management by Northern Rivers Capital Management Inc. had accumulated about 6.3mm shares of Gastem by February 29<sup>th</sup>, 2008, exactly a day and a month *before* the discovery announcement by Forest created a stampede into the shares of anything related to the Quebec Utica. We had the confidence to accumulate such a large position before Forest’s validation because of the combined due diligence efforts of myself and my colleague Alex Ruus. Indeed, our approach of doing intense due diligence on undiscovered or emerging stories means that the Innovation Fund has had numerous “Gastems” over the years, and we expect to have many more.<sup>1</sup>

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<sup>1</sup> I know there were a few other topics I had indicated I would elaborate upon from the “interim update”, but in the interest of time (yours and mine), I will defer those discussions to another letter.

**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 Wednesday, April 30, 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,

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

\*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.