



April 12, 2010

Dear Partners and Friends:

In a reasonable month for the markets, a number of our positions had little hiccups, and so ended flat or down on the month. (For example, investors in Aeromechanical over-reacted to the bankruptcy of Skyservice; yes, Skyservice is a client of Aeromechanical (AMA on the TSXv), but it represents less than 2% of this year’s revenue, and yet investors sent AMA down by almost 12% on March 31<sup>st</sup>, the day the bankruptcy was announced.) Nonetheless, the pipeline of positive developments for our portfolio companies is very strong, and should give us a strong Q2.

	Average Annual Returns to March 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>-4.36%</b>	<b>-2.03%</b>	<b>-4.36%</b>	<b>-9.76%</b>	<b>7.48%</b>	<b>-31.83%</b>	<b>-4.84%</b>	<b>7.92%</b>
<b>Northern Rivers Innovation RSP Fund</b>	<b>-0.90%</b>	<b>-1.45%</b>	<b>-0.90%</b>	<b>0.18%</b>	<b>34.62%</b>	<b>-28.26%</b>	<b>0.02%</b>	<b>-0.51%</b>

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

**Neptune: significant validation/milestone at a cardiology conference**

On April 8 and 9, I attended the American Heart Association’s Arteriosclerosis, Thrombosis and Vascular Biology (ATVB) Conference, where Acasti (Neptune’s cardiovascular-focused pharmaceutical subsidiary) was making a poster presentation of a pre-clinical study that was conducted by Dr Steven J Adelman of Vascular Strategies LLC, in collaboration with Professor Daniel Rader of the University of Pennsylvania School of Medicine. (I can forward a copy of the poster presentation to anyone who is interested.) This was Acasti/Neptune’s first poster presentation at a cardiology conference, and—given that the presentations were peer reviewed before being accepted for presentation—was in and of itself a significant validation milestone for the company.

The study presented showed remarkable results: “CaPre™ was shown to be effective in beneficially modulating the lipid profile of healthy and diseased mice with high cholesterol, obesity and diabetes. CaPre™ significantly reduced triglycerides (60%) and bad cholesterol - LDL (28%) while simultaneously increasing good cholesterol - HDL (25%).” CaPre™ is Acasti/Neptune’s cardiological drug candidate, primarily for lipid management indications, targeting HDL, LDL and triglycerides. Those familiar with this area know that all 3 of these results—*on their own*—are impressive; *together*, they are a unique and powerful combination of therapeutic effects.

The things said at dinner by Farhad Amiri (Acasti's Director of Pre-Clinical Studies) and Dr. Steven Adelman<sup>1</sup> made me more confident than ever that I have been correct in my long-held expectation that it is not a matter of "if" CaPre will become an approved drug, but "when". Farhad specifically said that, 12 months ago, he could not have confidently stated that CaPre would be a safe and efficacious drug. Now, after all the work done over the past year (and putting it into the context of i) Neptune Krill Oil (NKO) having GRAS ("Generally Regarded as Safe") status at the FDA and ii) the results of the human trials with NKO from a few years ago<sup>2</sup>), he believes he can make that statement now. He believes that whatever the drug candidate, CaPre, ultimately shows in human trials, it should be better than the currently available drugs (specifically Lovaza and Niaspan).

**A quick look at Lovaza and Niaspan as analogues for CaPre (or, why I believe Acasti/Neptune is sitting on a billion dollar opportunity)**

- 1) **Lovaza** is "pharmaceuticalized fish oil". It was approved by the FDA for its therapeutic impact on lowering triglycerides by 30%-35% on average. In December of 2007, GSK paid \$1.65 billion for Reliant Pharmaceuticals, primarily to gain ownership of Lovaza. A few interesting notes of comparison: Lovaza, while decreasing triglycerides, also increases LDL, whereas both the pre-clinical trials for CaPre and the human studies for NKO show a reduction in LDL. The point is that, if Acasti/Neptune is successful in developing a drug that decreases triglycerides *and* LDL, it would be far superior to a drug such as Lovaza that decreases triglycerides while *increasing* LDL.
- 2) **Niaspan** is "pharmaceuticalized Niacin". It was approved by the FDA for its therapeutic impact in raising HDL by about 20% on average. Kos Pharmaceuticals, the developer of Niaspan, was acquired by Abbott Laboratories in November 2006 for \$3.8billion. An interesting note of comparison: both the pre-clinical trials for CaPre and the human studies of NKO show a higher increase in HDL than Niaspan.

It must be said, of course, that Acasti/Neptune is a long way from having the kinds of sales that Lovaza and Niaspan had when the companies that developed them were acquired. BUT, acquisitions of companies in the cholesterol and metabolic disease management area at the PhaseI and PhaseII stage show that value creation occurs very early in the development process for drug candidates in these areas, if safety and efficacy are demonstrated. For example:

- 1) Sirtis Pharmaceuticals was acquired by GSK for US\$720million in April of 2008 by GSK after publishing PhaseI results.
- 2) Esperion Pharmaceuticals was acquired by Pfizer for US\$1.3billion in December of 2004 after publishing PhaseII results for a drug which appeared to be a safe and efficacious HDL-booster.

Given what we know about the safety and efficacy of NKO and CaPre, I believe that dramatic value creation is also warranted early in CaPre's clinical journey. A peer-reviewed and accepted poster presentation at an American Heart Association-affiliated conference appears to have been

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<sup>1</sup> Dr. Adelman is Professor Dan Rader's partner in Vascular Strategies, LLC. Vascular Strategies LLC is the Clinical Research Organization (CRO) that was recommended to Acasti/Neptune by Dr. Steven Nissen, the Chairman of Neptune's Scientific Advisory Board.

<sup>2</sup> A 2004 human study on NKO showed the following results: a 43.9% increase in HDL, a 32.0% decrease in LDL and a triglyceride reduction of 11.0%.)

just the stamp of credibility that Neptune/Acasti needed, and I am expecting many more such catalysts over the coming 12 months.

**I am still waiting to do a detailed review of Vendtek *after* it resumes trading (which is still expected to be any day now)**

In the meantime, I draw your attention to a research report on Vendtek written by Glenn Jamieson of Macquarie Capital on March 1, 2010, after the financial results were released. Although he understandably reduced his target from where it had been prior to the trading halt, he still pegged his 12-month target at \$1.10, and published an EPS estimate of \$0.04/share for FY2010 (which ends October 31, 2010). His conclusion was as follows: “We expect the stock to trade down significantly when the halt is lifted due to pent up selling, but from that point, we think the stock will do well, which is why we rate it ‘Outperform’. We think Vendtek is a solid business that will successfully emerge from a difficult period and capitalize on the opportunities ahead.”

I also encourage you to review the section on Vendtek from my letter dated December 10, 2008. I still stand behind everything I wrote in that letter:

[www.northernriversfunds.com/assets/downloads/Cleland\\_November\\_2008.pdf](http://www.northernriversfunds.com/assets/downloads/Cleland_November_2008.pdf)

Two facts about 2009 that I will highlight:

- 1) “As at October 31, 2009, the company’s cash balance was \$2.676 million, compared with \$2.103million on October 31, 2008.” This is very impressive, in light of the approximately \$1.2million in one-time restatement costs they incurred during fiscal 2009. Simplistically, they generated almost \$1.8million in cash during fiscal 2009—of which \$1.2million was consumed by one-time legal and accounting costs. Anyway, the bottom-line is that the business model is proving itself as a free-cash-flow-generation machine, and they will not have to raise money after they resume trading.
- 2) They signed licenses in 5 new countries, three of which were under their “software as a service” model, whereby they can domicile the servers and software to support the offerings in those countries in Canada (meaning the margins for their “software as a service” clients are very high).

Yes, 2009 was a bit of a “lost year” for Vendtek, but they *did* grow their top line and free cash flow—in contrast to so many other companies—during the worst economic and financial crisis of the last 50 years. That in itself is impressive.

Last but not least, Vendtek has added a number of extremely impressive individuals to their Board of Directors, including Gordon Glenn, the former Chairman and CEO of SXC Health Solutions (formerly known as Systems Xcellence). (Given my history with SXC, it is not difficult to deduce how it is that Gordon came to join the Vendtek Board...) I will review all of the Board additions in detail in a future letter.

In 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 doing everything I can to continue earning it.

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.