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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was up 8.74% in May, and the Northern Rivers Innovation RSP Fund (RSP Fund) was also up 8.74%. The returns, as of May 31, 2008, are presented below:

	Average Annual Returns to May 31, 2008*							
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	2.08%	8.74%	8.22%	7.35%	-6.68%	36.87%	33.75%	27.79%
Northern Rivers Innovation RSP Fund	0.66%	8.74%	7.19%	6.83%	-6.72%	35.73%	N/A	19.62%

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

May was the strongest month in a while; June looking good so far too

Gastem continued its strong move in May, while Webtech built on the momentum that began with its May 15 analyst day. A June 10 Webtech press release about a deal with ARI (one of the top five automotive leasing companies in North America) saw WEW make a strong technical breakout which—according to technical analysts Ron Meisels and Horst Mueller—targets the \$5-\$6 range. As I wrote in the May 19 letter: “I am expecting the rest of our core positions (including Neptune, Vendtek and Aeromechanical Services) to join Gastem and Webtech in strong uptrends in the near future, as catalysts materialize, and as the small caps play catch-up to the large caps.”

So far, the story of June is the huge wins on our ‘disaster puts’

‘Disaster puts’ is the term I use for far-out-of-the-money puts that I buy for the Innovation mandates as insurance against ugly market scenarios or unexpected negative events (such as terrorists managing to set off a “dirty” nuclear bomb in a major Western city). In theory, the reason to employ disaster puts is that a small amount of money can be magnified by up to 10-fold or more *if* ugly market scenarios unfold, thereby offsetting (in whole or more likely in part) the damage that would probably occur in our long positions in the event of an ugly market scenario or unexpected negative event.

June has been one of those rare months where the stocks underlying our disaster puts have acted *as if* a market disaster was unfolding *without* a market disaster actually unfolding (so far). As a result, a put position with a cost base of \$1.63mm (and a value of \$2.06mm on May 30)

became \$6.94mm as of June 13 (adding together realized and unrealized gains), giving our investors a very nice win!

The best way to illustrate the use of disaster puts is with our recent win on Lehman puts. Between May 23 and May 27, I bought 6,179 contracts of the Lehman June \$30 puts. This means that we had the right to sell 617,900 shares of Lehman Brothers at \$30, until June 20, 2008. We paid about \$1.15/put on average when Lehman Brothers (LEH on NYSE) was trading above \$36, putting \$710,000 (or 0.57% of the total portfolio) into this position. These puts closed on May 30 at \$1.43 when LEH was still trading above \$36.

The thinking behind buying these puts was that Lehman, in an ugly market, would have a good chance of re-testing its March low of around \$20, giving those puts an intrinsic value of \$10. I believed that if oil were to go above \$130, the financial sector as a whole (and Lehman specifically) would re-test the March lows. Also, specific to Lehman, a break below \$36 would mean there was (technically speaking) a very strong likelihood of testing the March lows. In summary: these puts had a nice asymmetric pay-off profile (maximum loss of \$1.15/put, with upside to \$10/put or more) and as such, seemed to be the right kind of “insurance premium” to be paying as insurance against oil going higher than I was then expecting.

As it turned out, the financial sector got into trouble early in June, and Lehman indeed started collapsing toward the March intra-day lows when oil broke above \$130. We sold the puts as follows: sold 100,000 at \$3.25 on June 10; sold 317,900 at \$7.57 on June 12; and sold 200,000 at \$5.45 on June 13. Bottom-line: we multiplied the “insurance premium” by almost 5.4 times in about three weeks, netting about \$3.1 million for the Innovation mandates.

To summarize the approach I take to disaster puts:

- 1) Identify the sectors that are likely to lead on the downside in a market meltdown. (During this bear market, it has been financials and homebuilders that have been, and continue to be, the biggest source of economic and stock market risk.)
- 2) Choose the worst-looking (i.e., chart with the most apparent downside) individual company charts within that sector. (That is how I chose LEH within financials and Centex within homebuilders.)
- 3) Typically (and especially in environments such as today), I will—on a rolling basis—have 0.5% to 2.5% of the book value of the portfolio in disaster puts. (That way, if they expire worthless, the damage to the portfolio is not fatal; if they work out, they can add a substantial lift.)

How is the base case evolving with oil above \$130?

I wrote in the May 20 letter: “The way things are currently unfolding (for example, with oil testing new all-time highs on an almost daily basis), I would expect to see a sharp market correction in the 5%-7% range begin in the near-term, accompanied by a chorus of investors screaming “sell in May, go away!” It will be scary, but it also finds a very solid (and perhaps comforting) parallel in the 6% correction that started 2½ months after the October 1990 low—comforting in that in 1990/91, it was a prelude to new recovery highs (and a sustainable upside breach of the 200-day moving average) occurring within a few weeks of the correction running its course.”

I also wrote that the price of oil could be a “spoiler” for this generally positive outlook, and right now, this “spoiler” scenario looks quite likely. Here’s how I see the possible scenarios right now:

- 1) Positive scenario: oil starts to fall soon (this week or next), 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.

Although we would be much happier with the positive scenario, we feel that the positioning we have with our disaster puts (we have replaced the ones we sold with options that have a lot of upside leverage to bad markets) will allow us to mitigate at least a decent portion of the damage that the negative scenario would bring upon our long positions. As always, it bears repeating something I first wrote in the August 20, 2007 letter (just before the August 31, 2007 low in our NAV): “Unless we are headed into a global ‘Great Depression’ (which I do not believe is the case), I can think of few scenarios under which the current prices [of the mandate’s core positions] will not look like bargains within 6-12 months, and possibly within a matter of weeks.”

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 June 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 written in a cursive, flowing style.

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.