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Dear Partners and Friends:

The Northern Rivers Innovation Fund LP (the Innovation Fund) was up 12.98% in September and the Northern Rivers Innovation RSP Fund (RSP Fund) was up 13.89%, meaning we are now -5.95% year-to-date and -3.77% year-to-date in both funds, respectively. The returns, as of September 30th, 2007, are presented below:

	Average Annual Returns to September 30, 2007*							
	2007 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	-5.95%	12.98%	-7.13%	-14.16%	35.37%	34.97%	34.94%	29.93%
Northern Rivers Innovation RSP Fund	-3.77%	13.89%	-6.81%	-12.15%	39.03%	32.99%	n/a	22.12%

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

The following quote is taken from the August 20th letter and it continues to be very appropriate: “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 will not look like bargains within 6-12 months, and possibly within a matter of weeks.” I still feel the same way, even in light of September’s closing prices. It certainly feels good to have had the funds’ strong September results make me look good in the short-term; in the longer-term, I continue to be confident that the fundamentals in each of the existing core positions justify higher prices 6-12 months out, under all but the most distressing of economic and market circumstances.

Highlighting this confidence: we at Northern Rivers are eating our own cooking

- 1) I “averaged in” three more chunks of my own money into the Innovation RSP Fund (on May 31st, July 31st and August 31st), and bought units in the Northern Rivers Evolution Fund (the Evolution Fund) and the Northern Rivers Conservative Growth Fund (the Conservative Growth Fund) during September.

- 2) Alex Ruus, the Portfolio Manager for the Northern Rivers Conservative Growth Fund LP (the Conservative Growth LP), the Conservative Growth Fund and the Northern Rivers Global Energy Fund LP (the Global Energy LP) invested a substantial amount in the Conservative Growth Fund during September and also put money into the Evolution Fund and the Global Energy LP.
- 3) Most of our other officers, as well as our administrative staff, invested in our pooled and mutual funds over the summer and fall.

It should be noted that the executives of Northern Rivers plan to continue investing in our funds as personal liquidity permits and that none have ever sold any of their holdings in any of Northern Rivers' funds.

I just finished re-reading the 14 pages which comprise the last two monthly letters

I was pleased to see that many of my philosophies and principles, and approach to macroeconomic analysis, stock analysis and portfolio management came through in those letters, in which I addressed issues and themes that are still relevant, such as:

- 1) How it is possible that, historically (and counter-intuitively) financial crises, like the one we are still in, often lay the groundwork for *avoiding* recessions. (I would particularly bring your attention to pages 2-4 of the August 20th letter, including the footnotes.);
- 2) why the funds I run have never experienced material net redemptions, and why there is good reason to expect that will continue to be the case;¹
- 3) how I run the portfolio in periods of market distress;
- 4) the importance of the discipline of *buying* the core positions on weakness, *as long as* the core investment hypothesis is intact;
- 5) my belief that it is the discipline in 3) that lays the groundwork for the big up years we have from time to time. (For example, it was the unpleasant and unsettling volatility of 2004 and the first half of 2005 that laid the foundation for the strong second half of 2005 and the extremely strong 2006.); and
- 6) the confidence I have in the underlying fundamentals of the core positions (I would encourage you to re-read what I wrote on pages 5 and 6 of the August 20th letter).

Legal insider buying was also a theme in the last two letters

It is a theme I would like to expand on, starting with the fact that a number of companies in both funds' portfolios have experienced legal insider buying over the course of the summer

¹ I credit this fact to our solid and sophisticated investor-base that self-selects for high-volatility tolerance before putting money into the funds I manage, and that shares my philosophy that I would rather achieve 20% annualized returns over 10 years with HIGH volatility than achieve 10% annualized returns over 10 years with LOW volatility.

and early fall, including: QuStream, Vendtek, Ipico, Gastem, Western Goldfields and Webtech Wireless. In most cases, the insider buying was done by senior executives who are not yet wealthy or awash in personal liquidity, making the buys a particularly strong statement in my eyes. Perhaps the most remarkable of the buys was by the CEO of Webtech Wireless in late July, when he bought 115,000 shares at prices ranging from \$2.55 to \$2.74. This is made all the more remarkable by the fact that he already owns 7.5M shares, and receives a salary of only \$120,000. (I write “only” because \$120,000 is low for a CEO.) That is a level of commitment and confidence one often doesn’t see.

In fact, overall insider buying activity on the TSX is still very bullish

The “INK Buy-Sell Ratio” for the TSX continues to be at levels indicating that senior executives and board members at TSX-listed companies continue to feel strongly about the upside potential in their company’s stock over the next 6-24 months. (This ratio is calculated by dividing the number of TSX-listed companies with buy-only insider transactions by the number of TSX-listed companies with sell-only insider transactions.) Normally, after such a strong recovery in market indices, a ratio like this would slide back to more normal levels, but this time—even as the TSX has rallied over 10% off the August 16th bottom—insider activity has remained at levels normally associated with market bottoms.

The most important lesson I learned this summer

The biggest mistake I made this summer was on the macro/asset allocation side. Up until this summer, I had generally done a good job of using a set of indicators to get more defensive in anticipation of broad market declines of 7% or more. This summer, I was temporarily led astray in the 2nd half of July by two of my most reliable indicators.

In the first half of July, I had been raising cash by selling non-core positions, and building my short and put positions. In the third week of July, however, the market gave a Dow Theory re-confirmation (1st indicator) as the Dow Transports hit a new all-time high. Shortly thereafter, there was a parallel shift down in the US Treasury Yield Curve (2nd indicator). Unfortunately, I chose to take the portfolios back to a fully invested, relatively unhedged position on the basis of these two positive signals. The bottom-line is that the portfolios I manage had never been less prepared (from an asset allocation perspective) going into a significant correction or financial crisis.

So how was it that these indicators steered me so wrong? It is because I didn’t remain mindful of the *underlying* reasons why these indicators have worked in the past—most specifically with respect to the parallel downward shift in the yield curve. What I mean is this: historically when a parallel downward shift has occurred, it has pulled the entire rate structure down with it, including the various LIBORs (London Inter-Bank Offer Rates), and rates for commercial and consumer lending. This summer, however, with the cascading effects of the seizing up of large swathes of the credit markets, LIBOR exploded upward, taking consumer and commercial lending rates *up* at the same time treasury yields were plunging. If LIBOR and

consumer and commercial rates had remained at these elevated levels, a recession would have been unavoidable.

Fortunately, when the Fed made their 50-50 cut (cutting both the Discount Rate and the Fed Funds Target Rate by 50 basis points), this allowed most LIBORs around the world to move to levels below where they were prior to the sub-prime crisis, giving the US and the world a reasonable shot at avoiding a recession. To put it all together, I include a section from the September 17th letter:

So what is one to make of the cross-currents out there?

I believe that the macro arguments put forth in the August 20th letter still hold. An important aspect to those arguments is that, counter-intuitively, financial crises are often the *best* things that can happen to financial markets in terms of the following 12 month return—all of the financial crises since the Depression bear that out. Of course, what is still not clear is whether we are through the worst of the market response to the financial crisis or only part way through.

The following points are also important to make:

- 1) Global growth has never been stronger entering a financial crisis;
- 2) corporate profitability has never been stronger entering a financial crisis; and
- 3) equity valuations have never been lower going into a financial crisis.

Nonetheless, it is clear that the risks of a US recession have increased and financial market volatility will continue for a while. But as we negotiate our way through these markets, I want to reiterate to our investors that I believe the fundamentals in our core positions are stronger than ever.

A company-transforming development at Neptune has gone unnoticed by the markets

On October 15th, Neptune announced the creation of a Scientific Advisory Board. All five members have backgrounds which should allow them to contribute materially to Neptune's development, but one in particular is a coup beyond anything I could have hoped for: Dr. Stephen Nissen agreed to join. Dr. Nissen is the Chairman of the Cleveland Clinic Department of Cardiovascular Medicine, and Immediate Past President of the American College of Cardiology. Among his recent industry "activities": he was a key whistle-blower in ending Pfizer's Torcetrapib trials. (Torcetrapib had been Pfizer's in-development drug that was supposed to boost HDL, or 'good cholesterol'.)

Dr. Nissen sees Neptune's potential in the HDL space, validating the value that various analysts have attributed to Neptune's efforts in this area. (One analyst attributes over \$20/share in value to the potential Neptune has in the HDL-boosting market.) Having Dr.

Nissen join Neptune's Scientific Advisory Board brings a level of credibility and validation to Neptune that I would not have expected to see until they announce a partnership with a global pharmaceutical company. The level of due diligence that Dr. Nissen did before joining the Advisory Board should give existing and potential investors a rock-solid level of confidence in the science behind Neptune, and investors should expect that his industry contacts and credibility will give a significant boost to Neptune's business development activities.

To our investors

I very much appreciate your continued trust and confidence, and extend a special thank you to those who made a first *or* an additional contribution over recent months— know that my recent personal contributions indicate what I think about the future prospects for the Innovation mandate.

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, October 31, 2007. As always, my colleagues and I will make ourselves available for meetings with interested parties. Please contact Robyn Graham, Vice President Sales & Marketing or Saree Ghosh, Sales and Marketing Associate 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 fluid and cursive, 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 31st 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.