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Dear Partners and Friends:

September was a month that saw a continuation of the divergence between the performance of the Northern Rivers Innovation Fund LP (the Innovation Fund) and the Northern Rivers Innovation RSP Fund (RSP Fund): the Innovation Fund was down 1.38%, while the RSP Fund was up 2.91%.

	Average Annual Returns to September 30, 2009*							
	2009 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	5 Yr.	Inception**
Northern Rivers Innovation Fund LP	14.44%	-1.38%	-7.91%	19.11%	-38.33%	-17.89%	0.11%	9.75%
Northern Rivers Innovation RSP Fund	26.65%	2.91%	6.09%	32.47%	-28.34%	-13.46%	1.86%	-0.84%

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

The reasons for the difference between the two funds' performance remain mostly the same as I described in my September 14 letter (largely the fact that the Innovation Fund has significantly higher weightings in Neptune and Webtech, and both those stocks lagged in August and September after having experienced a great Q2). Another element in the performance differential is that we took further writedowns in the private portion of both portfolios, and the Innovation Fund still has a larger weighting in privates than the RSP Fund.

Q2 saw the upside of position concentration. Q3 saw the downside. The upside of higher position concentration in the Innovation Fund should come through once again in Q4.

In Q2, the Innovation Fund was up 29.35%, while the RSP Fund was up 19.37%. In Q3, the Innovation Fund was down 7.91%, while the RSP Fund was up 6.09%. Looking forward, if Webtech and Neptune perform as I expect, the Innovation Fund should once again have an excellent Q4 and 2010.

In this letter, I am going to give a review of major elements of the portfolios, starting with Aeromechanical Services (AMA on the TSXv).

Aeromechanical's stock has performed well of late, and with good reason

A string of good news started on August 28, when the company announced a contract win with a US-based charter operator. This was the first new "airline" win in a long time, and gave investors hope that perhaps the airline industry was not permanently moribund as a source of potential customers. Next, on September 9, Aeromechanical announced its first business aircraft installation. This has been a development long hoped-for, and it marks a toe-in-the-door to a very large market for Aeromechanical's products and services. Then, on September 30, the company announced a non-brokered private placement with a US investment company and employees and insiders of Aeromechanical. I was thrilled with this development, as I had worked hard to get this

US investor interested in Aeromechanical; those attending Northern Rivers' dinner on October 22 will learn more about this investor and what attracted him and his firm to Aeromechanical.

I am going to give a *detailed* review of Aeromechanical in the next letter after my return from the National Business Aviation Association (NBAA) Conference on October 22. I hope to gain insights into issues such as which business jet fleet-operator it was that performed the first AFIRS installation, and how quickly we might see penetration into this large market. The opportunity to speak with representatives of aircraft OEMs as well as aircraft equipment manufacturers should give a better idea of whether the acceptance of AFIRS is accelerating as nicely as it appears to be.

Q4 for Neptune should be all about pharma

I have been encouraged by some independent analysis coming from several different fronts recently. For example, there has been an analyst looking at Neptune since May. Although there can be no assurance he will pick up coverage, he has concluded that the science behind Neptune is solid, and that he is comfortable with their patent portfolio. Also, an analyst that already covers the stock (Robin Cornwell of Catalyst Research) put out a report on October 9 that highlighted developments that he is expecting on the pharma side of their business over the next 3 to 6 months. Highlights include:

- 1) Robin reminds investors that cholesterol and triglyceride management are applications that receive very high valuations, even at pre-clinical and early clinical stages. He cites a number of examples: (i) Resverlogix is a company pursuing HDL-('good cholesterol') boosting applications that had a \$400million+ valuation in the pre-clinical stage prior to the global financial crisis; it now trades at a valuation of over \$100million while in Phase I; (ii) Sirtis Pharma was acquired by GSK for \$720million after a successful Phase I trial; and (iii) Esperion was acquired for US\$1.3billion in 2003 after successful Phase II trials.
- 2) Neptune is expected to release pre-clinical toxicity, dose response and efficacy studies shortly. Looking at valuations on comparable companies, these results alone could add over \$100million of value to NTB, or \$2.50+/share.
- 3) Neptune is expected to file an Investigational New Drug (IND) application as early as December 2009. Based on the fact that "INDs for Phase I trials [in cholesterol management] have been valued at \$100million to \$500million", acceptance by the FDA of Neptune's IND could add \$2.50+/share to NTB.
- 4) Robin concludes his analysis of the catalysts expected in Acasti and Neurobiopharm (Neptune's two pharma divisions) by writing that "NTB shareholders could see a share price of \$4.00 to \$6.00 by year-end."

I was also encouraged to see an analysis of NTB's stock chart done by GMP Securities' technical analysts Tina Norman and Joe Farrell: "NTB has been working off overbought pressure on both the weekly and daily momentum timeframes. During this period of consolidation, weekly RSI and MACD have both held their bullish momentum ranges...a definitive breakout above the 50-day moving average near \$2.20 would trigger a new advance...our intermediate technical target exists toward the top of the 2007/2008 trading range near \$5.00."

When the technicals and the fundamentals line up as nicely as this, a solid up move is normally the result.

Private companies in the portfolio have been a drag on performance for the first 3 quarters of the year; I am expecting net upside from our privates in Q4 and going forward.

Year-to-date, the private portion of both portfolios has been a drag on performance, because valuations have remained the same as on December 31, 2008, *or*, in situations where developments required a writedown, we took writedowns. (There has been only one exception to this: we wrote up one of our private oil companies to reflect the dramatic price appreciation in its comparable companies and the price of oil, as well as the fact that the company transitioned from being an explorer to a producer in April of this year.) However, it is now looking likely that, from here going forward, privates should be a source of net upside performance. For example, two of our privates should shortly be going public at higher valuations than we have been carrying them, and one is in the process of raising money at a multiple of where we have been carrying it.

In terms of the “accuracy” of the pricing of our privates, we have been gratified to see that two of Canada’s most sophisticated venture capital investors (including Covington Capital) are about to put money into one of our private companies at a valuation, which is very close to the “fair value” that we determined for the December 31, 2008 year end.

In terms of reducing the portfolios’ exposure to privates, either through selling them or getting them public: by the end of October, at least three of our private companies should be public and another three are in the process of becoming public. One is in the process of being acquired by a public company and, if the transaction closes as expected, the current price of the public company will represent a three-fold increase relative to the price we are currently carrying the privateco. The bottom-line in terms of our privateco exposure is this: the RSP Fund is already below 20% privates, and should be close to 10% by yearend; I am expecting the LP to be below 20% in private companies by the end of 2009—that is a number that positions us well to achieve my goal of 10% by year-end 2010.

Intelgenx: brilliant “drug development” strategy unfolding nicely

When Intelgenx presented at the Rodman Renshaw conference in September, I was part of a “scrum” after the presentation in which interested investors were asking tough questions of the CEO and investor relations representatives. The common theme was that Intelgenx was “too good to be true.” The questions can be paraphrased as follows: “How can they have 9 drugs so advanced in their pipeline in such a short time, having spent so little money, and with such a low valuation?” The answer to the time and money aspects lies in two simple facts:

- 1) Intelgenx is applying three different proprietary drug delivery technologies to *existing* drugs, to drugs that are already approved and to drugs that each already has sales in the \$200million to \$3billion per year range. By applying new drug delivery technologies to existing drugs, Intelgenx ends up with drugs that are recognized by both the FDA and the US patent office as discrete and distinct from the existing drugs to which it is applying its drug delivery technology.
- 2) Because of the strategy taken by the CEO to getting his drugs approved (and this is KEY!), it means a *successful bioequivalency study is to Intelgenx as a successful Phase III trial is to most drug development companies*. Bioequivalency studies are cheaper and faster *by an order of magnitude* than the conventional Phase I, II, and III FDA drug approval process.

The answer to “how could the valuation be so ridiculously low” is answered mostly by pointing to the capital markets “orphan” status that Intelgenx has had for its entire history as a public company. That is changing, albeit slowly.

SXC Health Solutions

This company has been the Innovation mandate’s poster child for the benefits of following the discipline of investing in secular growth companies with a sustainable competitive advantage, and sticking with them (as long as the core investment hypothesis is intact) through big ups and big downs. (See the “lessons learned” section of my January 16, 2009 letter for tactical modifications to that strategy that I will be applying going forward based on the lessons of 2008.) Our initial investment was made in May of 2002 at about \$2.50/share. The stock now trades above \$52. SXC is one of the top five positions in the RSP Fund. Regretfully, it is one of the positions that made its final exit from the Innovation LP in the process of meeting the final redemptions in Q1 2009: it was sold “because it could be”—a sad and frustrating circumstance that faced many portfolio managers in the second half of 2008 and Q1 of 2009.

A takeaway for my investors, though, is that I believe that each of my core positions has the potential for the kind of returns that SXC has experienced. My core stocks historically have typically moved in secular uptrends, marked by cyclical uptrends lasting 2-3 years, followed by cyclical downtrends lasting 1-2 years. The wipeout of 2008 was a significant interruption in the historical pattern of higher highs and higher lows in the cycles within the secular uptrends. But I believe that we are now back into the more typical cyclical patterns within the secular uptrends for all of my core positions: if March of 2009 was the low for the markets (and for my core positions), then we are only 7 months into a 2-3 year cyclical uptrend for my core positions.

A just-released, 275 page Geological Survey of Canada report on hydrocarbon basins in the Maritimes and Quebec is particularly exciting for Gastem

There are certainly good things written about the Quebec Utica shale potential, but the most attention-grabbing aspect of this study was that it gave the Magdalene Basin a 90% probability of having gas-in-place of 25 tcf or more. Stunning! The most exciting aspect of this from a Gastem perspective is that Gastem appears to be the ONLY company with any exploration permits in the Magdalene Basin, and Gastem owns them 100%. Yes, 100%.

Even adjusted for the fact that this P90 figure is not adjusted for an estimate of recoverability, if one applies recoverability of only 10%, it still leaves Gastem with 100% ownership of (likely) at least 2 tcf. Anyway, a lot more thought and analysis needs to go in to this aspect of Gastem’s value, but it certainly appears that a material amount of value should be ascribed—especially in relation to the current \$0.50/share price of Gastem’s stock.

Webtech: the end of the arbitrage is in sight

Webtech, and its acquisition of Grey Island, was the focus of the last two letters, so I will keep what I say to a minimum. (The letters are on our website for those that want to re-visit.) The new information is that the transaction was overwhelmingly approved by Grey Island shareholders on October 16, and that, subject to court approval (which is essentially a formality) the parties intend to close the transaction on October 26, 2009. This means that Grey Island will cease to trade on or immediately after that date, and the arbitrage, which has been keeping a lid on WEW, will be officially over. That will finally allow any future news (i.e., the next, larger FedEx divisional win)

to be reflected in real-time in the stock, and all of the benefits of the acquisition (as laid out in the last two letters) to be reflected over time.

Next month, my plan is to do an in-depth review of Aeromechanical, and take a more thorough look at the private portion of the portfolio

Thank you again for your patience and trust. I am working hard to catalyze the value that I believe is being created by the companies in these portfolios; I now know that some of this hard work is bearing fruit, and I expect more will do so over the coming months.

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

*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 funds 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 funds 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 funds are 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.