



Northern Rivers Evolution Fund

2008 Annual Management Report of Fund Performance

As at December 31, 2008

The Annual Management Report of Fund Performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statement at your request, and at no cost, by calling 1-866-902-7060, by writing to us at Northern Rivers Capital Management Inc., Royal Bank Plaza, North Tower, Suite 2000, 200 Bay Street, PO Box 66, Toronto, Ontario M5J 2J2 or by visiting our website at www.NorthernRiversFunds.com or SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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NORTHERN RIVERS EVOLUTION FUND

Management Discussion of Fund Performance

Investment Objective and Strategy

The Northern Rivers Evolution Fund (the “Fund”) utilizes a long-term investment program to generate maximum absolute returns and capital appreciation through securities selection and asset allocation. The Fund invests primarily in equity and equity-related securities of North American companies.

Investment selection is targeted towards equity and equity derivatives of companies that are believed to be trading at a discount to their intrinsic value. Investment strategies are employed to achieve a balance of risk, return and liquidity within the Fund’s asset and geographic sector allocations.

Risk

The overall risk of the Fund is as described in the prospectus. There were no material changes to the Fund over the period that affected the overall level of risk.

Results of Operations

For the twelve month period ended December 31, 2008, Series A units of the Fund returned -36.2% after expenses, series F units returned -35.5% after expenses, and series P units returned -35.7% after expenses, while the S&P/TSX Total Return Index was one of the best-performing equity indices in the world in 2008, producing total returns of -33.0%. As at December 31, 2008, total net assets in the Fund were about \$2 million.

The second half of 2008 proved to be a difficult period for the Fund’s investment discipline, and—more generally—the most trying period for equities since 1931. What began as a 2007 financial crisis in the U.S. due to poor lending practices has now spread, taking the entire global economy into recession. This has caused a massive flight out of equities and other more volatile asset classes into the relative safety of cash and government securities, and led to every major stock market worldwide declining over 30% in 2008, with numerous indices declining over 40% or 50%. Many growth stocks and small cap stocks were particularly hard hit and fell substantially in the flight to liquidity. Many of the Fund’s holdings suffered substantial declines despite little change in their long-term fundamentals.

Specific detractors from fund performance included Webtech Wireless, Neptune Technologies and Bioresources, Gastem, ZCL Composites, Absolute Software and Western Goldfields. The only stock that was in the Fund for the entire twelve months of 2008 that was up during that timeframe was SXC Health Solutions. By the end of the year, Webtech, Neptune and Gastem had all been hit so hard that they each represented less than 2%-4% of the Fund as of December 31, 2008.

Amid this difficult environment, the manager took advantage of share price weakness in several excellent businesses to add to existing positions (as above) and also established new positions during Q4 in securities such as Energy Savings Income Fund, BCE, Intel, and Research In Motion to name a few of the new holdings. The manager feels very confident about the long-term prospects for the portfolio's holdings. Indeed, one of the most stunning (but exciting from a forward-looking standpoint) aspects of the last one to two years is that a number of our core positions are trading at fractions of where they were one to two years ago, yet the underlying fundamentals are demonstrably better than they have ever been.

A number of holdings were sold during the second half of 2008, due to changes in the underlying fundamentals that caused us to downgrade our outlook for the stocks. We sold our positions in Corridor Resources, Paramount Energy, Encana, and Points.com to name a few.

Overall portfolio structure was relatively defensive at December 31, 2008. At that time, cash was at 19%, down from the 30% to 40% range in the October-November timeframe because of the new positions added to the portfolio (as above) during the Q4 market rout and subsequent relentless tax-loss selling. We expect some of the new positions added (such as Ciena and Brocade) will be treated as trading positions, and expect to raise the cash position again as we move through January-February. Some of the other new positions (such as BCE and Intel at our entry prices of \$21.71 and \$13.16 respectively) lend themselves to a strategy of selling covered calls to generate additional return. We are very excited about our new position in Energy Savings Income Fund, as our entry price of \$6.87 represents an indicated gross yield of almost 18%, yet our research suggests that the distribution will likely remain stable. Having said that, we are waiting for more signs that global monetary and fiscal authorities are taking sufficient steps to head off a deflationary spiral before we become fully invested again. The portfolio's largest weightings at December 31, 2008 were in technology at 34%, cash at 19%, healthcare at 11%, and industrials at 11%.

Recent Developments

Economic news worsened as we entered 2009. This was to be expected, however, because the 40% or greater declines in global equity indices in the September to November 2008 timeframe had already told us that the economic news would continue to get worse at least until May of 2009, and probably through until August. (This statement is predicated on the fact the equity markets historically discount developments 6 to 9 months out.) This is a critical point: if the U.S. and global economies are able to bottom out by August of 2009, then there is a good chance that the overall markets have seen their bottoms. On the other hand, if we continue to see sequential (quarter over quarter) declines in the major economies through the end of 2009 or longer, then we are likely to see new lows in the equity markets too.

While still holding on to our core positions, and new additions such as Energy Savings Income Fund, BCE and Intel, the portfolio is once again holding almost 40% cash,

positioned for an expected re-test of the November 2008, lows. The U.S. financial crisis that started the present downturn was not yet resolved at year-end, but governments and central banks around the world had realized that extraordinary measures would be needed to fix the problems cascading through the global economy, and had mostly demonstrated the willingness and ability to implement these measures. We have a checklist of items that will give us more confidence that the necessary actions have been taken.

Despite a volatile start for the stock market in 2009, and expected continued volatility in the first part of 2009, we expect the overall market to finish the year up, as it becomes apparent that we are experiencing a severe recession, as opposed to the depression scenario being pushed by the scaremongers in the media. Growth will reappear in the economy as the western world stabilizes and the billions of people in Asia aspiring for a middle class lifestyle restart their climb up the economic ladder. Indeed, this appears to be one of the best opportunities to invest in equities in decades. The market has rarely looked cheaper and the number of companies on secular growth paths with solid financials selling at depressed valuations is remarkable.

Other Material Information

On February 19, 2009, the Manager announced its intention to seek Unitholder and regulatory approval to effect a merger of the assets of the Fund into the Northern Rivers Conservative Growth Fund (the “Conservative Growth Fund”). The Manager is proposing the merger due to the small size of the Fund and the associated costs of maintaining smaller funds. The funds share similar growth objectives, with the Conservative Growth Fund offering greater diversification by sector and capitalization to help dampen volatility. Merging the assets of the two funds should result in a lower management expense ratio for the Conservative Growth Fund post merger.

Adoption of New Accounting Standards

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation”. The new standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation”. The new disclosure standards increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The previous requirements related to presentation of financial instruments have been carried forward unchanged. Adoption of the new standards does not impact the daily price of the Fund’s securities for subscription and redemption purposes, nor for the calculation of net assets.

On January 1, 2008, the Fund adopted CICA Handbook Section 1535, “Capital Disclosure”. The section establishes standards for disclosing information about an entity’s capital and how it is managed. The adoption of this standard results in additional disclosures relating to the redeemable units of the Fund but does not affect the Fund’s results or financial positions.

Related Party Transactions

Management Fee

In consideration for portfolio and advisory services received from the Manager and Trustee of the Fund, Northern Rivers Capital Management Inc., the Fund paid a management fee of \$47,599 during the period ended December 31, 2008. The management fee for Series A, Series F and Series P units is an annualized management fee (Series A – 2.5%; Series F – 1.5%; Series P – 1.75%) based on the net asset value of that series of units of the Fund and is accrued daily and paid at month-end as a percentage of the daily net asset value.

Dealers are paid a share of the Manager's management fee – called a trailer commission – for all assets that their sales representatives place in the Fund. Trailer commissions are paid as a percentage of assets to dealers based on the range shown below.

| | Management Fee (%) | Trailer Commissions (%) | |
|----------|--------------------|-------------------------|--------------------|
| | | Minimum | Maximum |
| Series A | 2.50 | 0.50 | 1.00 |
| Series F | 1.50 | N/A ⁽¹⁾ | N/A ⁽¹⁾ |
| Series P | 1.75 | 0.25 | 0.25 |

(1) No trailer commissions are paid in respect of an Series F units of the Fund

As at December 31, 2008, the Fund owed the Manager \$7,068 for operating costs incurred in administering the Fund. During the period ended December 31, 2008, the Manager agreed to absorb \$115,286 of total expenses on behalf of the Fund.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the financial years ended December 31, as indicated. This information is derived from the Fund's audited annual financial statements.

THE FUND'S NET ASSETS PER UNIT (IN \$)

Series A

| | 2008 | 2007 ⁽²⁾ | 2006 | 2005 | 2004 |
|--|----------------|----------------------|------------|------------|------------|
| Net assets per unit, beginning of year ⁽¹⁾ | 31.91 | 25.00 ⁽³⁾ | N/A | N/A | N/A |
| Increase (decrease) from operations: | | | | | |
| Total revenue | 0.26 | 0.08 | N/A | N/A | N/A |
| Total expenses | (0.79) | (2.37) | N/A | N/A | N/A |
| Realized gains (losses) for the year | (5.64) | 1.13 | N/A | N/A | N/A |
| Unrealized gains (losses) for the year | (6.71) | 6.06 | N/A | N/A | N/A |
| Total increase (decrease) from operations^(a) | (12.88) | 4.90 | N/A | N/A | N/A |
| Distributions: | | | | | |
| From income (excluding dividends) | - | 0.02 | N/A | N/A | N/A |
| From dividends | - | - | N/A | N/A | N/A |
| From capital gains | - | 0.50 | N/A | N/A | N/A |
| Return of capital | - | - | N/A | N/A | N/A |
| Total distributions^(b) | - | 0.52 | N/A | N/A | N/A |
| Net assets per unit, end of year^(1,4) | 20.50 | 31.91 | N/A | N/A | N/A |

Ratios and Supplemental Data

Series A

| | 2008 | 2007 ⁽²⁾ | 2006 | 2005 | 2004 |
|---|---------|---------------------|------|------|------|
| Net asset value (000's) ^(c) | 623 | 394 | N/A | N/A | N/A |
| Number of units outstanding ^(c) | 30,046 | 12,134 | N/A | N/A | N/A |
| Management expense ratio ^(d) | 2.96% | 9.83% | N/A | N/A | N/A |
| Management expense ratio before waivers or absorptions ^(e) | 7.56% | 18.48% | N/A | N/A | N/A |
| Portfolio turnover rate (%) ^(f) | 426.49% | 65.48% | N/A | N/A | N/A |
| Trading expense (%) ^(g) | 2.30% | 2.39%* | N/A | N/A | N/A |

THE FUND'S NET ASSETS PER UNIT (IN \$)

Series F

| | 2008 | 2007 ⁽²⁾ | 2006 | 2005 | 2004 |
|--|----------------|----------------------|------------|------------|------------|
| Net assets per unit, beginning of year ⁽¹⁾ | 31.35 | 25.00 ⁽³⁾ | N/A | N/A | N/A |
| Increase (decrease) from operations: | | | | | |
| Total revenue | 0.19 | 0.08 | N/A | N/A | N/A |
| Total expenses | (0.51) | (2.39) | N/A | N/A | N/A |
| Realized gains (losses) for the year | (3.51) | 1.10 | N/A | N/A | N/A |
| Unrealized gains (losses) for the year | (7.18) | 6.40 | N/A | N/A | N/A |
| Total increase (decrease) from operations^(a) | (11.01) | 5.19 | N/A | N/A | N/A |
| Distributions: | | | | | |
| From income (excluding dividends) | - | 0.03 | N/A | N/A | N/A |
| From dividends | - | - | N/A | N/A | N/A |
| From capital gains | - | 0.77 | N/A | N/A | N/A |
| Return of capital | - | - | N/A | N/A | N/A |
| Total distributions^(b) | - | 0.80 | N/A | N/A | N/A |
| Net assets per unit, end of year^(1,4) | 20.36 | 31.35 | N/A | N/A | N/A |

Ratios and Supplemental Data

Series F

| | 2008 | 2007 ⁽²⁾ | 2006 | 2005 | 2004 |
|---|---------|---------------------|------|------|------|
| Net asset value (000's) ^(c) | 1,040 | 1,200 | N/A | N/A | N/A |
| Number of units outstanding ^(c) | 50,552 | 37,629 | N/A | N/A | N/A |
| Management expense ratio ^(d) | 1.90% | 9.23% | N/A | N/A | N/A |
| Management expense ratio before waivers or absorptions ^(e) | 6.51% | 17.88% | N/A | N/A | N/A |
| Portfolio turnover rate (%) ^(f) | 426.49% | 65.48% | N/A | N/A | N/A |
| Trading expense (%) ^(g) | 2.30% | 2.39%* | N/A | N/A | N/A |

THE FUND'S NET ASSETS PER UNIT (IN \$)

Series P

| | 2008 | 2007 ⁽²⁾ | 2006 | 2005 | 2004 |
|---|----------------|----------------------|------------|------------|------------|
| Net assets per unit, beginning of year ⁽¹⁾ | 31.64 | 25.00 ⁽³⁾ | N/A | N/A | N/A |
| Increase (decrease) from operations: | | | | | |
| Total revenue | 0.16 | 0.08 | N/A | N/A | N/A |
| Total expenses | (0.60) | (2.28) | N/A | N/A | N/A |
| Realized gains (losses) for the year | (2.49) | 1.14 | N/A | N/A | N/A |
| Unrealized gains (losses) for the year | (8.14) | 6.74 | N/A | N/A | N/A |
| Total increase (decrease) from operations ^(a) | (11.07) | 5.68 | N/A | N/A | N/A |
| Distributions: | | | | | |
| From income (excluding dividends) | - | 0.02 | N/A | N/A | N/A |
| From dividends | - | - | N/A | N/A | N/A |
| From capital gains | - | 0.55 | N/A | N/A | N/A |
| Return of capital | - | - | N/A | N/A | N/A |
| Total distributions ^(b) | - | 0.57 | N/A | N/A | N/A |
| Net assets per unit, end of year ^(1,4) | 20.48 | 31.64 | N/A | N/A | N/A |

Ratios and Supplemental Data

Series P

| | 2008 | 2007 ⁽²⁾ | 2006 | 2005 | 2004 |
|---|---------|---------------------|------|------|------|
| Net asset value (000's) ^(c) | 243 | 390 | N/A | N/A | N/A |
| Number of units outstanding ^(c) | 11,736 | 12,126 | N/A | N/A | N/A |
| Management expense ratio ^(d) | 2.16% | 9.00% | N/A | N/A | N/A |
| Management expense ratio before waivers or absorptions ^(e) | 6.77% | 17.66% | N/A | N/A | N/A |
| Portfolio turnover rate (%) ^(f) | 426.49% | 65.48% | N/A | N/A | N/A |
| Trading expense (%) ^(g) | 2.30% | 2.39%* | N/A | N/A | N/A |

(1) This information is derived from the Fund's audited financial statements. The net assets per unit presented in the financial statements differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the Fund's financial statements.

(2) Information presented is for the period August 27 to December 31.

(3) Initial offering price

(4) This is not a reconciliation of the beginning and ending net assets per unit.

* Ratio has been annualized

Supplementary information to the Financial Highlights calculations is based on the following:

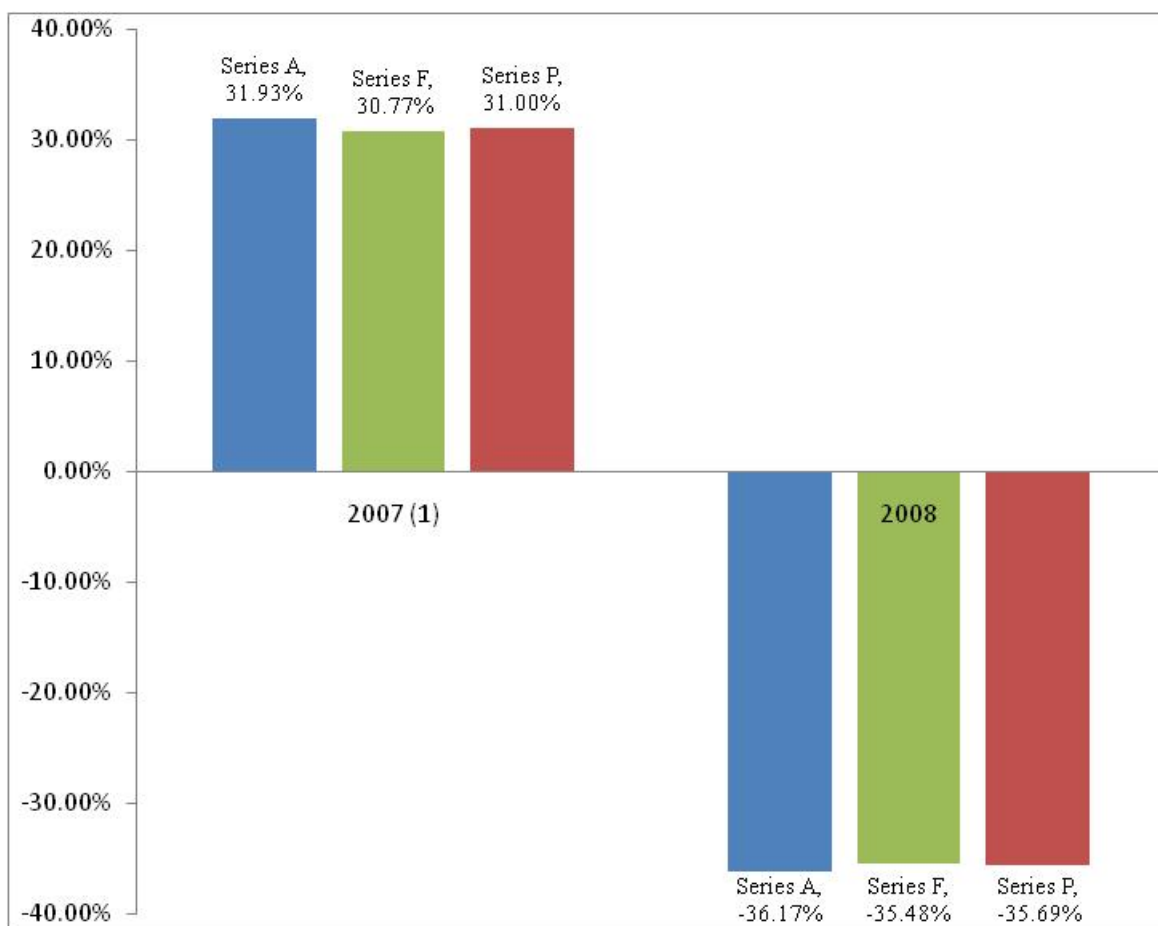
- (a) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period.
- (b) Distributions were paid in cash, reinvested in additional units of the Fund, or both.
- (c) This information is provided as at December 31 of the year shown.
- (d) Management expense ratio for each series of units is based on the total expenses of the Fund, incurred by or allocated to that series of units for the year shown, expressed as an annualized percentage of daily average net assets of that series during the year.
- (e) The decision to waive and/or absorb management fees and operating expenses is at the discretion of the Manager. The practice of waiving and/or absorbing management fees and operating expenses may continue indefinitely or may be terminated at any time without notice to unitholders.
- (f) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- (g) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the year. Spreads associated with fixed income securities trading are not ascertainable, and, for that reason are not included in the trading expense ratio calculation.

Past Performance

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns (based on Net Asset Value)

The following chart shows the Fund's performance for the periods ended December 31, 2008 and December 31, 2007 (since inception). In percentage terms, the bar chart shows how much an investment made on inception of the Fund would have grown or decreased by the last day of the financial year.



(1) Inception: August 27, 2007

Annual Compound Returns (based on Net Asset Value)

| | 1 Year | 3 Year | 5 Year | Since Inception ⁽¹⁾ |
|--------------------------|---------|--------|--------|--------------------------------|
| Fund - Series A | -36.17% | N/A | N/A | -11.97% |
| Benchmark ⁽²⁾ | -33.00% | N/A | N/A | -24.52% |
| Fund - Series F | -35.48% | N/A | N/A | -11.85% |
| Benchmark ⁽²⁾ | -33.00% | N/A | N/A | -24.52% |
| Fund - Series P | -35.69% | N/A | N/A | -11.95% |
| Benchmark ⁽²⁾ | -33.00% | N/A | N/A | -24.52% |

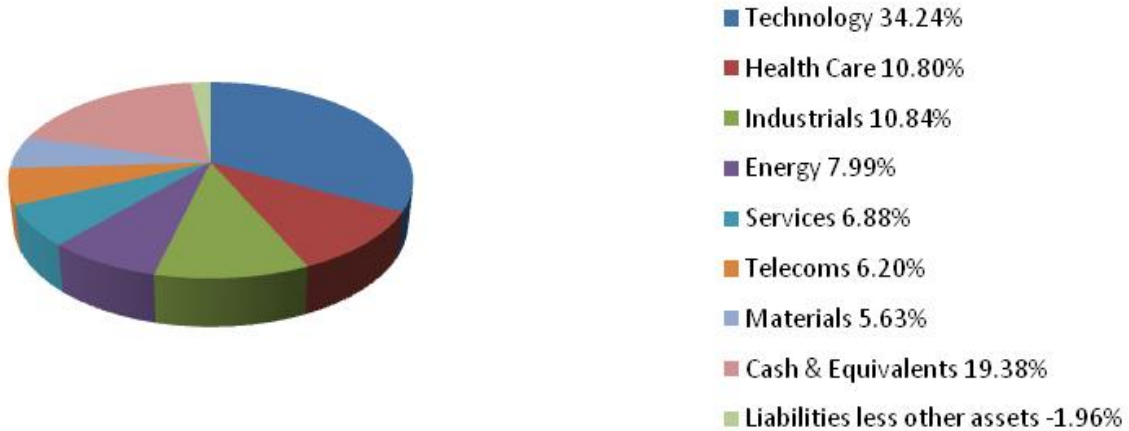
(1) Inception date August 27, 2007.

(2) The S&P/TSX Composite Total Return Index is based on stocks that make up the S&P/TSX Composite Index, with the assumption that all dividends paid are reinvested in the stocks in proportion to their index weights.

Summary of Investment Portfolio

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

Industry Classification*



*Calculated based on Net Asset Value

Top 25 Holdings

| | % of Net Asset Value |
|--|---------------------------------|
| As at December 31, 2008 | |
| 1 SXC Health Solutions Corp. | 8.35% |
| 2 VendTek Systems Inc. | 7.89% |
| 3 Energy Savings Income Fund | 6.88% |
| 4 BCE Inc. | 6.20% |
| 5 Intel Corp. | 5.70% |
| 6 ZCL Composites Inc. | 5.59% |
| 7 General Electric Co. | 5.25% |
| 8 Western Goldfields Inc. | 5.14% |
| 9 Microsoft Corp. | 5.04% |
| 10 Webtech Wireless Inc. | 3.94% |
| 11 Brocade Communications Systems Inc. | 3.30% |
| 12 Questerre Energy Corp., Class 'A' | 3.18% |
| 13 Research In Motion Ltd. | 2.60% |
| 14 Neptune Technologies & Bioresources Inc. | 2.45% |
| 15 AXIA NetMedia Corp. | 2.30% |
| 16 Niko Resources Ltd. | 1.78% |
| 17 Absolute Software Corp. | 1.74% |
| 18 Ciena Corp. | 1.74% |
| 19 Petrobank Energy & Resources Ltd. | 1.71% |
| 20 Red Maple Energy Inc. | 1.32% |
| 21 Franco-Nevada Corp., Warrants, 2012/03/13 | 0.49% |
| Top 25 Holdings | 82.58% |
| Other Investments | 0.00% |
| Cash & Equivalents | 19.38% |
| Liabilities less other assets | -1.96% |
| Total Net Asset Value | 100.00% |

The total Net Asset Value of the Fund as at December 31, 2008 was \$1,905,359

Caution Regarding Forward-looking Statements

Certain portions of this report, including, but not limited to, “Results of Operations” and “Recent Developments”, may contain forward-looking statements about the Northern Rivers Evolution Fund (the Fund), including its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future action of the Fund is also a forward-looking statement.

Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and relevant market factors in North America and internationally, interest and foreign exchange rates, equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing any undue reliance on forward-looking statements. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.