



Northern Rivers Capital Management Inc.

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January 15, 2008

Dear Partners and Friends:

December saw continued deepening of the economic recession, with more layoffs and falling confidence. Stock markets generally continued to reflect this by falling during the month, but with some signs of stabilization occurring. Significantly, the stock market lows of late November were tested but held, indicating a potential bottom for the bear market of the last year. In this environment, the Northern Rivers Global Energy Fund LP (Energy Fund) was down 9.18% during the month, and the Northern Rivers Conservative Growth Fund LP (Growth Fund) was up 0.71%.

Average Annual Returns to December 31, 2008*

	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	Inception**
Northern Rivers Global Energy Fund LP	-53.48%	-9.18%	-36.47%	-58.47%	-53.48%	-11.83%	-8.82%
Northern Rivers Conservative Growth Fund LP	-45.11%	0.71%	-22.19%	-39.13%	-45.11%	-3.65%	-0.31%

**Inception date: Nov. 1, 2005

The end of annus horribilis, 2009 to be much better

The year 2008 turned out to be the third worst in history for stocks, and the market's worst year since the Great Depression of the 1930's. Every single major stock market index in the world finished down more than one third for the year. The year also saw an end to the latest period of economic expansion which began in 2002, and the onset of recession in the majority of global economies. What started out as a financial crisis, the result of poor lending and securitization practices, cascaded into the general economy as credit standards moved from ridiculously loose to extremely tight levels. In the fourth quarter of 2008 lenders almost completely stopped lending to anyone except the most blue-chip of borrowers. Year end brought to completion one of the most brutal tax loss selling seasons in years. Consumer, business, and investor confidence dropped to historically low levels.

As we look forward into 2009 we are struck by two contradictory facts: first, 2009 appears to be the continuation of the roughest economic pullback since the early 1990's, if not the worst in the post war period; second the financial markets have already factored in an extremely bad economy while seeming to not comprehend the likely return to growth on the other side of the recession. We expect some of the worst economic news to arrive during the first part of 2009 which will continue to cause anxiety and choppy stock markets for the short term. As we get into the latter part of the year, however, we will likely start to see signs of stabilization and evidence that we are

not witnessing the end of the world, simply a tough economic pullback. As investors realize this, the market will begin to look forward to resumed economic growth and will refocus on the compelling values available in the marketplace. We expect 2009 to end the year on a positive note.

Northern Rivers Global Energy Fund LP

The Energy Fund was down 9.18% in December with continuing weak oil and gas commodity pricing and investors throwing in the towel to realize capital losses to reduce their 2008 tax bills. Oil dropped another 10% during December to close at \$44 per barrel, but during the month had dropped below \$34, its lowest price since 2004. Natural gas dropped a further 14% to under \$5.70 per mcf. Small caps were particularly hard hit during the month on tax loss selling and we saw several positions trade down to levels that are illogically low, from which we should see good rebounds in the coming year.

While the fall in oil prices may seem like it has no end in sight, we are definitely getting a number of reactions from the supply side which will turn the market around in the next twelve months. There are three primary things happening: first OPEC is cutting production, second some production is being shut down due to economics, and finally re-investment in new production is being slashed. While this will not turn the market this month, we should start to see these moves gain traction later in 2009.

Most important in the short-term is the OPEC cuts. While there is a high degree of skepticism in the public markets that OPEC will comply with their announced cuts, OPEC production is indeed starting to drop. Most importantly, Saudi Arabia, OPEC's largest producer (and producer of over 10% of the world's oil) is so far showing strong determination in getting the surplus inventory situation under control. Once it becomes apparent the production cuts are overtaking this year's reduced consumption, the oil market will begin to recover.

In the medium term, we are seeing some current higher cost production starting to be shut down as the oil price is now dropping into the upper end of the oil producer's cash cost curves. While the volumes being cut back are not yet very significant, if we see oil prices drop much further this phenomenon will start to cause accelerating production declines. Finally, as we have so readily witnessed in Canada, new oil project spending is getting cut at an astounding rate. Full cycle costs for many of the big oil projects that had been planned in the last two years require oil prices almost double today's prices in the \$40's. We heap this on top of the world's annual decline rate on current production of approximately 5% (meaning 4.3 million barrels per day natural decline) and global production could start slipping faster than many expect. When consumption growth resumes for oil, the snapback in prices is likely to surprise the oil bears.

The natural gas markets have continued to weaken alongside the oil markets as North America continues to be somewhat oversupplied with natural gas in the short-term. As with oil, however, the corrective mechanisms for gas pricing are starting to show up. North American gas directed drilling has now started to drop sharply due to many projects being uneconomical at sub \$6 pricing.

North American natural gas prices are determined primarily by continental supply and demand as opposed to oil which is primarily influenced by global dynamics. North American well decline rates average in the 20% range compared to 5% internationally. So once we see North American drilling drop to a lower rate, where new well additions are insufficient to offset dropping production from current wells, the gas price will bottom and start to rally.

North American decline rates are easily in the double digits (some suggest over 20%), we should start to see some bottoming of the gas markets once the slowdown in drilling of new wells becomes sufficient that the new production from these new wells fails to meet the steep natural declines. As with oil, we now expect to see improved gas pricing sometime in the next year.

On the portfolio front, last month we mentioned Niko Resources as one of our top holdings that we believe has substantial upside due to the majority of its production being relatively insulated from the downside in commodity pricing. During December, Niko's stock price dropped over 20%, so we are taking advantage of the stock price weakness to add to the position. Niko is in a fully funded position with exceptional exploration acreage, world class development assets and a fixed price gas contract.

Also during December we added to another of our top positions, Horizon North Logistics. Horizon is a company that provides services and goods to support resource and infrastructure development. The company has three main divisions: camps and catering, marine services, and matting solutions. Horizon primarily serves the oil sands, traditional energy, mining, construction, and utility industries. The camps and catering business represents the largest and most important near term value driver for the company, at over 70% of revenues.

Horizon's camps and catering division owns both executive lodges and open camps providing superior accommodation to valuable field workers in remote locations. Horizon manufactures camps for both clients and their own use and also provides catering services to customers. They have done an excellent job of both meeting market needs and ensuring excellent returns on investment for shareholders. An example of this is the recently completed and fully owned Blacksands Executive Lodge, serving the oil sands.

There had been a remarkable lack of quality accommodation north of Fort McMurray to serve the massive transient workforces helping to build new energy facilities and infrastructure in this area. Horizon saw the opportunity and quickly capitalized on it by building Blacksands to serve this market. The facility has already been fully leased for the next three years on a take or pay contract with Suncor Energy to house their workers in the area. This contract will see more than full capital recovery of the investment in Blacksands. Following the contract we expect to see continued high returns on a good strategic asset. Horizon is working on other similar projects with similar attractive returns on investment.

Horizon's other divisions, while smaller, are profitable and have substantial growth potential in the years to come. With our investment in Horizon we receive a free call option on the eventual go-ahead of the Mackenzie Valley Gas Pipeline. Horizon's marine division controls all the key logistical staging area for activity up and down the Mackenzie Valley. Should the pipeline get approval, the marine division's assets will skyrocket in value as their business takes off. We believe these assets would be worth in excess of \$5 per share, should the pipeline be approved.

At today's valuation of around \$1 per share, we own Horizon for less than four times EBITDA and less than seven times earnings. We believe we are paying an extremely cheap valuation for the present camp business by itself, while getting the two other divisions and the growth potential for free. Horizon has a strong balance sheet, which should see debt eliminated in the next year, and trades at a discount to its hard book value. We expect this major holding to reward us with strong returns in the years to come.

To summarize, very bullish long-term drivers for the energy sector continue to be in place. Short-term, we have been hit by panic selling in the general markets but believe we are now setting up for a rally in the energy sector as most companies are trading at extremely depressed valuations. We think the outlook for the fund is compelling and look forward to good results to come in our energy squeezed world.

Northern Rivers Conservative Growth Fund LP

The Growth Fund overcame the difficult markets in December to attain a refreshing 1% gain. We believe December marked the beginning of a period of good returns for the fund. The Growth Fund outperformed the broader market thanks to gains from the majority of our top holdings. The strong attributes of the portfolio holdings are finally being recognized by the market and we saw better relative performance as a result.

We discussed our top holding, Philip Morris International, last month and how undervalued it had become. We were finally rewarded with a positive contribution from this holding as PM rose during the month and we were rewarded with another dividend from this solid franchise. The company continues to be substantially undervalued at under eleven times earnings and a dividend yield of over 5%. Expect continuing good returns from this top holding.

The portfolio continues to take on a much more balanced approach today. No one sector represents more than 20% of the portfolio at December 31, 2008, with the top sector weightings being technology at 17%, followed by healthcare at 14%. Resource sector weightings are down significantly from earlier this year, with holdings in these areas being concentrated in special situations in gold and energy. Our largest energy holding is Horizon North Logistics, which we discussed above. We have started to creep cautiously back into our first financial stocks in quite some time. While the U.S. banking sector continues to be a source of concern for the coming twelve months, we are now beginning to see opportunities surfacing in the non-bank financial area, which we are investigating closely. We believe this will be a source of new investments in the coming year for the fund. We continue to evaluate a number of new opportunities for addition to the portfolio in this beaten down market, and we have an ample cash position (over 20% currently) to invest when we find the right ones.

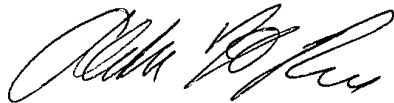
The market has reacted with panic to continuing financial market problems and the news that the economy is in recession. In this context, the market and our portfolio have seen significant devaluation. Looking out a year, however, we believe the inherent quality and fundamentals of our portfolio holdings will be recognized and achieve superior returns going forward. So, while we expect the economy to struggle in the year ahead, we believe we will make good returns with our portfolio investments. Our portfolios are full of companies that we believe are substantially undervalued based on the results we expect to see over the coming 12 to 24 months.

January 31 Next LP Closing

The next closing for the Northern Rivers Global Energy Fund LP, the Northern Rivers Conservative Growth Fund LP, the Northern Rivers Innovation Fund LP and the Northern Rivers Innovation RSP Fund is January 31, 2009.

As always, my colleagues and I are available for meetings with clients and interested parties. Please contact Jeffrey Zicherman, Sales Associate at 416-597-8508 or Robyn Graham, Vice President Sales & Marketing 416-597-3890 for more information or to set up an appointment, or call 416-597-1226 to speak with any one of us directly concerning the specific funds we manage. Our toll free number is 1-866-902-7060.

Warmest regards,

A handwritten signature in black ink, appearing to read 'Alex Ruus', written in a cursive style.

Alex Ruus, CFA, MBA, P.Eng.
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 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.

The Energy Fund and the Growth Fund invest primarily in North American equities. Geographic and sector allocations may vary significantly over time. The funds tend to follow a relatively concentrated investment approach where the manager may overweight selected core holdings and industry sectors such as energy or financial services 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. This may result in portfolio weightings and investment performance being substantially different from that of the S&P/TSX Composite, S&P 500 or other market indices.