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January 21, 2008

Dear Partners and Friends:

December capped off another good year for both the Northern Rivers Global Energy Fund LP (Energy Fund) and the Northern Rivers Conservative Growth Fund LP (Growth Fund), in what was a volatile year for both the energy and general markets. The Growth Fund ended the year up 14.66%, while the Energy Fund ended the year up 30.44%.

**Average Annual Returns to December 31, 2007\***

	Average Annual Returns to December 31, 2007*						
	2007 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	2 Yr.	Inception**
<b>Northern Rivers Global Energy Fund LP</b>	<b>30.44%</b>	<b>5.99%</b>	<b>4.59%</b>	<b>5.93%</b>	<b>30.44%</b>	<b>21.39%</b>	<b>24.36%</b>
<b>Northern Rivers Conservative Growth Fund LP</b>	<b>14.66%</b>	<b>8.07%</b>	<b>5.28%</b>	<b>2.13%</b>	<b>14.66%</b>	<b>27.66%</b>	<b>31.29%</b>

\*\*Inception date: Nov. 1, 2005

**Northern Rivers Global Energy Fund LP**

The fund delivered strong returns in 2007 both on an absolute basis, and relative to the energy sector as a whole, whose performance was mediocre. We were able to generate our substantially better returns by continuing with our strategy of extensive due-diligence, taking relatively large positions and sticking with them. A general positioning of the portfolio away from natural gas and towards oil helped our results, as oil hit new highs in the high 90's, while natural gas continued to trade around the \$7 per mcf range. Additionally, a large weighting towards international oriented companies versus Canadian focused companies helped returns.

Crude oil continued its ascent in 2007. After hitting a short-term low of \$50 in January, oil climbed to finish the year at over \$90 per barrel. This price move is consistent with the long-term bullish scenario that we have talked about since we launched the Energy Fund two years ago. While speculators opine, every time oil hits new highs, that the market is being manipulated in some sinister fashion by every possible suspect out there from OPEC to hedge funds, the fact remains the same as two years ago: the long-term supply demand

scenario in energy is as tight as it has ever been in the history of the oil industry. This simple fact is the reason why oil is trading at record high valuations.

Rising global oil consumption is straining what has been a neglected and aging oil supply system. Supply constraints continue as a result of fifteen years of underinvestment in the exploration for new reserves and continual cost cutting by the industry to maximize profits from the mid 80's until early this decade. The industry experienced an exodus of experienced talent during this period, which will take many years to replace. Meanwhile, the demand side of the equation continues to rise. While G7 oil consumption continues at a relative constant level, emerging economies are rapidly increasing their consumption of this convenient energy source. Most reasonable economic projections show China single handedly increasing global crude oil consumption by almost 10% in the next fifteen years.

Natural gas prices continued to defy the gas bulls by trading at larger than expected discounts to oil (at \$90 Oil, energy equivalency would suggest gas should be trading at \$15). This divergence is due to the fact that natural gas markets have been oversupplied since our last pinch in natural gas in late 2005. This is primarily the result of strong gas production coming from the U.S., as U.S. drilling rose to record levels, as well as increased LNG imports last year. Offsetting this has been a substantial drop in Canadian gas directed investment and production. As Canadian gas production is roughly 25% of Canadian/US consumption, we expect that rapidly falling Canadian production will at some point revive the natural gas price to levels near the energy equivalency ratio with crude oil. When this occurs, we should see a stronger performance from gas stocks.

In conclusion, we had a schizophrenic energy market in 2007, with oil rising to record levels while natural gas prices remained at a big discount to their intrinsic energy value. We expect to see 2008 bring more interesting developments and opportunities for investors. We anticipate an interesting entry opportunity into the natural gas market at some point during the year, and we are closely monitoring developments in this area. Near term commodity prices could be quite volatile in the face of continued weakness in the US economy; however the very bullish long-term fundamentals in the energy industry remain in place. We continue to find many compelling investment opportunities in the industry and believe the outlook for the Energy Fund continues to be excellent. We invite you all to join us in investing in the great opportunities in this portfolio.

### **Northern Rivers Conservative Growth Fund LP**

Our good results during the year were the result of superior performance by most of our larger positions in the fund. Excellent performance from the energy component of the portfolio led the results, along with a number of specialty situations in the industrials and transportation sectors. Our concentrated approach again netted us a good return for the year, bringing our 2 year return to 27.66% annualized.

2007 was an extremely volatile year in the equity markets, as moderately bullish behaviour during most of the year was rocked by two substantial corrections in the second half. Broader equity markets mostly ended the year up modestly, but only after some gut-wrenching ups and downs. The biggest developments of 2007 were the weakness in the U.S. residential real estate market and what has become a huge sub-prime debt crisis as a result of very aggressive lending that took place, primarily in the U.S., in recent years. The aggressive lending, combined with some very aggressive packaging of various forms of debts into all sorts of derivative products, has led to our latest financial crisis. The problems with some of this debt finally gained substantial attention last summer leading to the first major correction of 2007 in August and, as the depth of some of the problems became more apparent, a second substantial correction in November.

Going into 2008, we are faced with a weakening U.S. economy and a broadening of the sub-prime debt crisis overlying what appears to be a decent global economy. The biggest questions affecting the market are will the U.S. go into recession or have a soft landing and how much will the rest of the global economy slow as a result of weakness in the U.S.

Market consensus has moved to a strong chance of recession and as of mid January, we are experiencing the 3<sup>rd</sup> substantial correction in the markets in the last 12 months. While we have increased our probability of U.S. recession in 2008 to just under half, we believe any U.S. recession would be relatively mild and that there is still a better than even probability that the U.S. escapes with a soft landing in the economy. Global growth will weaken in 2008, but will still be decent as emerging middle classes in other parts of the world allow the global economy to continue to reduce its reliance on the still important U.S. consumer.

With a continuing softening economy entering 2008, the financial markets are likely to continue to be volatile and we are looking for the general markets to move within a trading range for at least the first part of the year. The weaker economy will likely induce slightly lower corporate profits. This is offset, however, by a dropping overall market multiple over the last several years, which we believe has already factored in a substantially weaker economy. We expect action by both the U.S. Fed and other central bankers in the first half of 2008 to set the conditions for a turnaround in economic conditions as we exit 2008.

With market volatility continuing in 2008, we are expecting to be somewhat more active in trading positions in the portfolio. This will enable us to take advantage of opportunities in areas we believe will lead the market as we end the year. Specifically, we expect the financial sector, a substantial laggard in the last year, to exit 2008 as one of the leaders, benefitting from both rapid Fed easing and an abatement of the credit issues presently depressing the sector.

We believe the strategy we have mapped out for the Growth Fund, along with continued strong progress from many of our existing holdings provides a very positive outlook for continued good returns from the fund. We believe present market weakness is creating great long-term investment opportunities in a number of specific situations. As I have strong

conviction for the appreciation potential of the portfolio, I will be adding to my holdings in the mandate this month. I encourage all of you to join us in investing in the fund.

### **January 31st Next LP Closing**

The next closing for the Northern Rivers Conservative Growth Fund LP and Northern Rivers Global Energy Fund LP is January 31, 2008. The Innovation RSP Fund also remains open to both registered and non-registered investment. Please also ask us about our two new mutual funds, managed by my colleague, Hugh Cleland and me.

As always, my colleagues and I will make ourselves available for meetings with interested parties. Please contact Robyn Graham, Vice President Sales & Marketing or Jeffrey Zicherman, Sales 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.

Warmest regards,

A handwritten signature in black ink, appearing to read "Alex Ruus". The signature is fluid and cursive, with the first name "Alex" being more prominent than the last name "Ruus".

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 returns are the simple rates of return (YTD, 1 month, 3 month, 6 month, and 1 year) or the historical annual compounded total returns (2 year and since inception). 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.