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August 11, 2008

Dear Partners and Friends:

July was a negative month in the markets with all the broad indices down. Our funds were not immune to the meltdown, with the Northern Rivers Global Energy Fund LP (Energy Fund) down 13.1% during the month, and the Northern Rivers Conservative Growth Fund LP (Growth Fund) down 8.25%.

**Average Annual Returns to July 31, 2008\***

	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	2 Yr.	Inception**
<b>Northern Rivers Global Energy Fund LP</b>	<b>-2.62%</b>	<b>-13.06%</b>	<b>-5.05%</b>	<b>4.86%</b>	<b>-2.02%</b>	<b>13.04%</b>	<b>17.60%</b>
<b>Northern Rivers Conservative Growth Fund LP</b>	<b>-17.27%</b>	<b>-8.25%</b>	<b>-7.35%</b>	<b>-7.75%</b>	<b>-16.26%</b>	<b>5.63%</b>	<b>15.67%</b>

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

**Northern Rivers Global Energy Fund LP**

The Energy Fund's negative performance was due to a broad pullback in the energy markets as oil prices retreated to below \$125 and natural gas prices retreated to the \$9 range. This caused a significant correction in energy stocks during the month as investors anticipated even further pullbacks in commodity prices in future months. This overall negative environment overwhelmed a small number of decent gains we saw in the portfolio.

The overall theme of July was one of panic, as many non-traditional energy sector investors, who had jumped on board the energy bandwagon, jumped off just as quickly at the first sign of price weakness. This is despite the fact that the average energy stock is only up less than 10% in the last year, during a time when the price of oil has climbed over 50% to about \$120 and the price of natural gas has climbed over 40% to \$9. Usually in a rising commodity environment, you would expect the stocks to outperform the commodity, but that hasn't happened this time. Due to the economic recession in the U.S. and a correction in the general stock markets, investors have become fearful and are expecting the worst. It appears the equity markets are already factoring in significantly lower commodity prices going forward.

So where does this leave the Energy Fund? As it stands now, we are only making minor changes to the fund composition as the majority of our holdings have individual catalysts which should overcome commodity weakness. That said, we have made some minor shifts away from the producing oil and gas sector in the short term to take advantage of other opportunities. For the first time in quite some time we have put back on our first short position and are examining other potential short opportunities. We are, however, trading cautiously on the short side as the market

has already factored in quite a large drop in commodity pricing and should the commodity weakness not continue the energy markets will rally strongly due to their very low valuation levels at \$120 oil and \$9 gas.

The long-term outlook for oil continues to be extremely bullish, as long-term demand drivers of growing economies and emerging middle-classes in developing markets are firmly entrenched. Similarly, my concern about where the oil supply will come from ten years from now to quench the world's thirst for this black gold continues unabated. The world's largest producer, Russia (yes, that's right, Russia produces more oil than Saudi Arabia) experienced its first year over year decline in production in over a decade. Russian production is now declining presently at 1% per year, and while it is quite possible for the Russians to increase their production levels in the future if they put in place an even more active capital program than they presently have, the fact that their production has started declining is very troubling indeed as it is one of the last areas that was thought to provide some of the significant replacement and upside production to feed the world's need for this strategic commodity.

In the short-term, the correction in oil prices is indeed warranted as U.S. gasoline consumption has dropped for the first time since the last energy crisis as consumers have started to cutback the miles they drive and for the first time in a very long time consumers are actually considering the fuel mileage of the vehicle in their purchasing decisions. As the U.S. is the world's largest consumer of oil (over 20% of world consumption), this is helping to reduce (BUT NOT ELIMINATE) the world's increasing consumption of oil. This last point is very important, while we are seeing abatement on the rapidly rising price of oil, it is still very hard for any expert to demonstrate with any credibility how we are going to meet increased global consumption needs ten years from now without much higher commodity pricing to pay for the finding and development of this increasingly hard to find strategic commodity.

On the natural gas front, the drop in prices has been most severe in North America as several very large natural gas tight gas discoveries have been found in the last several years and drilling (particularly in the U.S.) is ramping up to develop these large potential fields. This has resulted in increased natural gas production from the lower 48 states for the first time in over a decade. This is helping to offset the dropping natural gas exports from Canada to the U.S., as Canadian production has plateaued after a decade of growth. The increased U.S. production will also keep LNG imports into North America at very low levels, as North American natural gas pricing continues to trade at a substantial discount to other world markets.

Offsetting the increased U.S. natural gas production is a pickup in North American consumption of natural gas, primarily as a source of clean fuel for power production (natural gas is a much cleaner fuel than oil or coal) and continued residential increases. After several years of stagnant natural gas consumption in North America due to the 2005 natural gas pricing and supply scare, we see consumption resuming its growth. Natural gas in North America trades at a substantial discount to oil as a source of fuel. At an oil price of \$120, natural gas is a cheaper source of energy at any price below \$20/mmbtu (over 100% higher than the present price of around \$9). So the economics of switching to natural gas as a source of fuel are compelling now and we expect consumption growth from all three major consuming sectors (residential, power, and industrial) to occur in the coming years.

Offsetting the negativity in the month, was a +17% return in our holding in Laricina Energy during July. Laricina is a private heavy oil developer near Fort McMurray, Alberta with some very attractive heavy oil projects in early stage development. While the broader energy equity markets were falling, the value of our holding in Laricina lifted as longer-term investors, who understand the energy squeeze we are in longer term, continue to look for good quality assets and are not afraid to pay for them. Another interesting data point was the takeover of Duvernay Oil in July by Royal Dutch Shell at an all time high price. This again underlines the attractiveness of good energy assets as investments. The world is short of energy and the long-term trend is upwards.

To summarize, the very bullish long-term drivers for the energy sector continue to be in place. Short-term we are now seeing some volatility in both the commodity and equity marketplace, but we are positioning the fund to better take advantage of both the long and short-term drivers. 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**

As in June, the Growth Fund was down in July with the majority of our holdings dropping alongside broader markets on little stock specific news and generally difficult economic conditions. Performance was hampered by price drops by eight of our top ten holdings. Most notable was another 11% drop by top holding ZCL Composites.

I have promised in previous letters to revisit the ZCL investment thesis. I will use this latest pullback as an opportunity to present the basis for this absolutely compelling investment (it has also been an opportunity for me to add shares to our funds as I expect a minimum 100% return from our investment over the coming years). ZCL is a manufacturer of primarily fiberglass storage tanks and miscellaneous fluid handling equipment. While the description does not sound like the type of company that you would find a great, sustainably profitable, growing business in, it is actually a great company. What many potential investors fail to understand is that this is a company that is the low-cost producer in the industry due to a patented technology, which translates into a sustainable competitive advantage.

ZCL was a start-up company in the late 1980's and through superior management and development of the business, drove the market leader in Canada out of the business. Today, ZCL is the market leader in Canada in its business, with good growth and profitability. ZCL's primary business is the manufacture and sale of fiberglass storage tanks for a multitude of applications. A secondary small, but rapidly growing business is providing re-lining of in place underground storage tanks.

ZCL is the low-cost provider in the business due to their ownership of a patented technology called Parabeam. The standard in the storage tank business today is for all tanks being installed to be double walled. While this is a good thing for the environment, it means that each tank is quite a bit more expensive, as most manufacturers need to build two separate walls that each have structural integrity. The beauty of Parabeam is that it allows ZCL's double wall structure act

structurally like a single wall, while still maintaining the safety of a double wall. This allows ZCL to use less material in the manufacture of their tanks and makes them the low-cost producer in the business. This low cost status allows them to meet competitors on pricing if necessary and still be profitable. ZCL's product is the gold standard in the industry, however, and they prefer to price at a premium due to superior quality.

In 2007, ZCL expanded into the U.S. via acquisition of the largest fiberglass tank manufacturing company in America, Xerxes. Xerxes provided an entrée and the next leg of growth for ZCL into a marketplace that was ten times the size of the Canadian marketplace, where ZCL had already established market leadership. The U.S. market is much more fragmented than that in Canada, so not only is the marketplace bigger, there is much more room for ZCL to grow its business for many years to come. Additionally, while in Canada the fiberglass tank has killed the market for steel tanks in underground storage due to its vastly superior corrosion resistance, in the U.S., steel tanks still make up roughly half the market for underground storage for petroleum products. Over the next ten years, ZCL and the fiberglass tank will likely similarly dominate the underground petroleum storage market, as customers become increasingly aware of the differences and increasing government legislation may demand it.

While you can clearly see the opportunity for ZCL is compelling just from its expansion into the U.S. in the conventional storage business, the company has many more opportunities to grow in a number of other areas as well. Firstly, the company is at an early stage of ramping up a business of relining installed underground storage tanks that are either single walled, made of steel, or leaking. The installed base of such tanks is large (just think of all the service stations older than 20 years old) and so is the potential market for ZCL's solution. ZCL has taken their Parabeam technology and under the brand Lifeliner, extended its advantages to the re-lining business. The business is in its early stages of growth with established successful installs in Canada, the U.S., and Hong Kong. The U.S. is seeing increasing environmental legislation coming in with regard to storage tanks leaking petroleum and chemicals into the drinking water table, which will provide a growth driver for the business going forward.

Finally, the water and wastewater market provides another huge market for ZCL and the fiberglass storage tank to penetrate. Today, the vast majority of this market is served by concrete tanks, which are prone to cracking and leaking. ZCL has started to serve this market and is starting to show substantial growth in this substantial market.

So, while this is clearly a great company, why has the stock pulled back below \$8 this month? Well, we think this is a perfect example of why both my colleague Hugh Cleland and I are very excited about the potential returns to come from many of our holdings in the future. Long term, equity markets are driven by fundamentals...those companies that generate increasing streams of long-term free cash flow rise in value, and those that are shrinking or don't create economic value shrink in value. In the short-term, equity markets are driven by fear and greed. Up until last year, the markets were being driven by greed as the economy and profits overall were rising strongly. In the last year, we have seen the commencement of a U.S. recession and a pullback in profitability in the broader economy. The equity market has recognized this and has corrected. Now, investor sentiment has shifted from greed to fear and many investors are "throwing the baby out with the bath water" (in their haste to raise cash from stocks that are going down they are not

spending the time to understand which stocks deserve to be driven down and which ones actually are going to generate good returns for them). This is exactly the case with ZCL.

Our work on the company indicates that ZCL is trading at under ten times 2010 earnings, has a 1.7 percent dividend yield (and we expect dividend increases to continue), and a clean balance sheet. We think the company is vastly undervalued as we believe ZCL will grow its earnings at a rate in excess of 20% per year over the coming five years. We think the value of the company is well in excess of \$20 per share and expect to realize that value. Given the absolutely compelling investment case for this stock it is the largest holding in each of the Growth Fund and Energy Fund. Sometime in the next year this baby will be separated from the bathwater, and we think it is a beautiful baby indeed.

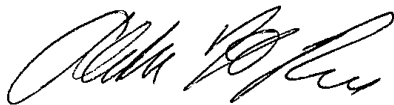
ZCL is just one of the many companies in the portfolio that we think are absolutely compelling investments. We think the opportunity to make a great return going forward is great. As such, I have again added to my investment in the Conservative Growth mandate at the end of July and at the beginning of August. I look forward to good returns to come.

### **August 29 Next LP Closing**

The next closing for the Northern Rivers Global Energy Fund LP and the Northern Rivers Conservative Growth Fund LP is August 29, 2008. The Northern Rivers Innovation RSP Fund also remains open to both registered and non-registered investment. Please also ask us about our mutual funds, our newly launched RRSP/RRIF, and our new pre-authorized chequing plan.

As always, my colleagues and I will make ourselves available for meetings with 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 concerning the specific funds we manage.

Warmest regards,



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.