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Dear Partners and Friends:

In November the current economic recession deepened and the stock market dropped with the gloomy economic news. The Northern Rivers Global Energy Fund LP (Energy Fund) was down 10.01% during the month, and the Northern Rivers Conservative Growth Fund LP (Growth Fund) was down 2.82% as short term investors continued to panic sell into depressed valuations and emotions overwhelmed rational decision making.

	Average Annual Returns to November 30, 2008*						
	2008 YTD	1 mo.	3 mo.	6 mo.	1 Yr.	3 Yr.	Inception**
<b>Northern Rivers Global Energy Fund LP</b>	-48.78%	-10.01%	-44.40%	-53.61%	-45.71%	-7.01%	-6.17%
<b>Northern Rivers Conservative Growth Fund LP</b>	-45.50%	-2.82%	-33.62%	-41.02%	-41.10%	-1.26%	-0.55%

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

### **Approaching the end of annus horribilis, what will the next year bring?**

We are now entering the final month of annus horribilis for both the economy and markets. With the pervasive bad news that is bombarding us from the media and bad returns from the stock markets this year it is easy to understand why many investors are letting their emotions start to overrule rational decision making with respect to their investments. We are seeing many investors fleeing to the “safety” of cash and switching their minds about the long-term attractiveness of the stock market. This type of behavior is consistent with that occurring near previous market bottoms.

A respected investor, Warren Buffet, recently said “I’m buying stocks” and “Be fearful when others are greedy, and be greedy when others are fearful”. So, while the economic news continues to be gloomy, when we compare the reaction of the stock market this year relative to where we believe the economy will be a year from now and the earnings and cash flow power of our companies, we expect the next year to deliver good returns for the portfolios. While poorly positioned and over-levered companies will struggle and fail in this tough economy, the long-term prosperity of Canada and the United States will continue, and well positioned and well managed companies will emerge from this recession stronger and more profitable than before. These are the companies we believe in owning and buying to get good returns for our investors.

Those selling the good companies today may say, “I’m just getting out until things improve and then I’ll get back in”. While this sounds good in principal, the reality is that it is next to

impossible to effectively time the market, as the market moves very quickly and in advance of the economy. Statistics show that trying to time the market is a losing game and a steady hand with respect to asset allocation is the best approach. People who hold cash and cash equivalents today may feel an artificial sense of security, but long-term, cash is a terrible asset that pays next to nothing and is likely to depreciate in real terms. The government stimulus and monetary easing of today is setting us up for an increase in inflation when the economy emerges from recession, which makes cash even less attractive going forward.

From a purely statistical point of view, we expect stock markets to perform much better going forward. Measured to this year's low on November 20, 2008, the ten year simple return for the S&P 500 was -35.33%! This matches the worst ten year performance in U.S. stock market history, 1929 to 1939, a time period spanning the Great Depression. Given that we are only experiencing a very tough recession and not a depression, we believe the general markets have already over-corrected. Since 1926, whenever the ten year compound annual return has been below 1%, the U.S. market has had subsequent ten year periods with annualized returns ranging from 7 to 15%.

While it is next to impossible to predict short-term market movements, we believe that with gloomy economic news and the end of a tax year approaching, we will see choppy markets through December, as continued tax-loss and panic selling is offset by buyers like ourselves. As we go into 2009, we expect continued dour economic news through the first part of the year, followed by early signs of economic recovery later in the year. The stock market should experience a positive return in 2009 as it becomes apparent that the market has already discounted a severe recession in late 2008. Within the stock market, it will be a stock picker's year with a wide divergence in returns as investors sort through the winners and losers.

### **End of Year Housekeeping**

We have spent the last month not only searching for new opportunities, but also re-orienting the portfolios to profit from the coming opportunities of 2009. In conjunction with this we made sure that as we go into year-end that there will be no capital gains realized by either the Growth Fund or the Energy Fund. We hope this will help you in minimizing your tax bill for 2008.

### **Northern Rivers Global Energy Fund LP**

The Energy Fund was down 10% in November as oil and gas commodities suffered near record drops during the month. Oil fell 20% in November, one of the biggest single monthly declines ever, and as of early December, is now down over 70% from its July peak. In this environment it was nearly impossible for any energy stock to rise in value as companies' near term cash flows and income have plummeted, despite the continuing strong long-term fundamentals in energy. The fund was affected by this widespread malaise with nearly every single long position falling in value. The long losses offset an otherwise conservative 25% cash position and some gains on our short positions.

In early December, the price of oil fell to \$41.00, its lowest price since 2004. This price was unimaginable in July, let alone a year ago, given the long-term tight supply position. What has caused this sudden change? It now appears that the fourth quarter of 2008 will see the world's

first decline in oil consumption in twenty five years. This is due to the strong recession we are now undergoing and the slow response from OPEC in cutting supply to meet lower demand. While excess supply capacity in the oil market remains at uncomfortably low levels for a commodity that is the lifeblood of modern man's high standard of living, in the short-term there is an excess of oil being produced relative to consumption and this has forced prices down.

The natural gas markets have also been very weak with gas now trading at under \$6 per mcf for the first time since 2004. The low gas prices reflect a fear that consumption in North America could dip somewhat (an unlikely scenario), along with record high gas-directed drilling in the United States. This has resulted in U.S. gas production rising in the last year, more than offsetting Canadian gas production declines. Much of the new gas production being drilled in the U.S. requires gas prices in excess of \$7 per mcf to be economically attractive to pursue. Consequently, we believe gas prices are in a bottoming process as we begin to see gas development projects cut back due to poor economics in some of the fields.

How are we responding to this short-term price crisis? While the long-term view for oil remains compellingly bullish, the reality of lower prices has precipitated a reorientation of the portfolio. We now are repositioning the portfolio away from oil sands and heavy oil production (which are relatively high cost and do not hold up well in the present environment) to derivative plays on energy pricing and low cash cost producers. As well, we are re-doubling our efforts to invest in companies with extremely strong balance sheets (little to no debt), good cash flows, and low funding needs.

A good example of this is Tourmaline, a recent addition to the portfolio, which has \$300 million of cash in a buyers' market and a management team with a consistent record of adding value through good markets and bad. CEO Mike Rose is currently busy examining property packages and companies that are now available at fire sale prices in Western Canada. Tourmaline is in a position of strength with a large cash position, negotiating with many companies who are now in a tight situation with over-leveraged debt positions. We expect to hear of Tourmaline's first property acquisitions in the coming quarter and believe this position will make a handsome return for fund holders in years to come.

Niko Resources is a stock that has been unfairly penalized alongside the broader commodity sector, despite having relatively fixed pricing for much of their production. Niko is an international exploration and production company, with its primary assets in India. It is a fully funded position with exceptional exploration acreage, world class development assets and a fixed price gas contract. Niko's nearest term developments have to do with its world class D6 block offshore India. As of November, Niko was already producing 10,000 barrels per day from D6 and this should climb to 40,000 barrels per day by the middle of 2009. Its massive natural gas field in D6 should come on-stream early in 2009 with a targeted production rate of 2.8 bcf per day. This is just the tip of the iceberg of the potential from the D6 block that we see, and the D6 is just one of the many attractive concessions Niko has. The company has a great balance sheet with net positive cash and a wall of positive cash flow facing it in coming years. We believe this holding will reward unitholders well in years to come.

The surprise to date for the energy sector has been the lack of merger and acquisition activity so far in the fourth quarter. We expected more consolidation given the tight situation some companies now find themselves in and the extremely compelling valuations now available in the markets. While there have been many rumoured acquisitions over the past several months, we believe the M&A pace will accelerate in early 2009, which will start to illustrate the values available in the sector.

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 was down 2.82% in November as continuing panic and forced selling battered the general markets. The Growth Fund outperformed the broader market thanks to the majority of key holdings being relatively stable and a couple of strong wins including Western Goldfields and Systems Excellence. The strong attributes of the portfolio holdings are finally being recognized by the market and we saw better relative performance as a result.

An example of the undervaluation of companies in both the general markets and the fund is Philip Morris International (PM). PM is the largest holding in the Growth Fund and is one of the soundest and most defensive stock holdings you can find. PM is the world's largest tobacco company, with a leading market share in most countries around the world and control over the strongest global cigarette brand, Marlboro. PM is an \$85 billion company with earnings of \$7.5 billion this year and a dividend yield of over 5%. While tobacco is a declining industry in North America, in the emerging world and for PM it is a growth market with high margins. The company should be able to grow its earnings over the long-term in excess of 10% per year, and is a relatively defensive investment during weak economic times. We find the company significantly undervalued today trading at under 11 times 2009 EPS with a strong balance sheet.

From a portfolio perspective, we continue to shift the portfolio towards companies with higher quality balance sheets and those that pay dividends, so that we get paid to wait for the market recovery. The energy and materials sectors have been reduced until conditions improve, while we continue to incrementally add to technology, healthcare, telecom, and other special situations. A good example of a new holding is TransCanada Pipelines, Canada's largest pipeline operator, which we recently added on weakness. This holding has a yield of over 4% and a defensive franchise in transporting essential consumables (oil and gas) to the public. 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

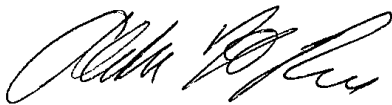
expect the economy to struggle in the year ahead, we believe we will make good returns with our portfolio investments. Our portfolios are full of companies that we believe are substantially undervalued based on the results we expect to see over the coming 12 to 24 months.

### **December 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 December 31, 2008.

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,



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.