

NORTHWATER

NORTHWATER MARKET-NEUTRAL TRUST

ANNUAL INFORMATION FORM

For the fiscal year ended December 31, 2003

As at
March 31, 2004

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INFORMATION INCORPORATED BY REFERENCE

The Annual Report, which includes the audited financial statements of the Northwater Market-Neutral Trust for the year ended December 31, 2003 and the notes thereto (collectively referred to as the “Financial Statements”).

GENERAL

The information contained in this Annual Information Form is given as of March 31, 2004. All dollar amounts are stated in Canadian currency unless otherwise indicated.

- ITEM 1: NAME AND INCORPORATION**
- ITEM 2: BACKGROUND AND DEVELOPMENT OF BUSINESS**
- ITEM 3: DESCRIPTION OF BUSINESS**

THE TRUST

Northwater Market-Neutral Trust (the “Trust”) is a closed-end investment trust established under the laws of Ontario pursuant to a Declaration of Trust dated as of July 18, 1997. The Canada Trust Company was appointed the trustee. Effective March 1, 1999, the trustee was changed to CIBC Mellon Trust Company. This change resulted from the acquisition of the pension and institutional trust business of The Canada Trust Company by CIBC Mellon Trust Company. Effective August 17, 1999 The Royal Trust Company was appointed trustee (the “Trustee”) pursuant to a restated trust agreement (the “Trust Agreement”). Northwater Fund Management Inc., formerly Newcastle Fund Management Inc., is the manager of the Trust (the “Manager”). The Manager has appointed Northwater Capital Management Inc., formed during 2001 by the amalgamation of Newcastle Capital Management Inc. and NewQuant Capital Inc., as the advisor to the Trust (the “Advisor”).

The address of the Trust’s principal and head office is Suite 4700, BCE Place, Bay Wellington Tower, 181 Bay Street, P.O. Box 794, Toronto, Ontario, M5J 2T3.

The beneficial interest in the net assets and net income of the Trust is divided into trust units of equal value (the “Units”). Holders of Units are referred to herein as Unitholders.

DESCRIPTION OF THE UNITS

The Trust is a closed-end investment trust created pursuant to the Trust Agreement and governed by the laws of the Province of Ontario. The Trust was authorized to issue

transferable units of beneficial interest on initial public offering. Each Unit represents an equal, undivided interest in the net assets of the Trust.

Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholders. Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Trust, including distributions of net income and net realized capital gains. On termination, the Unitholders of record holding outstanding Units are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

UNITHOLDER MEETING

On March 19, 2004, Unitholders were provided notice of a special meeting of Unitholders to be held by the Trust on April 19, 2004. Unitholders were asked to vote on an extraordinary resolution at the meeting that would permit the Trust to make regular quarterly distributions of 2% of the Trust's net asset value without regard to the original net asset value threshold of \$18.79 per Unit and that would permit the Trust to pay the existing management fee of 1.25% of net asset value to the Manager on a current basis without regard to the level of cumulative distributions. Upon the approval of this resolution, the Manager would waive all deferred management fees for the period from the inception date to March 31, 2004. The proposal would also permit the Manager to extend the term of the Trust by two years to December 31, 2009 and permit the Trust to issue additional Units to increase the assets of the Trust. Finally, the proposal would permit the Manager to terminate the Trust prior to December 31, 2009 if doing so were in the best interests of Unitholders.

In the event the extraordinary resolution was not passed by requisite majority, the Unitholders were asked to approve an alternate extraordinary resolution to amend the Trust Agreement to give the Manager the power to wind-up the Trust prior to the termination date of the Trust.

The extraordinary resolution was passed at the meeting of Unitholders held on April 19, 2004.

INVESTMENT OBJECTIVES, STRATEGY AND RESTRICTIONS

Investment Objectives

The Trust's investment objectives are to: 1) distribute at least \$0.40 per Unit at each quarter end (\$1.60 per Unit per annum); 2) steadily grow the net asset value (the "Net Asset Value") per Unit; 3) ensure that the performance of the Trust is substantially independent of the major fixed income and equity markets; and 4) achieve a low volatility, which is expected to be less than that of a mid-term bond portfolio and less than one-half that of major North American stock markets.

Investment Strategy

In order to meet its investment objectives, the Trust is invested in a diversified portfolio of hedge funds that are either purely market-neutral or well-hedged with respect to major fixed income and equity markets. Pursuant to the final prospectus dated July 18, 1997 (the "Prospectus") and in accordance with the Trust Agreement, the Trust is required to invest in at least 10 such funds. The Trust may also make investments that, although they may not be fully hedged, are in markets that, in the Advisor's opinion, have expected returns that have a very low correlation with these markets. In addition, to ensure that the Trust achieves relatively low volatility, the Advisor looks for hedge funds that have a low correlation with one another. The Advisor utilizes a proprietary selection process that it has developed in managing similar portfolios to construct this portfolio of hedge funds.

The Trust focuses its investments on hedge funds that invest in sectors of the capital markets that are relatively inefficient. The Advisor believes that such sectors are poorly researched and imperfectly arbitrated and as such will reward insightful investment analysis. The following are examples of hedged, non-traditional investment strategies that may be included in the Trust:

- Convertible arbitrage
- Distressed securities
- Fixed income arbitrage
- Structured finance arbitrage
- Market-neutral equity
- Merger arbitrage
- Mortgage-backed securities arbitrage

Each of the strategies included in the Trust affords a certain amount of risk. However, these strategies are highly uncorrelated with one another. It is this absence of correlation that allows the lowering of the overall risk of the Trust. The Advisor believes, based on experience with similar portfolios, that the volatility of investment returns for the Trust will be substantially reduced by the enhanced level of diversification achieved by investing in hedge funds that have a very low level of statistical correlation with one another. As a result, the risk of the Trust, as measured by standard deviation, is expected to be lower than the risk of a mid-term bond fund and less than one-half that of the major North American equity markets.

In order to optimize the Trust's investment performance, the Advisor regularly monitors and reviews the investment strategies of the hedge funds in which the Trust is invested as well as the performance of the managers of each fund. In particular, the Advisor reviews organizational changes made to the hedge funds in which the Trust is invested and changes in policy relative to investment objectives, hedging strategy, degree of diversification, leverage and costs. In addition, the Advisor monitors the hedge fund industry and reviews new investment strategies and new types of hedge funds being offered. Based on the regular application of its proprietary process, the Advisor may from time to time reallocate the Trust's assets among funds with different investment strategies or among different fund managers or invest in hedge funds with new investment strategies.

The Advisor requires that the Trust maintain the level of liquidity reasonably necessary to satisfy its obligations to Unitholders. As many of the hedge funds in which the Trust invests have restrictions that limit the liquidity of the Trust's investment, the Advisor maintains an appropriate level of liquidity by ensuring that it also invests in hedge funds that have greater liquidity. This involves investing in hedge funds that provide for more frequent redemptions or hedge funds whose shares are listed on an organized market that facilitates secondary trading of such shares.

The Trust has incurred indebtedness to enhance the investment return. The Trust makes use of derivatives to moderate or eliminate foreign currency risk associated with the underlying investments.

Proprietary Selection Process

The Advisor has developed a proprietary selection process that it uses to select potential hedge fund investments to be made by the Trust. This process includes:

1. A broad ongoing search for candidate hedge funds that have exceptional return/risk profiles.
2. Rigorous quantitative analysis of the historical performance of the hedge funds identified as candidates for investment that focuses on consistency and sustainability of return and assesses whether the manager of the candidate hedge fund is adding value to the investment process.
3. Statistical analyses to determine the effect on the Trust's portfolio as a whole of adding and deleting a particular hedge fund or strategy.
4. Qualitative judgments on the strength of the management team and operations of a candidate hedge fund.
5. Mathematical techniques to help determine the weightings of each hedge fund within the Trust's portfolio. These tools compliment the Advisor's qualitative assessment of particular managers and strategies.

In addition, a due diligence process is completed before the Trust makes an investment. All investments within the Trust's portfolio are subject to regular review. Among other factors, the investment team monitors organizational changes made by the hedge fund managers selected as well as changes in policy relative to their investment objectives, hedging strategy, degree of diversification, leverage and costs.

Ongoing Review

The hedge funds selected for investment by the Trust are subject to regular review. Investments selected are monitored in order to ensure the decision to invest in a particular hedge fund strategy continues to be suitable for the Trust's portfolio. Special attention is paid to organizational changes made by the hedge fund managers selected as well as changes in policy relative to their investment objectives, hedging strategy, degree of diversification,

leverage and costs. During the year ended December 31, 2003, the Trust added 12 new funds to the portfolio and redeemed its investment in 11 other funds. As at December 31, 2003, the trust was invested in 42 market-neutral hedge funds.

Investment Restrictions

The activities of the Trust are subject to certain investment restrictions contained in the Trust Agreement, which may be changed only in the manner described in the Prospectus and as set out in the Trust Agreement. For purposes of the restrictions listed below, all percentage limitations apply only immediately after a transaction and any subsequent change in any applicable percentage resulting from changing values will not require elimination of any security from the Trust's portfolio (except for the restrictions in paragraph 4, which must be complied with at all times and which may necessitate the selling of and reinvesting in securities from time to time). These investment restrictions provide, among other things, the following:

1. **Sole Undertaking.** The Trust will not engage in any undertaking other than the investment of the Trust's assets in accordance with the Investment Objectives and the Investment Strategy.
2. **Fixed Price.** The Trust will not purchase any security that by its terms requires the Trust to make a contribution in addition to the payment of the purchase price, other than a permitted derivative pursuant to a transaction described below (see "Limit on Derivatives" below), provided that this restriction shall not apply to the purchase of securities that are paid for on an instalment basis where the total purchase price and the amount of all such instalments is fixed at the time the first instalment is paid.
3. **No Material Interest.** The Trust will not purchase securities from, sell securities to, or otherwise contract for the acquisition and disposition of securities with the Advisor or any of its respective affiliates, any officer, director or shareholder of any of them, any person, trust, firm or corporation managed by the Advisor or any of its respective affiliates or any firm or corporation in which any officer, director or shareholder of the Advisor may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any purchase or sale of securities, any such transaction is effected through normal market facilities and the purchase price approximates the prevailing market price.
4. **Unit Trust Qualification.** The Advisor will manage the assets of the Trust so as to ensure that the Trust qualifies as a "unit trust" within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"). As a result:
 - (i) at least 80% of the property of the Trust at all times must consist of any combination of shares, bonds, marketable securities, cash, notes or other similar obligations, or other investments permitted to be held by "unit trusts", as defined by the Tax Act from time to time;
 - (ii) at least 95% of its income for each year must be derived from, or from the disposition of, investments described in (i) above; and

- (iii) at no time may more than 10% of its property consist of shares, bonds or securities of any one corporation or debtor other than Her Majesty in Right of Canada or a province or a Canadian municipality.
5. **Limit on Derivatives.** The Trust will not purchase or sell derivatives other than for the purpose of off-setting or reducing foreign currency risk associated with an investment or group of investments. The Trust may use futures, forwards or options for currency hedging purposes.
 6. **Restriction on Underwriting.** The Trust will not act as an underwriter except to the extent that the Trust may be deemed to be an underwriter in connection with the sale of securities in its investment portfolio.
 7. **No Commodities.** The Trust will not purchase or sell physical commodities with the intention to make or take physical delivery.
 8. **Related Party Transactions.** The Trust shall not knowingly make an investment in any class of securities of any issuer, other than those issued or guaranteed by Canadian governments,
 - (a) for which the Advisor (a related party of the Trust) or any associate or affiliate of the Advisor (individually a "manager") has acted as an underwriter in the distribution of such class of securities (except as a member of a selling group distributing 5% or less of the securities underwritten) for a period of at least 60 days following the conclusion of the distribution of the underwritten securities to the public; or
 - (b) of which any partner, director, officer or employee of a manager or any partner, director, officer or employee of any affiliate or associate of such manager is an officer or director, provided that this prohibition will not apply where any such person does not:
 - (i) participate in the formulation of investment decisions made on behalf of the Trust;
 - (ii) have access to the investment decision-making process of the Trust prior to the implementation of investment decisions made on behalf of the Trust; and
 - (iii) influence (other than through research, statistical and other reports generally available to clients) the investment decisions made on behalf of the Trust; or
 - (c) in which a manager or any partner, director, officer or employee of a manager had a material interest (which for these purposes includes beneficial ownership of more than 10% of the voting securities of the issuer).
 9. **Limit on Indebtedness.** The Trust may borrow up to an amount not exceeding 25% of the Net Asset Value (as defined under "Net Asset Value") of the Trust, for the purpose of

purchasing additional investments in accordance with the Investment Objectives. In addition, the Trust may borrow on a temporary basis up to an amount not exceeding 10% of the Net Asset Value of the Trust for the purpose of (i) effecting market purchases of Units; (ii) maintaining liquidity to effect cash distributions; and (iii) settling currency hedging transactions.

10. **Restriction on Experience of Underlying Fund Managers.** The Trust will not purchase securities of any underlying hedge fund unless either: (i) the hedge fund has been in operation for at least two years or (ii) the manager of the hedge fund has been engaged in the hedge fund management business for at least two years.
11. **Liquidity of Investment on Termination of the Trust.** The Trust will not invest in securities that by their terms will not be redeemable prior to the termination of the Trust.

MANAGEMENT OF THE TRUST

The Manager

Pursuant to the Management Agreement, the Manager has exclusive authority to manage the operations and affairs of the Trust, to make all decisions regarding the business of the Trust and has authority to contract on behalf of the Trust. The Manager may, pursuant to the terms of the Trust Agreement, delegate its powers to third parties at no additional cost to the Trust where, in the discretion of the Manager, it would be in the best interests of the Trust to do so. The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and to exercise the care, diligence and skill of a prudent and qualified manager. Among other restrictions imposed on the Manager, it may not dissolve the Trust or wind up the Trust's affairs except in accordance with the provisions of the Trust Agreement.

The Manager's duties include, without limitation: maintaining accounting records for the Trust; authorizing the payment of operating expenses incurred on behalf of the Trust; calculating the amount of distributions by the Trust; preparing financial statements, income tax returns and financial and accounting information as required by the Trust; ensuring that the Unitholders are provided with financial statements and other reports as required from time to time by applicable law; ensuring that the Trust complies with regulatory requirements; preparing the Trust's reports to Unitholders and to the Canadian securities regulatory authorities; providing the Trustee with certain information and reports; and negotiating contracts with third-party providers of services, including, but not limited to, custodians, transfer agents, auditors and printers. The Manager provides office facilities and personnel to carry out these services, together with clerical services that are not furnished by the Trust's custodian or transfer agent.

The Management Agreement entitles the Manager, in payment for the services noted above, to receive a monthly management fee equal to one twelfth of 1.25% of the Net Asset Value of the Trust at month end calculated and paid quarterly in arrears; provided that distributions to Unitholders are not in arrears and the Net Asset Value per unit of the Trust is not below \$18.79. If distributions to Unitholders are in arrears, management fees are deferred and not paid or payable until any shortfall has been made up to Unitholders. The Manager is entitled to be reimbursed for all expenses and liabilities properly incurred by it in connection with the activities of the Trust.

The Management Agreement, unless terminated as described below, will continue in effect until the termination of the Trust. The Trust may terminate the Management Agreement: (i) in the event that the Manager is in breach or default of the provisions thereof and, if capable of being cured, such breach or default has not been cured within 20 business days' notice of such breach or default to the Manager, (ii) if the Manager becomes bankrupt or insolvent, (iii) if any of the licences or registrations necessary for the Advisor to perform its duties under the Investment Management Agreement are no longer in full force and effect, or (iv) at any time upon six months' prior written notice following the approval of the Unitholders of such termination by Extraordinary Resolution.

In the event of the termination of the Management Agreement by the Trust as described in (iv) above, the Manager will be entitled to a termination payment in an amount equal to the annual fees, paid or payable to the Manager in the most recently completed 12-month period including any management fees that have been deferred as described under "Fees and Expenses".

The Manager does not currently engage in activities unrelated to the Trust. It may be utilized in the future to provide similar services to other investment products.

Refer to the section entitled "Unitholder Meeting" on page 2 for revisions to the management agreement approved by the Unitholders at a special meeting of Unitholders held April 19, 2004

The Advisor

The Advisor, an affiliate of the Manager, has been retained by the Manager to provide investment advisory and portfolio management services to the Manager for the benefit of the Trust pursuant to an investment management agreement (the "Investment Management Agreement") dated as of July 18, 1997.

The Advisor was formed in 1989. The Advisor is a leading investment management firm in Canada and the U.S., specializing in hedge fund strategies, synthetic indexing, and enhanced asset-class portfolios for pension plans and endowment funds. Northwater is dedicated to providing clients with attractive risk-adjusted returns and first-class client service. The Advisor had assets under management of C\$9.8 billion as at December 31, 2003. The Advisor's clients include the pension funds of many of the largest corporations and public sector institutions in Canada, the U.S. and Europe. The Advisor also manages pension and endowment assets for a number of universities.

The Advisor is known as an innovator and leader in applying derivatives and other quantitative strategies to create unique investment products for institutional clients. The Northwater Market-Neutral Trust is the first publicly-listed investment vehicle of its kind in Canada to invest in a diversified portfolio of hedge funds. As of December 31, 2003, the Advisor had approximately C\$4.6 billion under management in funds of market-neutral hedge funds, and the Manager believes that this makes it the largest such provider in Canada, and among the largest in the world.

The Advisor is engaged in a wide range of investment management, investment advisory and other business activities. The services of the Advisor under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents the Advisor or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and restrictions are similar to those of the Trust) or from engaging in other activities. The Advisor's investment decisions for the Trust will be made independently of those made for its other clients and independently of its own investments. However, the Advisor may make the same investment for the Trust and for one or more of its other clients. If the Trust and one or more of the

other clients of the Advisor is engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The Investment Management Agreement, unless terminated as described below, will continue until the termination of the Trust. The Manager in certain circumstances may, and the Manager upon the direction of the Unitholders authorized by an Extraordinary Resolution will, terminate the Investment Management Agreement upon six months' prior written notice. In the event of the termination of the Investment Management Agreement as a result of the passing of a resolution by the Unitholders as described above, no payments need be made by the Manager to the Advisor or by the Advisor to the Manager, except for amounts owing as of the date of termination. The Advisor may terminate the Investment Management Agreement upon at least 20 business days' written notice given by the Advisor to the Manager if the Manager is in breach or default of any material provision of the Investment Management Agreement and, if capable of being cured, the breach or default has not been cured within twenty business days of written notice of such breach or default given by the Advisor to the Manager. In the event of such termination, no payments need be made by the Manager to the Advisor or by the Advisor to the Manager, except for amounts owing as of the date of termination.

In the Investment Management Agreement, the Advisor covenants to act at all times on a basis that is fair and reasonable to the Manager, to act honestly and in good faith with a view to the best interests of the Manager and, in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that the Advisor will not be liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Trust if it has exercised the degree of care, diligence and skill set forth above. The Advisor will incur liability, however, in cases of willful misconduct, bad faith, gross negligence or disregard of its duties or the standard of care, diligence and skill set forth above.

In the event that the Investment Management Agreement is terminated as provided above, the Manager will appoint a successor investment advisor to carry out the activities of the Advisor until a meeting of the Unitholders is held to confirm such appointment.

The Advisor will receive a portion of the fee payable by the Trust to the Manager in consideration of the Advisor's services to the Trust.

FEES AND OTHER EXPENSES

The Manager is responsible for the ongoing business of the Trust and monitoring the investment portfolio of the Trust. In consideration for these and other services and pursuant to the terms of the Trust Agreement and the Management Agreement, the Trust will pay to the Manager a quarterly management fee equal to one-quarter of 1.25% of the Net Asset Value at quarter end, paid quarterly in arrears, plus applicable taxes, provided that distributions to Unitholders are not in arrears and the Net Asset Value per unit of the Trust is not below \$18.79. If distributions to Unitholders are in arrears, management fees are deferred and are not paid or payable until any shortfall has been made up to Unitholders. The Manager pays a portion of the foregoing fee to the Advisor in consideration of the Advisor's services to the Trust.

The Trust pays for all expenses incurred in connection with the operation and administration of the Trust. These expenses include, without limitation: mailing and printing expenses for periodic reports to Unitholders; fees payable to the Trustee for acting as trustee of the Trust; fees payable to the Custodian (as hereinafter defined) for acting as custodian of the assets of the Trust; fees payable to the registrar and transfer agent for performing certain financial, record-keeping, Unitholder reporting and general administrative services; fees payable to the auditors, valuers, and legal advisors of the Trust; debt service fees (including set-up and commitment fees); ongoing regulatory filing fees and listing and other fees; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Trust; and any expenditures that may be incurred upon the termination of the Trust.

The Trustee will be entitled to receive an annual fee equal to 0.015% of the Net Asset Value calculated and paid quarterly in arrears.

Refer to the section entitled "Unitholder Meeting" on page 2 for revisions to the fees and other expenses approved by the Unitholders at a special meeting of the Unitholders held April 19, 2004.

DISTRIBUTIONS

The Trust endeavors to pay to Unitholders at the end of each quarter (the "Declaration Date") commencing December 31, 1997 cash distributions of at least \$0.40 per Unit (\$1.60 per Unit per annum) to the extent that the Net Asset Value per Unit (as of the month end preceding the Declaration Date) after giving effect to such distribution is greater than the Net Asset Value per Unit on the Closing Date (\$18.79).

If less than \$0.40 per Unit is distributed in any quarter, the amount of the shortfall shall be carried forward and paid in the next quarter, or quarters, to the extent that the Net Asset Value per Unit (as of the month end preceding the Declaration Date) after giving effect to such distribution is greater than \$18.79, the Net Asset Value per Unit on the Closing Date.

The Trust distributes in respect of each Unit on a quarterly basis a pro rata share of the net income of the Trust including any amount the Trust is required to include in computing its income as a result of its ownership of an offshore investment property. Such net income is included in the per Unit distribution, to the extent possible, and is paid to Unitholders regardless of the amount of the increase in the Net Asset Value per Unit of the Trust.

There can be no assurance that the Trust will be able to pay the minimum quarterly distributions of \$0.40. Unitholders will be entitled to receive declared distributions if they were Unitholders of record as of 5:00 p.m. (Toronto time) on the relevant Declaration Date. Distributions will be made within 20 business days after the Declaration Date (a "Distribution Date"). As at December 31, 2003 there were no distributions in arrear.

Holders of Units who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Trust. The Trust will withhold from the distributions and remit to the relevant tax authority all amounts required by law to be withheld and remitted. Non-residents should consult their tax advisors regarding the tax consequences of investing in Units.

Refer to the section entitled "Unitholder Meeting" on page 2 for revisions to the distributions approved by the Unitholders at a special meeting of Unitholders held April 19, 2004.

DISTRIBUTION REINVESTMENT PLAN

If a Unitholder so elects, quarterly distributions will be automatically reinvested in additional Units of the Trust. A Unitholder must elect to receive distributions in additional Units by notifying his or her dealer.

Distributions payable to participants in the Plan (the "Participants") are paid to CIBC Mellon Trust Company in its capacity as agent under the Plan (the "Plan Agent") and applied to purchase Units. Such purchases are either made through the purchase of new Units from the Trust or in the market. If the closing market price plus applicable commissions or brokerage charges (collectively, the "Market Price") of the Units on the Declaration Date is less than the Net Asset Value (as defined below under "Net Asset Value") per Unit as at that date, the Plan Agent will apply the distribution to purchase Units in the market. If the Market Price of the Units on the applicable Declaration Date is greater than the Net Asset Value per Unit, the Plan Agent will apply the distribution to purchase Units from the Trust through the issue of new whole Units at a price per Unit equal to the greater of (i) Net Asset Value per Unit on the Declaration Date; and (ii) 95% of the weighted average of the trading prices of the Units for the five trading days preceding the Declaration Date.

Purchases in the market are made during the 15 business day period next following the Declaration Date at such times as the Market Price of the Units is less than the Net Asset Value per Unit as at the Declaration Date. Upon the expiration of such period, the unused part, if any, of the distribution attributable to the Plan Participants is used to purchase Units from the Trust on the basis set forth above. The Units purchased in the market or from the Trust are allocated to the Plan Participants in proportion to their share of the distribution. The Plan Agent furnishes to each Plan Participant a report of the Units purchased for the Plan Participant's account in respect of each distribution and the cumulative total of all Units purchased for that account. The Trust does not issue fractional Units. A Plan Participant's *pro rata* entitlement to Units purchased under the Plan may include a fraction of a Unit in lieu of which a cash payment will be made by the Plan Agent. No certificates representing Units issued or purchased pursuant to the Plan are issued. The Plan Agent's charges for administering the Plan are paid by the Trust. The reinvestment of distributions under the Plan does not relieve Participants of any income tax applicable to such distributions.

Plan Participants may terminate their participation in the Plan at any time by written notice to the Plan Agent through his or her dealer and thereafter distributions payable to such Plan Participants will be made in cash. The Trustee may terminate the Plan, in its sole discretion, upon not less than thirty days' notice to the Plan Participants.

NET ASSET VALUE

The Manager, as of the last business day of each month (each, a "Valuation Date"), calculates the value of the Trust's assets as set forth below.

The net asset value of the Trust (the "Net Asset Value") is calculated by the Manager on each Valuation Date by subtracting the aggregate amount of the Trust's liabilities from the aggregate value of the Trust's assets (the "Total Assets"). The Total Assets are valued as follows:

- (i) the value of cash, receivables, prepaid expenses, dividends and interest declared or accrued and not yet received, is deemed to be the face value unless the Manager considers otherwise;
- (ii) the value of futures, options, or securities traded on a public exchange is the settlement price as published by the clearing house of the exchange;
- (iii) the value of over-the-counter options shall be the current market price thereof and the value of forward contracts shall be the gain or loss that would be realized if on such date the forward contracts were "closed out";
- (iv) the value of treasury bills and other money market instruments is the bid price for such instruments at the Toronto closing time on the Valuation Date;
- (v) the value of any unit or share of a private investment fund is the definitive net asset value reported by the administrator or fund manager of such fund on the Valuation Date or, if not available, the most recent provisional net asset value reported by the administrator or fund manager;
- (vi) the value of all other property of the Trust, and any property for which a third party valuation is not available, is the value as the Manager determines in its reasonable discretion most accurately reflects its fair value; and
- (vii) the value of any asset of the Trust measured in a foreign currency is valued at the rate of exchange current on the Valuation Date as determined by the Manager.

In valuing the liabilities of the Trust, the following are included: bills, amounts owing under the loan facility, accounts payable, fees and administrative expenses payable, contractual obligations for the payment of money or property, allowances for tax or contingencies and all other liabilities of the Trust of any kind and nature. The value of the liabilities of the Trust is determined as follows:

- (i) the value of all liabilities and contractual obligations is the value determined by the Manager to most accurately reflect fair value; and
- (ii) liabilities and contractual obligations payable in a foreign currency are valued at the rate of exchange current on the Valuation Date as determined by the Manager.

The value of any security or property to which, in the opinion of the Manager, the above principles cannot be applied (whether because no price or yield equivalent quotations are

available as above provided, or for any other reason) shall be the fair value thereof determined in good faith in such manner as the Manager from time to time adopts.

The Net Asset Value per Unit is the amount obtained by dividing the Net Asset Value as of a particular date by the total number of Units outstanding on that date. The Trust makes available to the financial press for publication in the next available weekend edition of a national newspaper the Net Asset Value per Unit as of the last business day of the previous month on the 15th business day of the month. At any time, a Unitholder may call 1-888-429-8774 or e-mail at mpt@northwatercapital.com to obtain the most recently published Net Asset Value per Unit.

Some hedge funds in which the Trust is invested provide a weekly value, the balance provide a monthly value. Hedge fund managers conventionally communicate the net asset value per share within 10 business days after the month end. The Trust does not invest in hedge funds that will not commit to these terms.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

PURCHASES FOR CANCELLATION

Units of listed investment trusts may trade at a discount from net asset value. In recognition of the possibility that the Units may trade at a discount, the terms and conditions attaching to the Units have been designed to attempt to reduce or eliminate a market value discount from Net Asset Value.

To that end, the Trust Agreement provides that if at any time the price at which Unitholders are then offering their Units for sale on The Toronto Stock Exchange (or such other exchange or market on which the Units are then listed) is less than 92.5% of the Net Asset Value per Unit determined as at the close of business on the preceding Valuation Date, then subject to certain exceptions described herein and compliance with any applicable regulatory requirements, the Trust is obligated to purchase any such Units offered in the market at the then prevailing market price up to a maximum amount in any calendar quarter of 2% of the number of Units outstanding at the beginning of such calendar quarter.

In addition, the Trust has the right (but not the obligation) at any time, exercisable in its sole discretion, to purchase Units in the market whenever Unitholders offer their Units for sale at less than Net Asset Value, subject to any applicable regulatory requirements and limitations. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of The Toronto Stock Exchange (or such other exchange or market on which the Units are then listed).

Notwithstanding the foregoing, purchases will not be effected if: (a) in the opinion of the Manager such transactions, if consummated, could result in the marketability of the Units being severely impaired to the detriment of the Unitholders; (b) in order to fund the purchase, the Trust is not able to liquidate portfolio securities in an orderly manner consistent with the Trust's Investment Strategy or, alternatively, it is not in the best interest of the Unitholders to do so; or (c) there is, in the judgment of the Manager (i) any material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Trust, or (ii) a suspension of or limitation on prices for trading securities generally on any exchange on which portfolio securities of the Trust are traded.

Units that have been purchased by the Trust are cancelled thereby reducing the Total Assets of the Trust but increasing the Net Asset Value per Unit for the Unitholders. If the Trust must liquidate portfolio securities in order to purchase Units, the Trust may realize gains and losses, which gains will be made paid or payable to Unitholders in the year they are realized.

There can be no assurance that purchases of Units by the Trust will result in the Units trading at a price that is equal to the Net Asset Value of the Units. The Trust anticipates that the market price of the Units will in any event vary from Net Asset Value. The market price of the Units will, among other things, be determined by the relative demand for and supply of Units in the market, the Trust's investment performance, the Unit's yield and investor perception of the Trust's overall attractiveness as an investment as compared with other investment alternatives. Nevertheless, the fact that the Units may be purchased by the Trust may reduce the potential spread between market price and Net Asset Value that might otherwise exist.

Although it is anticipated that actual Unit purchases generally may have a favourable effect on the market price of the Units, it should be recognized that the acquisition of Units by the Trust will decrease the Total Assets of the Trust and therefore have the effect of increasing the Trust's expense ratio.

In December 2003 the Trust made application to make normal course purchases of its Units in accordance with the Prospectus and the Trust Agreement. The Trust received approval to purchase up to 521,216 of the Units of the Trust representing 10% of the public float of the Trust. Purchases are made in the open market by BMO Nesbitt Burns Inc., on behalf of the Trust, through the facilities of The Toronto Stock Exchange in accordance with its rules and by-laws. The price that the Trust is required to pay for any Units so purchased will be the market price of such Units at the time of acquisition. Units purchased are cancelled.

UNITHOLDER MATTERS

Meetings of Unitholders

The Trustee may, at any time, convene a meeting of the Unitholders and is required to convene a meeting on receipt of a request in writing of the Manager or of Unitholders holding, in aggregate, 10% or more of the Units outstanding.

Any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval of Unitholders by extraordinary resolution (an "Extraordinary Resolution") as discussed below, requires the approval of Unitholders by a resolution passed by holders of not less than 50% of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider such matter consists of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units outstanding. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days nor more than 21 days later, selected by the Manager and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum. Each Unitholder is entitled to one vote per Unit held.

Notwithstanding the foregoing, certain matters will require the approval of Unitholders by Extraordinary Resolution. An Extraordinary Resolution is a resolution passed by holders of not less than 66 ²/₃% of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider a matter requiring the approval of Unitholders by Extraordinary Resolution consists of two or more Unitholders present in person or by proxy and representing not less than 50% of the Units then outstanding except, in the case of a meeting convened to extend the term of the Trust which will require the approval of Unitholders by Extraordinary Resolution consisting of two or more Unitholders present in person or by proxy representing not less than 10% of the Units then outstanding. See "Termination of the Trust".

Acts Requiring Unitholder Approval

The Trust Agreement may be amended with the consent of the Unitholders given by Extraordinary Resolution. However, unless all of the Unitholders consent thereto, no amendment can be made to the Trust Agreement that would have the effect of reducing the interest in the Trust of the Unitholders, increasing the liability of any Unitholder or changing the right of a Unitholder to vote at any meeting. No amendment can be made to the Trust Agreement that would have the effect of reducing the fees payable to the Manager or the terms for terminating the Manager unless the Manager, in its sole discretion, consents.

Notwithstanding the foregoing, the Manager is entitled, without the consent of the Unitholders, to make certain amendments to the Trust Agreement that are for the purpose of adding any provisions that, in the opinion of the Manager, are for the protection or benefit of the Unitholders or the Trust, for the purpose of curing an ambiguity or for the purpose of supplementing any provision that may be defective or inconsistent with another provision,

including without limitation, for the purpose of ensuring that the Trust Agreement and this prospectus are not inconsistent. The Manager must disclose such change in the next regularly scheduled report to Unitholders. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder or the Trustee.

Reporting to Unitholders

The Trust's fiscal year is the calendar year. A copy of the Trust's audited annual financial statements and an annual report will be mailed by the Manager to each Unitholder within 140 days following the end of each fiscal year. Within 60 days following March 31, June 30 and September 30 of each year, an unaudited quarterly report prepared in accordance with applicable regulatory requirements.

In addition, the Manager shall, on or before March 31 of each year, cause to be forwarded to each Unitholder of record on any Declaration Date of the preceding year information in a suitable form to enable the Unitholder to comply with his or her income tax reporting obligations relating to his or her interest in the Trust.

The Manager must keep adequate books and records reflecting the activities of the Trust. A Unitholder or his or her duly authorized representative has the right to examine the books and records of the Trust during normal business hours at the offices of the Manager. Notwithstanding the foregoing, a Unitholder shall not have access to any information that, in the opinion of the Manager, should be kept confidential in the interests of the Trust.

TERMINATION OF THE TRUST

The Trust will continue until December 31, 2007 (subject to extension as described below, the "Termination Date") and thereupon will terminate and the net assets of the Trust will be distributed to the Unitholders unless an alternative to termination is approved by the Unitholders as described below. Prior to the Termination Date, the Advisor will, to the extent practicable, convert the assets of the Trust to cash. The Manager may, in its discretion and upon not less than 30 days prior written notice to the Unitholders, extend the Termination Date to March 31, 2008 if the Advisor will be unable to convert all of the portfolio assets to cash and the Manager determines that it would be in the best interests of the Unitholders to do so.

Not less than 12 months nor more than 18 months prior to the Termination Date, the Manager may present a proposal to Unitholders providing an alternative to the dissolution of the Trust on the Termination Date. Such proposal could include, without limitation: (i) continuing the Trust; or (ii) exchanging the Units for units in one or more mutual funds or closed-end investment funds on or after the Termination Date. A meeting of Unitholders to consider such a proposal must be held at least 12 months prior to the Termination Date in order to give the Manager the opportunity to conduct an orderly liquidation of the assets of the Trust in the event that the Unitholders do not approve the proposal. In order to be

implemented, such proposal would require the approval of Unitholders by Extraordinary Resolution (and for any such Extraordinary Resolution a quorum even at an adjourned meeting will consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units then outstanding). Any such proposal may be conditional on such matters as the Manager considers are appropriate including, without limitation, obtaining any necessary regulatory approvals.

Refer to the section entitled "Unitholder Meeting" on page 2 for revisions to the termination of the Trust approved by Unitholders at a special meeting of Unitholders held April 19, 2004.

LOAN FACILITY

The Manager, on behalf of the Trust, has entered into a loan agreement (the "Loan Agreement") with a financial institution (the "Bank") and has a loan facility in place. The loan facility entitles the Trust to borrow funds in Canadian or U.S. dollars. The Loan Agreement contains terms and conditions customary for agreements of this nature.

The Loan Agreement permits the Trust to borrow up to an amount not exceeding 25% of the Net Asset Value of the Trust, for the purpose of purchasing additional investments in accordance with the Investment Objectives. In addition, the Trust may borrow on a temporary basis up to an amount not exceeding 10% of the Net Asset Value of the Trust for the purpose of (i) effecting market purchases of Units; (ii) maintaining liquidity to effect cash distributions; and (iii) settling currency hedging transactions.

The Trust has provided a security interest in its assets in favour of the Bank to secure such borrowings. Indebtedness of the Trust may consist of amounts borrowed under the Loan Agreement. In the event that the total amount borrowed by the Trust exceeds at any time 35% of the Net Asset Value of the Trust or \$37 million, the Manager must take appropriate steps with the Trust's investment portfolio in order that the amount of the indebtedness does not exceed 35% of the Net Asset Value of the Trust or \$37 million, including liquidating certain of the Trust's investments and using the proceeds thereof to reduce the Trust's indebtedness.

In the event of a default by the Trust under the Loan Agreement, the Loan Agreement provides that the Bank's recourse will be limited solely to the assets of the Trust.

RISK FACTORS

There are certain risks associated with an investment in the Units. Investors should consider the following risk factors before purchasing Units:

Reliance on the Advisor

The Trust is dependent on the knowledge and expertise of the Advisor for investment advisory and portfolio management services under the Investment Management Agreement. There is no certainty that the persons who are currently officers and directors of the Advisor will continue to be officers and directors of the Advisor throughout the term of the Trust.

Performance and Marketability of Underlying Securities

The Net Asset Value per Unit will vary in accordance with the value of the securities acquired by the Trust. The value of securities owned by the Trust will be affected by factors beyond the control of the Advisor or the Trust. The process of valuing investments for which no published market exists is based upon the value of the underlying holdings of the hedge funds supplied by the managers or administrators of the underlying hedge funds. These values may be provisional and thus, may be changed subsequently notwithstanding the fact that the Trust may have used such values in its calculation of Net Asset Value per Unit. Moreover, such values may differ from values that would have been by used by the Manager had a ready market existed for such investments and may differ from the prices at which such investments may be sold. It is likely that no adequate market will exist for securities acquired by the Trust.

Many hedge funds provide restrictions on redemptions and may suspend redemptions or delay the payment of proceeds of redemptions. Some hedge funds have adopted redemption “gates”, limiting the ability of investors to redeem over a particular period. In addition, many of the securities held by the Trust may be issued in private placement transactions and may be subject to legal or contractual restrictions on resale. In some instances, the sale of securities held by the Trust may require lengthy negotiations. If the Advisor determines that it is appropriate to acquire certain securities for the Trust, it may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to the Trust, if the market for such securities is particularly illiquid.

Borrowing

The Trust is entitled to, and may, incur indebtedness secured by the assets of the Trust. The ability of the Trust to borrow will increase the risk to Unitholders in the event that the securities purchased with the borrowed funds decline in value. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns.

No Guaranteed Return

There is no guarantee that an investment in Units will earn any positive return in the short or long term or that it will be able to achieve its investment objectives.

Layering of Fees and Expenses

The Trust invests in hedge funds and, as a result, Unitholders are subject to sales charges, management fees and expenses of the underlying hedge funds and those assessed by the Manager against the Trust.

No Guarantee of Market Neutrality

There is no guarantee that an investment in the Units will in fact demonstrate returns and volatility associated with a market-neutral strategy. In addition, there is no guarantee that the hedge funds in which the Trust is invested will execute their strategy successfully or that the strategy will have the results anticipated by the Advisor.

International Investments

The Trust has invested most of its assets in securities of foreign issuers. The risk of loss on foreign investments may be greater than risks associated with Canadian investments as often there is less available information about foreign entities due to the fact that they may not be subject to the government supervision and regulation and other disclosure requirements that apply to companies in Canada. In particular, offshore hedge funds generally lack regulatory oversight. Moreover, accounting, auditing and financial reporting standards and practices in other countries are not necessarily the same as in North America. If the accounting standards in another country do not require as much detail as North American accounting standards, it may be harder for the Manager to completely and accurately assess a hedge fund's financial condition. The hedge funds to which the Trust is exposed prepare financial statements, including annual audited financial statements, using U.S. or International accounting standards. Additionally, the Trust may be subject to taxes on income from foreign countries and the possibility of expropriation or confiscatory taxation.

Some hedge funds to which the Trust is exposed may invest in the securities of foreign issuers. The risk of loss on foreign investments may be greater than risks associated with North American investments as often there is less available information about foreign companies due to the fact that many companies are not subject to the uniform and extensive accounting, auditing and financial reporting standards and practices, government supervision and regulation and other disclosure requirements that apply to companies in North America. Risks associated with investment in the securities of foreign issuers also include the possible imposition of taxes on income from foreign countries, the possibility of expropriation or confiscatory taxation, adverse changes in investment or exchange control regulations, political instability that could affect investments in foreign countries, and potential restrictions on the flow of international capital. In addition, to the extent that a hedge fund invests in securities denominated in or traded in currencies other than the U.S. dollar, it will be subject to the risks inherent in the fluctuations of currency exchange rates. Foreign securities in less developed countries often trade with less frequency and volume than securities in developed countries and therefore may exhibit greater price volatility. Changes in foreign taxes and exchange rates will affect the value of foreign securities, particularly those securities that are denominated or quoted in foreign currencies. Also, international securities and commodities markets may not

move in correlation with each other or in directions anticipated by the hedge fund manager so that hedging activities may not be successful.

Certain hedge funds to which the Trust is exposed may have a limited amount of investments in securities of issuers in emerging market countries. To the extent that the hedge funds in which the Trust invests have such investments, the risks associated with foreign investing may be increased. Additionally, foreign investments made by the Trust may be subject to political risks, risks associated with changes in foreign exchange rates and foreign exchange control risks.

Currency Hedging

While the Trust will be hedged against currency fluctuations between Canadian and U.S. dollars, there is no guarantee that such techniques will be successful.

Compliance and Risk Management Systems

Both the Advisor and the Trust maintain significant compliance and risk management processes and systems to ensure active monitoring of the risk incurred by the Trust. However, to the extent that such compliance and risk management systems may not be sufficient to guard against all possible operational and other failures, such failures may increase the risks associated with such failures.

Possible Negative Impact of Regulation of Hedge Funds

The regulatory environment for hedge funds is evolving and changes to it may adversely affect the Trust. To the extent that regulators, such as the United States Securities and Exchange Commission, adopt practices of regulatory oversight in the area of hedge funds that create additional compliance, transaction, disclosure or other costs for hedge funds, Trust returns based upon hedge fund investments may be negatively affected. In addition, the regulatory or tax environment for derivative and related instruments is evolving and may be subject to modification by government or judicial action that may adversely affect the value of the investments held by the Trust. The effect of any future regulatory or tax change on the Trust is impossible to predict.

Status of the Trust

The Trust is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units and certain restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Trust.

Overall Investment Risk

All securities investments risk the loss of capital. The nature of the securities to be purchased and traded by the hedge funds to which the Trust is exposed and the investment techniques and strategies to be employed by the managers of such hedge funds may increase such risk. Moreover, the identification of investment opportunities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While the Advisor devotes its best efforts to advising the Trust, there can be no assurance that the Trust will not incur losses. Returns generated from the Trust's investments may not adequately compensate Unitholders for the business and financial risks assumed. A Unitholder should be aware that it may lose a substantial part of its investment in the Trust. Many unforeseeable events, including actions by various government agencies and domestic and international economic and political developments, may cause sharp market fluctuations that could adversely affect the Trust's portfolio and performance.

Potential Manager Conflicts of Interest

Subject to certain limitations, the Advisor may manage and advise client accounts in addition to the Trust and the Advisor intends to do so and may continue to solicit additional collective investment and separate accounts as well as other advisory relationships. The Advisor may have a conflict of interest in rendering advice to the Trust because the benefit the Advisor and its principals may receive from advising some other accounts may exceed the benefit from advising the Trust and, therefore, may provide an incentive to favour such other accounts. Furthermore, if the Advisor makes trading recommendations for such other accounts and the Trust's account at or about the same time, the Trust may be competing with such other accounts for the same or similar investment opportunities. Moreover, the directors and officers of the Advisor may also be directors and officers of other funds advised by the Advisor that invest in a similar manner to the Trust and thus, may have conflicting interests in fulfilling their fiduciary duties.

Trading at a Discount

Securities of investment trusts may not trade at net asset value and the Trust cannot predict whether Units will trade above, at or below Net Asset Value per Unit.

Loss of Investment

An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Changes in Taxation of Trust or Unitholders

There can be no assurance that income tax laws will not be changed in a manner that adversely affects the distributions received by the Trust or by the Unitholders.

Investments by the Trust

The Trust may be investing in Units of other Trusts and there is a risk that such investments may cause the Trust to incur liabilities derived from ownership of such Units.

Fluctuations in Quarterly Distributions

Quarterly distributions made by the Trust will vary with fluctuations in the net asset value of the Trust.

Conflict of Interest

The Advisor, its respective directors and officers and its respective affiliates and associates may engage in the promotion, management or investment management of any other fund that invests primarily in hedge fund securities.

Although none of the directors or officers of the Manager devotes his or her full time to the business and affairs of the Trust or the Manager, each devotes as much time as is necessary to supervise the management of (in the case of the directors) or to manage (in the case of the officers) the business and affairs of the Manager and the Trust.

Unitholder Liability

The Trust Agreement provides that no Unitholder shall be subject to any liability whatsoever, in tort, contract or otherwise, to any person in connection with Trust property or the obligations or the affairs of the Trust and all such persons shall look solely to the Trust property for satisfaction of claims of any nature arising out of or in connection therewith and the Trust property only shall be subject to levy or execution. Notwithstanding the foregoing statement in the Trust Agreement, because of uncertainties in the law relating to investment trusts such as the Trust, there is a risk that a Unitholder could be held personally liable for obligations of the Trust. It is intended that the Trust's operations be conducted in such a way as to minimize any such risk. In particular, the Advisor will follow the Investment Objectives and the Investment Strategy of the Trust and, where feasible, will use its best efforts to cause every written contract or commitment of the Trust, including any agreement related to the borrowing of money, to contain an express disavowal of liability upon the Unitholders. It is considered that the risk of any personal liability of Unitholders is minimal in view of the anticipated equity of the Trust, the nature of its activities, the intention of the Manager, where feasible, to require that any agreement which is related to the borrowing of money by the Trust include an express disavowal of liability of Unitholders and the limit of the indebtedness which may be incurred by the Trust. In the event that a Unitholder should be required to satisfy any obligation of the Trust, such Unitholder will be entitled to reimbursement from any available assets of the Trust. To the extent that the Trust invests in units of other trust vehicles, the Trust may be subject to the same risk described herein.

Competition

The hedge fund markets in which the Trust invests are extremely competitive. Furthermore, these markets have experienced unprecedented inflows of capital in recent years, which should be expected to increase competition for attractive investment opportunities and to reduce expected investment returns. Certain hedge funds have since closed to new investors. There can be no assurance that the Trust will be able to identify or successfully pursue attractive investment opportunities in this environment.

General Market History

The months of August through October 1998 saw extraordinary events in the fixed-income markets generally and in the investment fund area specifically. These events included the default by Russia on certain of its debt, a flight to quality (e.g. to US Treasuries) by investors worldwide, extreme volatility in emerging markets and other credit-sensitive debt, insolvencies of and large losses at numerous investment funds and the U.S. government-arranged bailout of a prominent hedge fund. These events are illustrative of the effect that general market developments can have on investment funds such as those of the Trust, and there can be no assurance that general market developments in the future will not have a material adverse effect on the Trust.

Indemnification of Hedge Funds by the Trust

The Trust may agree to indemnify certain of the hedge funds in which it is invested from any liability, damage, cost or expense arising out of, among other things, certain acts or omissions relating to the offer or sale of units or shares of such hedge funds. The managers of such hedge funds often have broad indemnification rights and limitations on liability.

Overall Investment Risk

All securities investments risk the loss of capital. The nature of the securities to be purchased and traded by the Trust and by the hedge funds in which it is invested and the investment techniques and strategies to be employed by the managers of such hedge funds may increase such risk. Moreover, the identification of investment opportunities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While the Advisor devotes its best efforts to advising the Trust, there can be no assurance that the Trust will not incur losses. Returns generated from the Trust's investments may not adequately compensate Unitholders for the business and financial risks assumed, including the risk associated with the use of leverage. A Unitholder should be aware that it may lose a substantial part of its investment in the Trust. Many unforeseeable events, including actions by various government agencies and domestic and international economic and political developments, may cause sharp market fluctuations that could adversely affect the Trust's portfolio and performance.

MATERIAL CONTRACTS

Material contracts that have been entered into by the Trust since its formation, other than contracts entered into in the ordinary course of business, are as follows:

1. the Trust Agreement between the Trustee and the Manager referred to under "Management of the Trust - The Trustee";
2. the Management Agreement between the Manager on behalf of the Trust and the Manager referred to under "Management of the Trust - the Manager";
3. the custody agreement (the "Custody Agreement") made among the Manager on behalf of the Trust, the Manager and The Royal Trust Company (the "Custodian") referred to under "Trustee and Custodian";
4. the registrar and transfer agency agreement among the Manager on behalf of the Trust, and CIBC Mellon Trust Company referred to under "Registrar and Transfer Agent"; and
5. the Loan Agreement among the Manager on behalf of the Trust and the Bank referred to under "Loan Facility".

THE TRUSTEE

The Canada Trust Company ("Canada Trust") was appointed a trustee of the Trust pursuant to the Trust Agreement. Since its appointment as trustee, Canada Trust sold its pension and institutional trust business to CIBC Mellon Trust Company ("CIBC Mellon"). CIBC Mellon acted as trustee to the Trust as a result of this transaction from March 1, 1999 to August 17, 1999. Since August 17, 1999, The Royal Trust Company has acted as Trustee. The address of the Trustee is P.O. Box 7500, Royal Trust Tower, Toronto, Ontario, M5W 1P9.

The Trustee or any successor trustee may resign upon 90 days written notice to Unitholders and to the Manager or may be removed with the approval of a majority of the votes cast at a meeting of Unitholders called for such purpose with two or more persons present in person or by proxy representing not less than 10% of the Units then outstanding. Any such resignation or removal shall become effective only on the appointment of a successor trustee. If, after the resignation of the Trustee, no successor has been appointed within 90 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

The Trust Agreement provides that the Trustee will not be liable in carrying out its duties under the Trust Agreement except in cases of willful misconduct, bad faith, negligence or disregard of its obligations and duties that are not delegated to the Manager under the Trust Agreement or in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee is entitled to receive fees from the Trust as described under "Fees and Expenses" and to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Trust.

CUSTODIAN

The Canada Trust Company ("Canada Trust") was appointed as custodian of the securities comprising the investment portfolio of the Trust pursuant to an agreement made as of July 18, 1997. Since its appointment as custodian, Canada Trust sold its pension and institutional trust business to CIBC Mellon Trust Company. CIBC Mellon acted as custodian to the Trust as a result of this transaction from March 1, 1999 to August 17, 1999. On August 17, 1999 The Royal Trust Company was appointed custodian to the Trust.

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company acts as transfer agent and registrar for the Trust at 320 University Avenue, 5th Floor Toronto, Ontario, M5H 4A6. In addition to performing registrar and transfer agency services, CIBC Mellon Trust Company provides certain record-keeping, Unitholder reporting and general administrative services pursuant to the registrar and transfer agency agreement made as of July 18, 1997.

AUDITORS

The auditors of the Trust are PricewaterhouseCoopers LLP, Suite 3000, Box 82, Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario, M5K 1E6.

ITEM 4: SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following summary of financial information has been derived from the financial statements of the Trust. This information should be read in conjunction with the Financial Statements specifically incorporated herein by reference. There have been no changes in accounting policies and no changes in the investment strategy of the Trust. The Trust commenced operations on July 30, 1997.

Distribution History:

YEAR	TYPE	PER UNIT	TOTAL
2003	Return of capital	\$0.04317	\$ 226,142
	Net income	4.21072	22,053,863
	Realized gain	<u>0.82611</u>	<u>4,326,795</u>
		<u>\$5.08000</u>	<u>\$26,606,800</u>
2002	Return of capital	\$1.08	\$5,909,697
2001	Return of capital	\$2.17	\$12,475,419
2000	Return of capital	\$2.89	\$17,757,559
1999	Return of capital	\$0.57	\$3,663,823
1998	Return of capital	\$0.69	\$5,909,858
1997	Not applicable	Nil	Nil

For a full discussion of the Trust's distribution policy, please see page 10.

(All figures in Canadian dollars)	For the year ended	For the quarter ended		
	<u>December 31, 2003</u>	<u>September 30, 2003</u>	<u>June 30, 2003</u>	<u>March 31, 2003</u>
Total income	115,487	17,598	30,919	48,296
Net income from operations	9,420,485	966,906	3,877,018	2,485,108
Net income per unit *	1.80	0.18	0.74	0.47
Total assets	121,323,496	121,634,550	123,989,597	126,019,043
Bank loan	19,225,073	21,412,039	21,517,747	23,489,409
Net assets and unitholders' equity	82,788,506	99,918,895	99,161,491	98,531,760

* based on average number of Units outstanding for the period

(All figures in Canadian dollars)	For the year ended	For the quarter ended		
	<u>December 31, 2002</u>	<u>September 30, 2002</u>	<u>June 30, 2002</u>	<u>March 31, 2002</u>
Total income	192,052	48,097	55,663	40,083
Net income from operations	7,993,620	276,921	1,282,671	2,400,940
Net income per unit *	1.45	0.05	0.23	0.42
Total assets	129,555,734	127,962,810	132,727,842	135,113,967
Bank loan	25,254,941	25,354,035	25,799,831	27,069,220
Net assets and unitholders' equity	101,834,209	102,103,773	104,192,349	107,577,815

* based on average number of Units outstanding for the period

(All figures in Canadian dollars)	For the year ended	For the quarter ended		
	<u>December 31, 2001</u>	<u>September 30, 2001</u>	<u>June 30, 2001</u>	<u>March 31, 2001</u>
Total income	281,679	30,707	130,945	84,556
Net income from operations	10,841,484	3,298,413	2,249,793	6,940,328
Net income per unit *	1.89	0.58	0.39	1.20
Total assets	132,907,382	140,214,910	138,975,513	149,970,603
Bank loan	27,055,187	30,345,340	26,859,775	33,660,325
Net assets and unitholders' equity	105,773,541	107,425,839	107,206,533	110,826,845

* based on average number of Units outstanding for the period

(All figures in Canadian dollars)	For the year ended	For the quarter ended		
	<u>December 31, 2000</u>	<u>September 30, 2000</u>	<u>June 30, 2000</u>	<u>March 31, 2000</u>
Total income	812,441	129,478	307,627	295,956
Net income from operations	14,955,071	3,992,978	3,791,506	6,290,890
Net income per unit *	2.45	0.66	0.62	1.00
Total assets	142,728,561	149,217,522	156,462,961	156,152,032
Bank loan	29,511,017	30,548,932	34,425,772	30,001,072
Net assets and unitholders' equity	111,140,383	114,137,600	116,450,964	119,961,941

* based on average number of Units outstanding for the period

(All figures in Canadian dollars)	For the year ended	For the quarter ended		
	<u>December 31, 1999</u>	<u>September 30, 1999</u>	<u>June 30, 1999</u>	<u>March 31, 1999</u>
Total income	2,185,438	496,220	629,543	487,732
Net income from operations	16,260,295	2,292,592	5,860,975	4,430,671
Net income per unit *	2.42	0.35	0.87	0.62
Total assets	155,145,153	156,666,680	155,690,082	153,968,419
Bank loan	29,300,058	32,497,832	31,057,978	31,968,349
Net assets and unitholders' equity	121,925,046	124,048,356	124,432,871	121,851,048

* based on average number of Units outstanding for the period

(All figures in Canadian dollars)	For the year ended	For the quarter ended		
	<u>December 31, 1998</u>	<u>September 30, 1998</u>	<u>June 30, 1998</u>	<u>March 31, 1998</u>
Total income	3,188,333	633,563	1,076,842	631,380
Net income from operations	(17,264,732)	(21,544,848)	(1,717,077)	4,037,377
Net income per unit *	(2.11)	(2.67)	(0.20)	0.46
Total assets	153,254,621	171,511,456	201,582,198	215,682,917
Bank loan	30,129,151	44,024,705	41,582,287	44,945,326
Net assets and unitholders' equity	123,031,606	126,169,715	156,513,387	167,517,044

* based on average number of Units outstanding for the period

(All figures in Canadian dollars)	For the Period from July 30, 1997 (date of commencement of operation) to	
	<u>December 31, 1997</u>	<u>September 30, 1997</u>
Total income	380,635	79,089
Net income from operations	1,853,576	2,657,233
Net income per unit*	0.21	0.30
Total assets	206,023,611	195,293,312
Bank loan	39,002,517	27,292,815
Net assets and unitholders' equity	166,674,246	167,495,233

* based on average number of Units outstanding for the period

The monthly Net Asset Value per Unit for the Trust was as follows:

Net Asset Value Per Unit (since inception)

(in Canadian dollars)

	Jan. 31st	Feb. 28th	Mar. 31st	Apr. 30th	May 31st	June 30th	July 31st	Aug. 31st	Sept. 30th	Oct. 31st	Nov. 30th	Dec. 31st
2003	19.50	19.54	18.81	19.12	19.41	18.93	18.80	18.83	19.08	19.24	19.41	15.81
2002	18.88	18.86	18.95	19.12	19.27	18.72	18.66	18.87	18.72	18.99	19.24	19.05
2001	19.38	19.71	19.14	19.35	19.63	18.70	18.89	19.20	18.88	18.94	18.55	18.59
2000	19.35	19.76	19.08	19.42	19.67	18.90	19.30	19.52	18.91	19.15	19.10	18.81
1999	17.07	17.15	17.45	17.99	18.29	18.46	18.76	18.73	18.88	19.09	19.36	18.97
1998	18.98	19.11	19.15	19.33	19.16	18.62	18.64	16.44	16.08	15.93	16.47	16.63
1997							18.79	18.78	19.09	18.64	18.71	19.00

ITEM 5: MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the heading Management's Discussion and Analysis on pages 4 to 12 of the Annual Report of the Trust, which information is incorporated herein by reference.

ITEM 6: MARKET FOR SECURITIES

The Units are listed and posted for trading on The Toronto Stock Exchange under the symbol NMN.UN.

ITEM 7: DIRECTORS AND OFFICERS

The Trust is a closed-end investment trust and, as such, has no officers or directors. Disclosure under this item is for the Manager and for the Advisor.

Officers and Directors of the Manager

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are as follows:

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
DAVID G. PATTERSON, M.B.A. Toronto, Ontario	Chairman and Director	Chairman and Chief Executive Officer, Northwater Capital Management Inc.
JAMES D. SINCLAIR, LL.B. Unionville, Ontario	Secretary and Director	Vice-President, Chief Legal Officer and Assistant Secretary, Northwater Capital Management Inc.
BENITA M. WARMBOLD, C.A. Scarborough, Ontario	Treasurer and Director	Managing Director and Chief Financial Officer, Northwater Capital Management Inc.
DANIEL C.R. MILLS, C.F.A. Mississauga, Ontario	Vice-President and Director	Managing Director and Chief Investment Officer, Northwater Capital Management Inc.

All of the directors and officers of the Manager have held their current offices or other executive offices with the above companies or their affiliates for at least five years.

Officers and Directors of the Advisor

The name, municipality of residence, position with the Advisor and principal occupation of each of the directors and officers of the Advisor are as follows:

<u>Name and Municipality</u>	<u>Position with the Advisor</u>	<u>Principal Occupation</u>
DAVID G. PATTERSON, M.B.A. Toronto, Ontario	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer
PAUL W. ROBSON, M.B.A., C.F.A. Mississauga, Ontario	Managing Director and Director	Managing Director
BENITA M. WARMBOLD, C.A. Scarborough, Ontario	Managing Director, Chief Financial Officer and Director	Managing Director and Chief Financial Officer
DANIEL C.R. MILLS, C.F.A. Mississauga, Ontario	Managing Director and Chief Investment Officer	Managing Director and Chief Investment Officer
WARREN A. WRIGHT, C.F.A. Oakville, Ontario	Managing Director	Managing Director
R. ANNE PATTERSON, M.B.A., C.M.C. Toronto, Ontario	Executive Vice-President and Director	Executive Vice-President
DENNIS G. COOK, C.M.C., C.H.R.P. Toronto, Ontario	Executive Vice-President	Executive Vice-President
JAMES D. SINCLAIR, LL.B. Unionville, Ontario	Vice-President, Chief Legal Officer and Assistant Secretary	Vice-President, Chief Legal Officer and Assistant Secretary
HEATHER L. BROUGHTON, M.B.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
SHAUNA L. CASSIDY, C.F.A. Toronto, Ontario	Vice-President	Vice-President
A. MICHAEL DERZKO New York, New York	Vice-President *	Vice-President *
DAVID S. FINCH, C.F.A. Toronto, Ontario	Vice-President	Vice-President
DAVID J. FLETCHER, C.F.A. Pickering, Ontario	Vice-President	Vice-President
SIMON J. GRIFFITHS, M.Sc. Toronto, Ontario	Vice-President	Vice-President
SCOTT C. HENSHAW, M.E.C., M.B.A. Toronto, Ontario	Vice-President *	Vice-President *

<u>Name and Municipality</u>	<u>Position with the Advisor</u>	<u>Principal Occupation</u>
CRAIG H. HIPPERN, C.A., C.P.A. Mississauga, Ontario	Vice-President	Vice-President
SHIRLEY A. HOPE Toronto, Ontario	Vice-President	Vice-President
ELISE R. HUBSHER, M.B.A. Bronx, New York	Vice-President	Vice-President
ADRIAN HUSSEY, M.B.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
VIKASH JAIN, M.Sc., C.F.A. Etobicoke, Ontario	Associate, Trading Officer	Associate, Trading Officer
EVE N. JEDRZEJEWSKA, C.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
JAMES E. KEATES, C.A., M.B.A. Toronto, Ontario	Vice-President *	Vice-President *
MOHAMED S. KHAKI, A.S.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
DANIEL S. LAWEE, M.B.A. Toronto, Ontario	Vice-President *	Vice-President *
HOWARD M.H. LEE, M.Sc. Toronto, Ontario	Vice-President	Vice-President
TIMOTHY E. LUSH Jersey City, New Jersey	Vice-President	Vice-President
DAVID MARLEAU, F.S.A., F.C.I.A. Toronto, Ontario	Associate, Trading Officer	Associate, Trading Officer
SUSAN L. NAYLOR, C.A. Burlington, Ontario	Vice-President	Vice-President
HARRY R.L. PATTERSON., C.F.A. Toronto, Ontario	Vice-President *	Vice-President *
PETER B. SCHENDEL C.F.A. Toronto, Ontario	Vice-President	Vice-President
MARK P. SMITH, M.B.A. New York, New York	Vice-President *	Vice-President *
JENNY J. WANG, M.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President

* subject to regulatory approval

All of the directors and officers of the Advisor have held their current offices or other executive offices with the above companies or their affiliates for at least five years except for: Mr. Cook who between March 2002 and June 2003 was Vice President with the Advisor, between November 1999 and February 2002 was Director, Deloitte & Touche LLP, and prior to November 1999 was Vice President, A. T. Kearney Executive Search; Mr. Derzko who prior to February 2004 was Associate with the Advisor; Mr. Finch who prior to May 2002 was Vice President, ING Investment Management Inc.; Mr. Fletcher who between May 1998 and May 2001 was Portfolio Manager, Ontario Municipal Employees Retirement; Mr. Henshaw who between October 2003 and February 2004 was Associate with the Advisor, and prior to October 2003 was Associate Director, UBS Securities Canada Inc.; Mr. Hippern who prior to January 2002 was Assistant Vice President, Bank of Butterfield; Ms. Hubsher who prior to January 2003 was Vice President, Equity Derivatives, JP Morgan; Mr. Hussey who prior to October 2002 was Vice President, Senior Portfolio Manager, Elliott and Page; Mr. Jain who between October 2000 and November 2003 was Associate with the Advisor, between January 2000 and September 2000 was Oil Broker, Radix Energy Ltd., and prior to January 2000 was Editor (Asia), Petroleum Argus Pte Ltd.; Mr. Keates who prior to December 2003 was Senior Manager, PricewaterhouseCoopers; Mr. Khaki who prior to June 2003 was Senior Consultant, Frank Russell Canada Limited; Mr. Lawee who between August 2002 and February 2004 was Associate with the Advisor, and prior to August 2002 was Vice President, Foreign Exchange, TD Securities; Mr. Lush who between June 2000 and November 2000 was Project Manager, Deep Bridge, and prior to June 2000 was Project Manager, Inacom Professional Services; Mr. Marleau who between June 1999 and July 2003 was Assistant Portfolio Manager, ING Investment Management, Inc. and prior to June 1999 was Actuarial Analyst, AON Consulting Inc.; Ms. Naylor who between November 2000 and April 2001 was on a Finance Contract with Electrical Safety Authority, between August 2000 and September 2000 was Chief Financial Officer, Ontario Energy Savings Corp., between January 2000 and August 2000 was Chief Financial Officer, Hartford Investment Canada Corp., and prior to December 1999 was Chief Financial Officer, Laketon Investment Management; Mr. H. Patterson who between January 2001 and February 2004 was Associate with the Advisor, and prior to January 2001 was Business Analyst, Geophysical Applications; Mr. Schendel who between January 2001 and August 2001 was Associate with the Advisor, and prior to January 2001 was Portfolio Manager, Strathy Investments Ltd. and Mr. Smith who between July 2002 and February 2004 was Associate with the Advisor, between September 2000 and May 2002 was a full time student at Columbia Business School, and between April 1998 and August 2000 was Assistant Portfolio Manager, Southport Management Group.

ITEM 8: ADDITIONAL INFORMATION

Copies of the Annual Report may be obtained upon request from the Secretary of the Manager, James D. Sinclair, at the offices of the Trust.