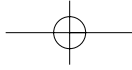
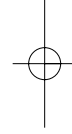
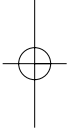


NEWCASTLE MARKET-NEUTRAL TRUST

NEWCASTLE

**Newcastle Market-Neutral Trust
December 31, 1998
Annual Report**

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MESSAGE TO UNITHOLDERS FROM THE ADVISOR

Message to Unitholders from the Advisor

The Newcastle Market-Neutral Trust (the "Trust") is a diversified portfolio of market-neutral hedge funds, which is traded on The Toronto Stock Exchange and The Montreal Exchange. As of December 31, 1998, the net asset value of the Trust was \$16.63, a rise of 3.39% for the fourth quarter. Over the year, the net asset value of the Trust declined 9.28%, taking into account a total of \$0.69 in distributions.

While the Trust experienced strong positive results in the fourth quarter of 1998, the loss of 13.63% in the third quarter more than offset the gains. The third quarter proved to be difficult for all market participants, triggering a flight to quality and a dramatic drop in the liquidity of assets, including assets held by the Trust. As liquidity in the market evaporated, bid-ask spreads widened, and credit spreads moved to historic levels. Banks, investment dealers and other professional investors (the traditional providers of liquidity to the markets) all suffered losses. The diversity of the Trust's portfolio, however, helped mitigate these losses.

The confluence of events that hurt the performance of the Trust in the third quarter was unique in market history. It is our view that the returns experienced by the Trust in the other three quarters of 1998 are more representative of expected returns for an investment of this nature. Since the low at the end of October, the net asset value of the Trust advanced by 4.36% to close out the year.

By year end, much of the uncertainty in the market had lifted, and concerns about liquidity abated. The Trust experienced these benefits and was poised to take advantage of the new confidence in the marketplace. The events of the Fall meant that by year end there were fewer players in the markets in which the Trust participates. With fewer players chasing a rising number of opportunities, returns are expected to revert to traditional levels for market-neutral hedge funds.



DAVID G. PATTERSON
President



GEORGE I. MAIN, CFA
Chief Investment Officer

March 31, 1999

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Investment Objectives

The Trust's investment objectives are:

1. Distribute \$0.40 per unit per quarter (\$1.60 per annum)
2. Steadily grow the net asset value
3. Ensure that the performance of the Trust is substantially independent of fixed income and equity markets
4. Achieve 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

The Trust comprises market-neutral hedge funds that have excellent expected returns as well as performance histories that have a low correlation with major equity and debt markets. In establishing the hedge fund "mix," the Advisor selects strategies that also have a low correlation with one another, thereby increasing diversification and reducing expected volatility.

Investment Activity

During the year, as part of its regular investing activities, the Trust made investments with eight new hedge fund managers and redeemed investments from seven other managers. As at December 31, 1998, the Trust was invested in 22 hedge funds with 21 managers engaged in seven unique market-neutral or hedged investment strategies.

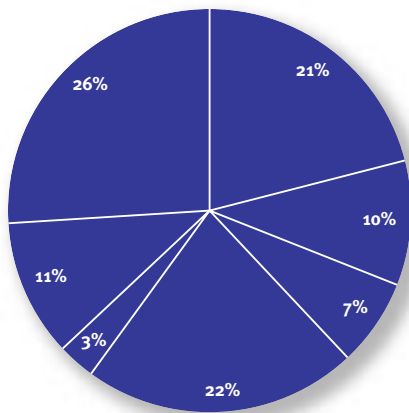
As at the year end, the Trust had subscribed for investment in one fund in the amount of \$1,529,500, to become effective January 1, 1999. The Trust had also requested redemptions from four hedge funds in the aggregate amount of \$11,394,089, which became effective December 31, 1998.

Asset Allocation by Investment Strategy

Hedge Fund Investments

As at December 31, 1998

| | | |
|-----|--|--------------|
| 21% | Convertible arbitrage (5 hedge funds) | \$27,688,045 |
| 10% | Distressed securities (3 hedge funds) | 13,055,518 |
| 7% | Fixed income arbitrage (2 hedge funds) | 8,918,406 |
| 22% | Loan origination (3 hedge funds) | 30,068,038 |
| 3% | Long-short equity (2 hedge funds) | 3,466,179 |
| 11% | Mortgage-backed securities arbitrage (2 hedge funds) | 14,322,475 |
| 26% | Risk arbitrage (5 hedge funds) | 36,794,268 |



At year end, the Trust was invested in 22 hedge funds, representing seven unique, complementary strategies. The Trust has continued to diversify and rebalance its portfolio toward an optimal mix by divesting and adding managers. This wide array of hedge fund investments has created broad diversification, through which the Trust seeks to achieve its risk/return objectives and market neutrality.

Review of Financial Results

Returns

The Trust's return for the year was -9.28%. The Trust experienced a difficult third quarter as did other market participants. These industry-wide difficulties significantly contributed to the Trust's overall negative performance. However, the Trust experienced a turnaround at the end of the year, posting positive returns since the end of October, which have continued into the first quarter of 1999.

Given the trading discounts prevalent in the market, the Trust took advantage of the share buy-back and cancellation program during the year to provide additional returns to the Unitholders. Over the year, this program contributed 2.56% to returns.

Unit Value/Unit Price

The Trust's net asset value per unit is calculated and reported monthly. For the year ended December 31, 1998, the net asset value of the Trust fell from \$19.00 per unit to \$16.63 per unit. The decline in the net asset value reflects the negative impact of the unique events of the third quarter.

The trading price of the units of the Trust fluctuated between \$9.50 and \$19.15 during the year. We believe that this volatility can be attributed to the liquidity crisis that developed in the third quarter, and affected confidence levels of most market participants. Another factor was the negative climate that affected closed-end income trusts in particular. Market price fluctuations have been relatively high given the corresponding movements in the net asset value of the Trust, which had a high of \$19.33 and a low of \$15.93 during the year.

Distributions

The Trust uses the net asset value for the month prior to a quarter end in order to determine distributions. Distributions are permitted under the trust agreement as long as the net asset value of the Trust at such time is greater than the initial net asset value of the Trust of \$18.79. During the year, the Trust made distributions for two of the quarters, totalling \$0.69 per unit (\$5,909,858 in aggregate). As at the year end, distributions in arrears amounted to \$1.31 per unit (\$9,148,123 in aggregate). The distributions in arrears will be paid to investors, on a quarterly basis, as they are earned. Newcastle's interests are aligned with those of the investor: as long as there are any distributions owing to the investors, Newcastle's management fee is not paid.

Distribution History

| Date distribution declared | Date distribution paid | Character of distribution for tax purposes | Amount per unit |
|----------------------------|------------------------|--|-----------------|
| March 31, 1998 | April 22, 1998 | Return of capital | \$0.32 |
| June 30, 1998 | July 21, 1998 | Return of capital | \$0.37 |

Net Investment Income

For the year ended December 31, 1998, the Trust's net loss from operations was \$17,264,732. The net realized loss on disposition of hedge fund investments of \$19,107,361 was a key contributing factor. This loss excludes the positive impact of currency, which amounted to \$9,886,440, because the Trust employs currency hedging to mitigate any currency gains or losses.

For the year ended December 31, 1998, the gain due to currency exchange on hedge fund investments, which are denominated in US dollars, amounted to \$13,803,377 (realized gain: \$9,886,440; unrealized gain: \$3,916,937). This gain was offset by net losses on currency hedging of \$13,544,934 (realized loss: \$18,838,977; unrealized gain: \$5,294,043). The Trust experienced currency translation losses on assets and liabilities other than hedge fund investments throughout the year. These losses amounted to \$1,658,282.

Total income of \$3,188,333, less total expenses of \$2,865,482, generated a net operating income of \$322,851. Expenses included \$2,641,081 in interest and standby fees on loans with a Canadian financial institution.

The ratio of expenses to the weighted-average net assets for the year, excluding loan interest and standby fees, was 0.15%. If management fees had been paid or payable by the Trust over this period, the ratio would have been 1.40%.

Investment Advisor's Comments on Prospects for the Trust

As a result of the unusual events that occurred during the third quarter of 1998, the Trust experienced a difficult year. However, the Advisor still expects the Trust to appreciate in value over and above the amount necessary to permit the \$0.40 per unit quarterly distribution. The recent turnaround in the markets, as well as the diversified mix of investment strategies, encourages management to believe that the Trust's objectives will be met.

Unitholder Matters

In response to inquiries and suggestions received from investors, a proposal was developed and mailed to investors during the fourth quarter. The proposal was intended to facilitate the making of distributions and provide investors with an alternative manner by which to dispose of their units at a level nearer to the Trust's net asset value.

A special meeting of the Unitholders of the Trust was held February 9, 1999 to consider these proposals. The Unitholders present in person and by proxy at the meeting voted to turn down the proposals and thus to continue the operation of the Trust as originally conceived. Accordingly, the Trust will not be providing a limited right of redemption nor will it be changing the manner in which distributions are paid.

Year 2000

Within Newcastle (the Advisor), all software (operating systems, packaged applications, and proprietary applications), hardware, network equipment and communications systems equipment have been analysed and have been deemed Year 2000-ready. In all but a few cases, Year 2000 recognition was accommodated in the original design and manufacture (virtually all Newcastle technology is less than three years old). In the remaining cases, minor modifications were required and have been completed.

For added confirmation, tests were conducted to ensure that all systems that handle investment-related transactions did in fact recognize Year 2000 dates without difficulty. All such testing has been completed and systems are deemed Year 2000-ready.

Newcastle is monitoring reports from external counterparties and has established a plan to anticipate and respond to potential contingencies.

Pursuant to National Instrument 33-106: Year 2000 Preparation Reporting, Newcastle, as Advisor, filed with the Ontario Securities Commission and the Quebec Securities Commission a Year 2000 Survey on October 30, 1998, a Year 2000 Management Certificate on October 30, 1998 and a follow-up Certificate on January 19, 1999. The Certificate documents provide details of Newcastle's Year 2000 plan, progress against the plan, and target dates for completing milestones, including testing.

Purchases for Cancellation

Under its trust agreement, the Trust is required to make purchases of units of up to 2% of the outstanding units per quarter if the price at which the units trade is less than 92.5% of the net asset value per unit as at the close of business on the preceding valuation date. In addition, the Trust may purchase units whenever they are offered for sale at less than their net asset value.

In December 1998, the Trust filed a notice of intention to make normal-course purchases of its units with the Toronto and Montreal stock exchanges. In its filing with the exchanges, the Trust indicated an intention to purchase up to 744,595 of the units of the Trust, representing 10% of the public float of the Trust then outstanding. In accordance with exchange rules and bylaws, the Trust may not pay more than the most recent market price for the units purchased. Units purchased under the bid are to be cancelled.

During the year ended December 31, 1998, the Trust purchased 1,372,400 units for cancellation.

Distribution Reinvestment Plan

The Trust offers investors the opportunity to enroll in a Distribution Reinvestment Plan (the "Plan"). The Plan allows investors to conveniently acquire additional units of the Trust by reinvesting their cash distributions. Purchases are made in the market if units of the Trust are trading at a price that is less than their net asset value. If units of the Trust are trading at a price that is greater than their net asset value, new units will be issued at a price that is the greater of their net asset value or 95% of the weighted average of the trading prices of the units over the five-day period prior to the declaration of the distribution. There were no purchases made under this plan during 1998.

The Dividend Reinvestment Plan is a way to participate in the growth of the Trust. There is no charge to the participant for enrolment in the Plan.

If you are a registered Unitholder and are interested in enrolling in the Plan, please complete an enrolment form and send it to the Plan Agent: CIBC Mellon Trust, P.O. Box 7010, Adelaide Street Postal Station, Toronto, Ontario M5C 2W9, or call 1-800-387-0825.

If you are the owner of units in an account with a broker, trust company or bank, you may provide direction accordingly to enroll your units in the Plan.

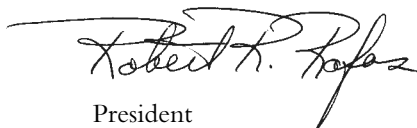
MANAGEMENT'S RESPONSIBILITY

Management's Responsibility


The accompanying financial statements have been prepared by Newcastle Fund Management Inc., the Manager of the Trust ("Manager"), and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and other sections of the Annual Report.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies that management believes are appropriate for the Trust are described in note 3 to the financial statements.

PricewaterhouseCoopers LLP are the external auditors of the Trust. They have audited the financial statements in accordance with generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. Their report is set out on page 11.



President
Newcastle Fund
Management Inc.



Treasurer
Newcastle Fund
Management Inc.

AUDITORS' REPORT TO THE UNITHOLDERS

Auditors' Report to the Unitholders

We have audited the statements of net assets of Newcastle Market-Neutral Trust (the "Fund") as at December 31, 1998 and 1997, the statement of investment portfolio as at December 31, 1998 and the statements of operations and the changes in net assets for the year ended December 31, 1998 and the period from July 30, 1997 to December 31, 1997. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1998 and 1997, and the results of its operations and the changes in its net assets for the year ended December 31, 1998 and the period from July 30, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Ontario

March 31, 1999

STATEMENT OF NET ASSETS

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Net Assets

As at December 31, 1998 and 1997

| | 1998 | 1997 |
|---|-----------------------|--------------------|
| Assets | | |
| Cash and short-term notes (note 5) | \$ 6,464,717 | 3,552,836 |
| Hedge fund investments, at current value (cost 1998 – \$117,361,707; 1997 – \$197,650,150) | 135,395,815 | 202,470,775 |
| Hedge fund redemptions receivable (note 4) | 11,394,089 | – |
| Total assets | 153,254,621 | 206,023,611 |
| Liabilities | | |
| Accounts payable | 93,864 | 346,848 |
| Bank loan (note 8) | 30,129,151 | 39,002,517 |
| Total liabilities | 30,223,015 | 39,349,365 |
| Net assets and unitholders' equity | \$ 123,031,606 | 166,674,246 |
| Units outstanding (note 6) | 7,399,100 | 8,771,500 |
| Net asset value per unit | \$ 16.63 | 19.00 |

Approved on behalf of the Board of Directors of
the Manager:

 , Director

 , Director

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OPERATIONS

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Operations

For the year ended December 31, 1998 with comparative figures for the period from July 30, 1997, date of commencement of operations, to December 31, 1997

| | 1998 | 1997 |
|---|------------------------|------------------|
| Income | | |
| Interest | \$ 2,478,771 | 380,635 |
| Dividends | 709,562 | — |
| Total income | 3,188,333 | 380,635 |
| Expenses | | |
| Interest and stand-by fees | 2,641,081 | 536,298 |
| Management fees (note 7) | — | — |
| Professional fees | 91,708 | 55,665 |
| Other, net | 132,693 | (37,031) |
| Total expenses | 2,865,482 | 554,932 |
| Net investment income (loss) | 322,851 | (174,297) |
| Realized and unrealized gain (loss) on investments | | |
| Net realized gain (loss) on | | |
| Hedge fund investments | (19,107,361) | — |
| Currency exchange on hedge fund investments | 9,886,440 | — |
| Currency hedging of investments | (18,838,977) | (2,792,773) |
| Change in unrealized appreciation (depreciation) on | | |
| Hedge fund investments | 2,919,617 | 4,566,843 |
| Currency exchange on hedge fund investments | 3,916,937 | 5,547,846 |
| Forward exchange contracts | 5,294,043 | (5,294,043) |
| Net gain (loss) on currency, excluding hedge fund investments | (1,658,282) | — |
| Net gain (loss) on investments | (17,587,583) | 2,027,873 |
| Net income (loss) from operations | \$ (17,264,732) | 1,853,576 |
| Net income (loss) per unit* | \$ (2.11) | 0.21 |

*based on average number of units of 8,192,496 outstanding for the period (1997 – 8,772,423)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Changes in Net Assets

For the year ended December 31, 1998 with comparative figures for the period from July 30, 1997, date of commencement of operations, to December 31, 1997

| | 1998 | 1997 |
|---|-----------------------|--------------------|
| Net assets – beginning of the period | \$ 166,674,246 | – |
| Net income (loss) from operations | (17,264,732) | 1,853,576 |
| Unit transactions | | |
| Proceeds from 8,772,500 units issued | | |
| – net of agents' fees and expenses of issue | – | 164,838,000 |
| Net asset value of 1,372,400 units | | |
| (1997 - 1,000 units) purchased | (23,692,008) | (18,710) |
| Gain on cancellation of 1,372,400 units | | |
| (1997 - 1,000 units) | 3,223,958 | 1,380 |
| | (20,468,050) | 164,820,670 |
| Distribution to unitholders | | |
| Return of capital distribution | (5,909,858) | – |
| Net assets – end of the period | \$ 123,031,606 | 166,674,246 |

The accompanying notes are an integral part of these financial statements.

STATEMENT OF INVESTMENT PORTFOLIO

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Investment Portfolio

As at December 31, 1998

| | Cost | Current Value |
|--|---------------|-----------------------|
| Hedge fund investments | | |
| Convertible arbitrage | \$ 27,043,206 | \$ 27,688,045 |
| Distressed securities | 10,900,194 | 13,055,518 |
| Fixed income arbitrage | 7,683,761 | 8,918,406 |
| Loan origination | 26,325,152 | 30,068,038 |
| Long-short equity | 3,196,898 | 3,466,179 |
| Mortgage-backed securities arbitrage | 12,157,566 | 14,322,475 |
| Risk arbitrage | 30,054,930 | 36,794,268 |
| | 117,361,707 | 134,312,929 |
| Settlement due on currency futures contracts (note 11) | | 1,082,886 |
| Hedge fund investments, at current value | | 135,395,815 |
| Hedge fund redemptions receivable | | 11,394,089 |
| Total investments | | 146,789,904 |
| Other liabilities over other assets | | (23,758,298) |
| Net assets | | \$ 123,031,606 |

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS**NOTES TO FINANCIAL STATEMENTS**

For the year ended December 31, 1998

1. Establishment of the Fund

The Newcastle Market-Neutral Trust (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario pursuant to a trust agreement made as of July 18, 1997. The Fund began operations on July 30, 1997 when it completed its initial public offering. The Fund's units are listed on the Toronto and Montreal Stock Exchanges under the symbol NMN.UN. The Fund will terminate on or about December 31, 2007, and the net assets will be distributed pro rata to the unitholders unless an alternative later termination date is approved by a two-thirds majority vote of the unitholders at a meeting called for this purpose. The Fund retained Newcastle Fund Management Inc. (the "Manager") under a management agreement dated July 18, 1997. Newcastle Capital Management Inc. (the "Advisor") acts as the advisor for the Fund.

2. Investment Objectives of the Fund

The Fund's investment objectives are to: (i) distribute \$0.40 per unit at each quarter end (\$1.60 per annum); (ii) steadily grow the net asset value per unit; (iii) ensure that the performance of the Fund is substantially independent of fixed income and equity markets; and (iv) 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.

3. Summary of Significant Accounting Policies

These financial statements, prepared in accordance with generally accepted accounting principles, include certain estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund.

(a) Investments

Investments in units of private investment funds are valued on the basis of the latest net asset values reported by the portfolio managers of such funds. The difference between current value and cost is shown as unrealized gain (loss) on investments. Average cost is used to compute realized and unrealized gains and losses on investments.

Investments in securities traded on a public exchange are valued on the basis of market quotations.

Short-term notes are valued using the bid price.

Investment transactions are accounted for on a trade date basis.

(b) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Transactions during the year in currencies other than Canadian dollars are translated at the rates of exchange prevailing on the respective dates of such transactions.

(c) Currency Hedging

The Fund either enters into forward exchange contracts or purchases currency futures contracts to hedge net exposure to foreign currency fluctuations in its foreign denominated assets and liabilities.

A forward exchange contract is an obligation to purchase or sell a currency against another currency at a future date at a price agreed upon by the parties. The contract is traded over-the-counter, not on organized futures or securities exchanges. The carrying value of the contracts is the difference between the value of the contract at the valuation date and the value on the date the contract originated. When the contracts expire or are closed, a gain or loss is recognized and is included in realized gains or losses.

The Fund's currency futures contracts represent commitments to a third party. They are traded on a public exchange and are valued at their settlement price on the valuation date as published by the appropriate clearing house of the exchange or, where these markets are limited bid or offered at the close, at a price the Advisor may from time to time determine to more accurately reflect fair value of the securities. The changes in the value of the currency futures contracts are settled daily and are reflected as a realized gain or loss on currency futures contracts. The settlement due on futures contracts as at the valuation date represents the amount owing or owed as a result of the one day change in the value of the futures contracts and as such is reflected in the Statement of Net Assets. The notional contract value is the number of contracts valued at the settlement price as at the valuation date. The notional contract value does not represent an asset to the Fund and thus is not shown as an asset on the Statement of Net Assets.

4. Hedge Fund Redemptions Receivable

The Fund had requested redemptions for valuation as at December 31, 1998 from hedge funds in the amount of \$11,394,089 (1997 – nil).

5. Cash and Short Term Notes

As at December 31, 1998, term deposits with a face value of \$1,529,500 (1997 – nil) were deposited as margin for the currency futures contracts.

6. Units Issued and Outstanding

The authorized capital of the Fund consists of an unlimited number of non-redeemable units. Units are transferable and represent an equal, undivided interest in the net assets of the Fund. All units are of the same class with equal rights and privileges. Each unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions

made by the Fund. Fractional units will not be issued. During 1998, under a normal course issuer bid and the Fund's quarterly market support obligation, the Fund purchased 1,372,400 units (1997 – 1,000 units) for cancellation. No units were issued or purchased pursuant to the distribution reinvestment plan.

7. Management Fees

The Fund is charged an annual management fee of 1.25% calculated on the net asset value of the Fund at the end of each quarter. The fee is paid quarterly in arrears, provided that distributions to unitholders are not in arrears. If distributions are in arrears, management fees are not paid or payable until any shortfall has been made up to unitholders. Management fees in arrears at December 31, 1998 amounted to \$2,680,838 (1997 – \$840,996) and will be paid to the Manager when the shortfall in distributions has been paid (see note 9). The Manager pays a portion of its fee to the Advisor in consideration of the Advisor's services to the Fund.

8. Bank Loan

The Fund entered into a revolving loan facility with a Canadian financial institution (the "Bank"). The facility entitles the Fund to borrow funds in Canadian or US dollars up to an amount not exceeding 25% of the net asset value of the Fund for the purposes of making additional investments. In addition, the Fund may borrow, on a temporary basis, up to 10% of the net asset value of the Fund for the purpose of (i) effecting market purchases of units; (ii) maintaining liquidity to effect cash distributions; and (iii) settling currency hedging transactions. Interest and stand-by fees are payable on a monthly basis. Interest rates are based on bank prime and/or Bankers' Acceptances for Canadian funds and bank prime and/or LIBOR for US funds. A general security interest in the assets of the Fund has been provided in favour of the Bank. Loans outstanding as at December 31, 1998 are denominated in Canadian dollars and US dollars.

9. Distributions

The Fund pays quarterly distributions to unitholders of \$0.40 per unit to the extent that the net asset value per unit after giving effect to the distribution is greater than the net asset value on July 30, 1997 of \$18.79. If less than \$0.40 per unit is distributed in any quarter, the amount of the shortfall is carried forward and paid in the next quarter, or quarters, as long as the net asset value per unit after giving effect to the distribution remains greater than \$18.79 per unit.

During the year ended December 31, 1998, distributions of \$0.69 per unit (aggregate – \$5,909,858) (1997 – nil) were made by the Fund. At December 31, 1998 a distribution of \$1.31 per unit (aggregate – \$9,692,821) was in arrears.

Unitholders have the option of receiving distributions in cash, or in the form of additional units by way of the distribution reinvestment plan.

10. Income Taxes

The Fund qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada) (the “Tax Act”). As all of the net income of the Fund, including net realized gains from private investment funds and deemed income computed under Section 94.1 of the Tax Act, will be paid or payable to unitholders in each calendar year, no income tax will be payable by the Fund under the present provisions of the Tax Act. Such income is taxable in the hands of the unitholder. Occasionally, more income is distributed than is earned by the Fund. This excess distribution is called a “return of capital” and is not taxable to the unitholder but reduces the adjusted cost base of the unit for tax purposes.

As at December 31, 1998 the Fund had \$14,400,000 available in non capital loss carry forwards and \$9,220,000 available in capital loss carry forwards.

11. Forward Exchange Contracts and Currency Futures Contracts

The Fund has entered into forward currency contracts and currency futures contracts to hedge the foreign exchange exposure of the investments.

At December 31, 1998, the Fund held the following currency futures contracts:

| | Closing price | Notional contract value | Settlement due on futures contracts |
|---|------------------|--|---|
| 1,180 March 99 Canadian Dollar Future Contracts | US \$65.20 | US \$ 76,936,000 CDN \$ 117,673,612 | US \$ 708,000 CDN \$ 1,082,886 |

The Fund did not hold any forward exchange contracts as at December 31, 1998.

12. Year 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Fund's ability to conduct normal business operations.

It is not possible to be certain that all aspects of the Year 2000 issue affecting the Fund, including those related to the efforts of investors or other third parties, will be fully resolved.

NEWCASTLE CAPITAL MANAGEMENT INC.

Newcastle Capital Management Inc. (the "Advisor") is a leading Canadian quantitative investment management firm. Since its founding in 1989, the firm has grown its assets under management to over \$5.3 billion as at December 31, 1998. Newcastle's clients include the pension funds of many of the largest corporations in Canada, including the Canadian subsidiaries of a number of Fortune 500 companies. Newcastle also manages a number of mutual funds and segregated funds for two large financial institutions as well as pension funds for a large number of corporations and public sector institutions.

Newcastle is known as an innovator and a leader in applying derivatives and other quantitative strategies to create attractive and unique investment products. In 1994, Newcastle entered the hedge fund business, founding the Alpha Star Trust ("Alpha Star"), the first investment vehicle of its kind in Canada to invest in a diversified portfolio of hedge funds. It is largely upon this experience that the Newcastle Market-Neutral Trust is based.

Since the inception of the Newcastle Market-Neutral Trust, Newcastle's market-neutral assets under management have expanded to approximately \$700 million as at December 31, 1998.

NEWCASTLE MARKET-NEUTRAL TRUST

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For most recent net asset value update call: 1-888-429-8774

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