NEWCASTLE

Newcastle Market-Neutral Trust
December 31, 1999
Annual Report

CONTENTS

Message to Unitholders from the Advisor

The Newcastle Market-Neutral Trust (the "Trust") is a closed-end fund comprising a diversified portfolio of market-neutral hedge funds and is traded on The Toronto Stock Exchange. As of December 31, 1999, the net asset value of the Trust was $18.97. For the fourth quarter, the net asset value of the Trust rose by 3.48%. For the year, the net asset value increased 17.50%, after taking into account a distribution per unit to unitholders of $0.57.

The Trust's performance in 1999 was not only solid, but also broad-based – in fact, all seven market-neutral strategies that comprise the Trust contributed positively to performance. Further, the Trust's solid, broad-based performance was achieved during a period characterized by increased volatility in equity and bond markets.

While the performance results demonstrate the Trust's market-neutral nature, closer analysis reveals an even more important feature: the Trust's ability to avoid or benefit from the traditionally negative effects of certain economic factors. For example, as the Federal Reserve increased U.S. interest rates to address an apparently overheated economy, the Trust's performance did not cool. Equally notable is the fact that, while many bond market participants were being hurt by the expansion of the spread in interest rates between U.S. Treasury borrowing and U.S. commercial bank borrowing, Trust performance was augmented. Hence, as an amalgam of seven market-neutral strategies, the Trust showed itself throughout 1999 to be relatively immune to the negative consequences of both macro-economic and micro-economic influences.

Changes to the portfolio in 1999 were made with an emphasis on risk reduction and on broader diversification. Specifically, highly quantitative market-neutral equity trading was added, direct emerging market exposure was eliminated, and the broad strategy areas were expanded globally. With respect to fixed income, convertible bond, and merger arbitrage, the Trust now invests in managers with positions in North America, Europe and the Far East.

The Trust's investments in the convertible bond and merger arbitrage strategies were central to its success in 1999. Convertible bond arbitrage performs very well in markets where new issues are abundant and there is a great deal of market activity. Merger arbitrage benefits in times of strong consolidation as managers have more deals from which to choose. Happily, with the emergence of the new economy, there have been numerous convertible issues, especially in the U.S. and Europe, where, not coincidently, the move to consolidate the new economy has created excellent merger arbitrage opportunities.

We remain committed to market-neutral investing as an essential element of any truly diversified portfolio. We believe that well-constructed portfolios of market-neutral managers offer among the best risk-adjusted returns available and that the asset class serves well as a buffer against equity market downside risk.

David Patterson George I. Main

DAVID G. PATTERSON
President
Newcastle Capital
Management Inc.

GEORGE I. MAIN, CFA
Chief Investment Officer
Newcastle Capital
Management Inc.

March 31, 2000

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 and with a view to enhancing diversification and providing risk reduction to the overall portfolio, the Trust placed investments with 11 new hedge fund managers and redeemed investments from four other hedge fund managers.

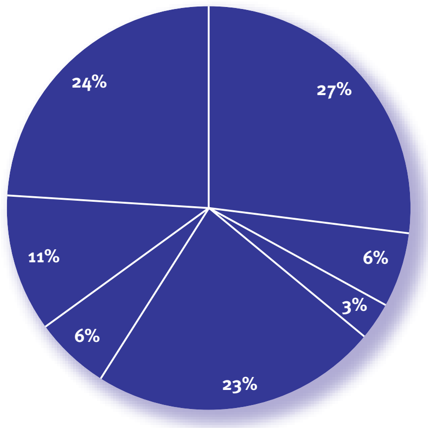
As at December 31, 1999, the Trust was invested in 28 hedge funds with 27 managers engaged in seven unique market-neutral or hedged investment strategies. This wide array of hedge fund investments has created broad diversification through which the Trust seeks to achieve its risk/return objectives and market neutrality.

Asset Allocation by Investment Strategy

Hedge Fund Investments

As at December 31, 1999

27%	Convertible arbitrage (8 hedge funds)	$38,792,887
6%	Distressed securities (2 hedge funds)	9,189,430
3%	Fixed income arbitrage (2 hedge funds)	4,055,740
23%	Loan origination (5 hedge funds)	33,022,668
6%	Market-neutral equity (3 hedge funds)	9,409,106
11%	Mortgage-backed securities arbitrage (2 hedge funds)	16,187,521
24%	Merger arbitrage (6 hedge funds)	34,377,429



Review of Financial Results

Performance

During 1999, the performance of the Trust continued the positive momentum initiated at the end of 1998, posting a return of 17.50% for the year, taking into account the distribution made during the year. All seven of the Trust's strategies contributed significantly to the overall return. The strong performance of the Trust, despite the volatility experienced in the equity and bond markets, reflects the market-neutral nature of the Trust's hedge fund portfolio.

With the continued trading discounts prevalent in the market, the Trust was able to capitalize on the share buy-back and cancellation program during the year to provide additional returns to the Unitholders. Over the year, this program contributed 3.36% to returns.

Net Asset Value and Price Per Unit

The Trust's net asset value per unit is calculated and reported monthly. For the year ended December 31, 1999, the net asset value of the Trust rose from $16.63 per unit to $18.97 per unit, after taking into account the distribution declared on December 31, 1999. The increase in the net asset value reflects the positive performance of the Trust throughout the year.

Although market price fluctuations have stabilized relative to the year prior, the Trust continued to trade at a significant discount. Continued investor uncertainty in the markets caused the trading price of the units to fluctuate between $12.55 and $15.70 during the year, despite the fact that the net asset value per unit of the Trust showed continued growth, with the net asset value rising from a low of $16.63 in December 1998 to reach a high of $19.36 in November 1999. The decrease in the net asset value for December reflects the $0.57 distribution declared as of the end of the year.

Distributions

The Trust is obligated to distribute $0.40 per unit to Unitholders on a quarterly basis. Distributions are determined using the net asset value per unit for the month prior to each quarter end, and are permitted under the trust agreement as long as the net asset value per unit of the Trust at such time is greater than the initial net asset value per unit of the Trust of $18.79. During the year, the Trust made a distribution for the last quarter in the amount of $0.57 per unit ($3,663,823 was distributed in aggregate). The distribution of $0.57 per unit included a payment of $0.17 towards distributions that have been deferred. As at year end, distributions in arrears amounted to $2.34 per unit ($15,040,956 in aggregate). The remaining distributions in arrears will be paid to investors, on a quarterly basis, as they are earned. Newcastle's interests remain aligned with those of the investor: as long as there are any distributions owing to the investors, Newcastle's management fee is not paid or reflected in the net asset value of the Trust. As at December 31, 1999 the unaccrued management fees were $4,214,963.

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
December 31, 1999	January 31, 2000	Return of capital	$0.57

Net Investment Income

For the year ended December 31, 1999, the Trust's net income from operations was $16,260,295. The realized and unrealized gains on hedge fund investments were the key contributing factors, totalling $15,879,327.

Total investment income of $2,185,438, less total expenses of $2,045,580, generated a net investment income of $139,858. Expenses included $1,717,889 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 0.27%. The same ratio, including loan interest and standby fees, was 1.66%. If management fees had been paid or payable by the Trust over this period, the ratio would have increased by 1.24%.

Currency Hedging

For the year ended December 31, 1999, the loss due to currency exchange on hedge fund investments, which are denominated in U.S. dollars, amounted to $7,549,960 (realized gain: $1,584,310; change in unrealized loss: -$9,134,270). A portion of the Trust's liabilities, which are denominated in U.S. dollars, provides a natural hedge to the U.S. dollar denominated hedge fund assets. Translation gains on this natural hedge amounted to $1,465,152. The remaining loss was offset by net gains on currency hedging of $6,325,918. On a total basis, the net impact of currency exchange for 1999 was a gain of $241,110.

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 1999, the Trust filed a notice of intention to make normal-course purchases of its units with The Toronto Stock Exchange. In its filing with the exchange, the Trust indicated an intention to purchase up to 640,055 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, 1999, the Trust purchased 971,341 units for cancellation under these programs for a total amount of $13,703,032. Given that the net asset value of the units cancelled amounted to $17,453,120, this resulted in a gain of $3,750,088 for the Trust. This gain reflects a 3.36% addition to the overall return.

Year 2000

Newcastle's operations have not been affected by any external or internal system problems related to the Year 2000 issue.

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 1999. For the distribution declared on December 31, 1999, purchases under the Plan occurred in January 2000.

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

If you are a registered Unitholder and are interested in enrolling in the Plan, please complete an enrollment 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. Enrollment forms are available from your broker.

If you are the owner of units in an account with a broker or financial institution, you may provide them with a direction to enroll your units in the Plan.

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 Canadian 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.

Robert R. Rafos President Newcastle Fund Management Inc.	Benita M. Warmbold, CA Treasurer Newcastle Fund Management Inc.

Auditors' Report to the Unitholders of Newcastle Market-Neutral Trust

We have audited the statements of net assets of Newcastle Market-Neutral Trust (the "Trust") as at December 31, 1999 and 1998, the statement of investment portfolio as at December 31, 1999 and the statements of operations, changes in net assets and financial highlights for the years ended December 31, 1999 and December 31, 1998. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with Canadian 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 Trust as at December 31, 1999 and 1998, the investment portfolio as at December 31, 1999, and the results of its operations and the changes in its net assets for the years ended December 31, 1999 and December 31, 1998 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

February 18, 2000

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Net Assets

As at December 31, 1999 and 1998

	1999	1998
Assets		
Cash and short-term notes	$ 5,541,773	6,464,717
Hedge fund investments, at current value		
(cost: 1999 – $124,345,465; 1998 – $117,361,707)	145,530,203	135,395,815
Hedge fund redemptions receivable (note 5)	4,073,177	11,394,089
	155,145,153	153,254,621
Liabilities		
Professional fees payable	33,493	49,162
Interest and standby fees payable	222,733	44,702
Distribution payable	3,663,823	–
Bank loan (note 8)	29,300,058	30,129,151
	33,220,107	30,223,015
Net assets and unitholders' equity	$ 121,925,046	123,031,606
Number of units outstanding (note 6)	6,427,759	7,399,100
Net asset value per unit	$ 18.97	16.63

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

David Patterson, Director

Benita Warmbold, Director

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

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Operations

For the years ended December 31, 1999 and 1998

	1999	1998
Investment Income		
Interest	$ 2,008,517	2,478,771
Dividends	176,921	709,562
	2,185,438	3,188,333
Expenses		
Interest and stand-by fees	1,717,889	2,641,081
Management fees (note 7)	–	–
Professional fees	106,754	91,708
Other fees	220,937	132,693
	2,045,580	2,865,482
Net investment income (loss)	139,858	322,851
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on		
Hedge fund investments	3,006,960	(19,107,361)
Currency exchange on hedge fund investments	1,584,310	9,886,440
Currency hedging of investments	6,325,918	(18,838,977)
Change in unrealized appreciation (depreciation) on		
Hedge fund investments	12,872,367	2,919,617
Currency exchange on hedge fund investments	(9,134,270)	3,916,937
Forward exchange contracts	–	5,294,043
Net gain (loss) on currency, excluding hedge fund investments	1,465,152	(1,658,282)
Net gain (loss) on investments	16,120,437	(17,587,583)
Net income (loss) from operations	$ 16,260,295	(17,264,732)
Net income (loss) from operations per unit*	$ 2.42	(2.11)

*Based on the average number of units of 6,712,812 outstanding for the year (1998 – 8,192,496).

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

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Changes in Net Assets

For the years ended December 31, 1999 and 1998

	1999	1998
Net assets – beginning of the year	$ 123,031,606	166,674,246
Net income (loss) from operations	16,260,295	(17,264,732)
Unit transactions (note 6)		
Net asset value of units cancelled	(17,453,120)	(23,692,008)
Gain on cancellation of units	3,750,088	3,223,958
	(13,703,032)	(20,468,050)
Distribution to unitholders		
Return of capital	(3,663,823)	(5,909,858)
Net assets – end of the year	$ 121,925,046	123,031,606
Distribution per unit for the year*	$ 0.57	0.69

*Based on the actual number of units outstanding on record date.

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

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Investment Portfolio

As at December 31, 1999

	Cost	Current Value
Hedge fund investments		
Convertible arbitrage	$ 34,895,468	$ 38,792,887
Distressed securities	7,189,070	9,189,430
Fixed income arbitrage	3,828,371	4,055,740
Loan origination	30,491,112	33,022,668
Market-neutral equity	8,605,678	9,409,106
Mortgage-backed securities arbitrage	12,914,040	16,187,521
Merger arbitrage	26,421,726	34,377,429
	124,345,465	145,034,781
Settlement due on currency futures contracts (note 11)		495,422
Hedge fund investments, at current value		145,530,203
Hedge fund redemptions receivable		4,073,177
Total investments		149,603,380
Other liabilities over other assets		(27,678,334)
Net assets and unitholders' equity		$ 121,925,046

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

NEWCASTLE MARKET-NEUTRAL TRUST

Statement of Financial Highlights

For the periods ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Net asset value per unit – beginning of the period	$ 16.63	19.00	18.79
Net investment income (loss) per unit	0.02	0.04	(0.02)
Net gain (loss) on investments	2.40	(2.15)	0.23
Distribution per unit			
Return of capital	(0.57)	(0.69)	–
Effect of capital transactions over original cost	0.49	0.43	–
Net asset value per unit – end of the period	$ 18.97	16.63	19.00

Ratios and supplemental information

	1999	1998	1997
Net assets – end of the period	$ 121,925,046	123,031,606	166,674,246
Weighted-average net assets	123,106,315	147,004,084	165,316,009
Ratio of expenses to			
weighted-average net assets	1.66%	1.95%	0.81%*
Annual rate of return	17.50%	(9.28)%	1.09%**

*Rate annualized from date of inception to December 31.

**Rate of return reported for period from inception to December 31.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 1999 and 1998

1. Establishment of the Trust

The Newcastle Market-Neutral Trust (the "Trust") 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, and restated on August 17, 1999. Effective August 17, 1999, the Trust changed its trustee from The Canada Trust Company to The Royal Trust Company. The Trust began operations on July 30, 1997 when it completed its initial public offering. The Trust's units are listed on The Toronto Stock Exchange under the symbol NMN.UN. The Trust 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 Trust 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 Trust.

2. Investment Objectives of the Trust

The Trust'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 Trust is substantially independent of fixed income and equity markets; and (iv) 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.

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 Trust.

(a) Investments

The assets of the Trust are invested in market-neutral hedge funds and money market instruments.

Investment transactions are accounted for on a trade date basis. Investments are valued on the last day of each month ("Valuation Date").

Money market instruments are valued at the bid price for such instruments at The Toronto Stock Exchange closing time on each Valuation Date. Interest income is accrued on a monthly basis.

Investments in market-neutral hedge 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 or loss on investments. Average cost is used to compute realized and unrealized gains and losses.

(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. Foreign exchange gains and losses are recognized in the Statement of Operations on each Valuation Date.

(c) Currency Hedging

The Trust enters into exchange-traded currency futures contracts to hedge the Canadian dollar value of portfolio securities and liabilities denominated in foreign currencies.

Upon entering into a futures contract, the Trust is required to deposit an "initial margin" with a broker based on a certain percentage of the contract amount. Subsequent payments representing variation margin are made or received each day depending on the daily fluctuation in the value of the contract. These daily changes are recorded as gains or losses in the Statement of Operations. The settlement due on futures contracts represents the daily variation margin owing or due to the Trust on the Valuation Date.

Futures contracts are valued at their settlement price, as published by the appropriate clearing house of the exchange, on each Valuation Date. In the absence of reported bid and offer quotations, Newcastle may, from time to time, determine a value which more accurately reflects the fair value based on the current market value of the underlying interest. The notional values of the futures contracts are not recorded as assets in the Statement of Net Assets.

4. Statement of Financial Highlights

The information disclosed in the Statement of Financial Highlights is calculated as described below.

Net asset value per unit is computed by dividing the net asset value of the Trust by the total number of units of the Trust outstanding, as at the beginning or the end of the period.

Net income or loss per unit is based on the average number of units outstanding during the period. Distributions to unitholders per unit are based on the actual number of units outstanding on record date.

Weighted-average net assets are calculated as the average of the monthly net asset value of the Trust during the period.

The ratio of expenses to weighted-average net assets for the Trust is based on all expenses of the Trust, including GST, expressed as a percentage of the weighted-average net assets.

Annual rate of return is calculated on the basis of the change in the net asset value per unit of the Trust during the period, and takes into account distributions reinvested in the Trust.

The effect of capital transactions over original cost represents calculational differences resulting from the use of different base number of units outstanding in the various calculations as described above. This difference can be substantial if the Trust experienced significant cancellations of units during the period.

5. Hedge Fund Redemptions Receivable

The Trust had redemptions receivable in the amount of $4,073,177 from hedge funds investments as at the year end. Of this amount, $4,040,960 (1998: $11,394,089) of redemptions had been requested as of December 31, 1999.

6. Units Issued and Outstanding

The authorized capital of the Trust consists of an unlimited number of non-redeemable units. Units are transferable and represent an equal, undivided interest in the net assets of the Trust. 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 Trust. Fractional units will not be issued. During 1999, under a normal course issuer bid and the Trust's quarterly market support obligation, the Trust purchased 971,341 units (1998: 1,372,400 units) for cancellation. No units were issued or purchased pursuant to the distribution reinvestment plan in 1999 and 1998.

The following unit transactions took place during the year:

	December 31, 1999	December 31, 1998
Balance of units outstanding – beginning of the year	7,399,100	8,771,500
Units cancelled during the year:	(971,341)	(1,372,400)
Balance of units oustanding – end of the year	6,427,759	7,399,100

7. Management Fees

The Manager provides the day-to-day administration, portfolio management and unitholder services to the Trust. In return for these services, the Manager receives an annual fee of 1.25% of the net assets of the Trust, calculated on the last Valuation Date of each fiscal 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, 1999 amounted to $4,214,963 (1998: $2,680,838) and will be paid to the Manager when the shortfall in distributions has been paid (see note 9). The Manager will pay a portion of its fee to the Advisor in consideration of the Advisor's services to the Trust.

8. Bank Loan

The Trust entered into a revolving loan facility with a Canadian financial institution (the "Bank"). The facility entitles the Trust to borrow funds in Canadian or U.S. dollars up to an amount not exceeding 25% of the net asset value of the Trust for the purposes of making additional investments. In addition, the Trust may borrow, on a temporary basis, up to 10% of the net asset value of the Trust for the purposes 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 U.S. funds. A general security interest in the assets of the Trust has been provided in favour of the Bank. Loans outstanding as at December 31, 1999 were denominated in Canadian dollars and U.S. dollars.

9. Distributions

The Trust 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, 1999, distributions of $0.57 per unit (aggregate: $3,663,823) (1998: $0.69 per unit; $5,909,858 in aggregate) were made by the Trust.
At December 31, 1999 distributions of $2.34 per unit (aggregate: $15,040,956) (1998: $1.31 per unit; $9,692,821 in aggregate) were 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 Trust 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 Trust, including net realized gains from private investment Trusts 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 Trust 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 Trust. 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, 1999 the Trust had $7,500,000 (1998: $14,400,000) available in non-capital loss carry forwards and $7,900,000 (1998: $9,220,000) available in capital loss carry forwards. During the year the Trust utilized part of the available capital and non-capital tax loss carry forwards.

11. Currency Futures Contracts

As at December 31, 1999, term deposits with a face value of $700,000 (1998: $1,529,500) were deposited as margin for the currency futures contracts.

The Trust has entered into futures contracts to hedge the currency exposure of portfolio securities and liabilities denominated in foreign currencies.

At December 31, 1999, the Trust held the following currency futures contracts:

	Closing price	Notional contract value	Settlement due on futures contracts
1,226 March 2000 Canadian Dollar Futures Contracts	US $ 69.22	US $ 84,863,720	
		CDN $ 122,475,320	CDN $ 495,422

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 which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Fund, including those related to external counterparties, have been fully resolved.

Newcastle Capital Management Inc. (the "Advisor") is a leading Canadian quantitative investment management firm. Since its founding in 1989, the firm has grown assets under management to over $5.7 billion as at December 31, 1999. 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 pension assets for a number of universities and public sector institutions and is the manager of a number of mutual funds and a segregated fund for two large financial 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. The Newcastle Market-Neutral Trust is based largely on the Alpha Star experience.

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, 1999.

NEWCASTLE MARKET-NEUTRAL TRUST

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