



**Northwater Market-Neutral Trust**

December 31, 2009

Annual Report





## BACKGROUND

Northwater Market-Neutral Trust (the “Trust”) is a closed-end investment trust established under the laws of the Province of Ontario. Financial statements of the Trust, denominated in Canadian dollars, for the year ended December 31, 2009 are included in this report.

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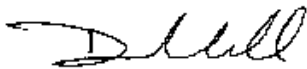
## MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

The Northwater Market-Neutral Trust (the “Trust”) is a closed-end fund which was listed on the Toronto Stock Exchange until December 31, 2009. As at December 31, 2009, the net asset value of the Trust per unit was \$3.71. The one year return, including distributions, was -1.97%. Throughout 2009, the Trust made \$3.60 in distributions which included the first termination distribution of \$3.29 paid on July 29, 2009 in advance of the scheduled year end termination.

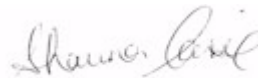
The credit and equity market rebounded strongly in 2009. However the positive impact on the underlying hedge funds was far from universal. While a few of the Trusts fund managers were able to participate in the overall market rally, the majority of the investments were unable to as many of the stressed and illiquid positions did not benefit from the dramatic correction. The rush for liquidity which began in the fourth quarter of 2008, continued well into 2009. The result was that many of the underlying hedge funds were forced to suspend redemptions and in many cases ultimately restructure the liquidity terms to compensate for the overwhelming demand from investors.

With the focus on the scheduled December 31, 2009 termination, no new investments were made in 2009. The overwhelming majority of redemption proceeds came directly from the hedge funds at the full net asset value. The Trust did participate in a few secondary market transactions where the hedge fund positions were liquidated at a discount to the previously reported value. All of these transactions were executed through an agent and sold to non-related, arms-length buyers. These were fund specific transactions where the clearing price was set for all participants and our assessment balanced the risk of holding the position and facing uncertain liquidation with the certainty of a transaction that would provide the required liquidity. We will continue to seek similar opportunities to create certainty around the timing of the wind up of the Trust and accelerate the distributions beyond what would be afforded through a prolonged liquidation.

At January 31, 2010, the Trust had announced an additional distribution of \$1.54 per unit and a commitment to proceed with the distribution of the remaining assets of the Trust. The Manager continues to actively seek alternative means of affecting the monetization of the underlying hedge fund portfolio of the Trust and to distribute the proceeds to as soon as practicable.



DANIEL C.R. MILLS, CFA  
Managing Director  
Northwater Capital Management Inc.



SHAUNA CASSIDY, CFA  
Vice President  
Northwater Capital Management Inc.

August 30, 2010

## MANAGEMENT REPORT OF FUND PERFORMANCE

This Management Report of Fund Performance contains financial highlights for the year ended December 31, 2009 but does not contain the complete financial statements of Northwater Market-Neutral Trust (the "Trust"). A copy of the financial statements of the Trust is attached to this report for your reference.

Security holders may contact us using one of following methods and may, at no cost, request a copy of the Trust's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure. You can contact us by calling toll-free 1-888-429-8774 or by writing to us at Northwater Fund Management Inc., Suite 4700, Brookfield Place, Bay Wellington Tower, 181 Bay Street, P.O. Box 794, Toronto, Ontario, M5J 2T3. You may also visit our website at [www.northwatercapital.com](http://www.northwatercapital.com) or visit the SEDAR website at [www.sedar.com](http://www.sedar.com).

The Trust is managed by Northwater Fund Management Inc. (the "Manager"). The Manager is responsible for managing the business and administration of the Trust pursuant to the provisions of the Trust Agreement as well as monitoring the Trust's investment portfolio. The Manager has retained Northwater Capital Management Inc. (the "Investment Advisor") to provide investment advice and to manage the Trust's investment portfolio in accordance with the Trust's investment objectives. In fulfilling its responsibilities, the Manager must determine that appropriate information systems, procedures and controls are in place in order to ascertain that information used internally and disclosed to unitholders is complete and reliable. The Manager takes this responsibility seriously and is satisfied that appropriate systems, procedures and controls are in place for the Trust.

All amounts noted throughout this report are in Canadian dollars unless otherwise noted.

### Adoption of Accounting Standards/Amendments

During 2009, the Accounting Standards Board amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments – Disclosures" ("S.3862") to include enhanced disclosures about inputs to fair value measurement for financial instruments.

The requirements of S.3862 have been reflected in the notes to the financial statements.

### Investment Objectives and Strategies

#### Investment Objectives

The market events throughout 2009 negatively impacted the Trust's ability to meet its original objectives. The current objective of the Trust remains the maximization of value and the return of capital through the orderly liquidation of the underlying hedge fund investments ("Hedge Fund Portfolio").

#### Investment Strategies

##### Hedge Funds

Despite efforts to have redeemed from all of the hedge fund positions prior to the scheduled termination date ("Termination Date") of December 31, 2009, the Trust continues to own illiquid positions that are in the process of returning capital over an extended period of time.

##### Currency Futures

Throughout the life of the Trust, the U.S. dollar Hedge Fund Portfolio was hedged to Canadian dollars, the functional currency of the Trust. Cash was required to support this currency hedging program. In light of the Termination Date and the desire to return capital to investors, the hedging program was ceased on December 31, 2009.

### Investment Management Process

The investment management process was focused on the liquidation objectives of the orderly wind up of the Trust. In light of the delay in the expected termination of the Trust, the Investment Advisor continued to engage the management of the underlying hedge funds to understand the timing of the expected redemption proceeds. In specific cases, the Trust has sold hedge funds in the secondary market at a discount to the reported net asset value. The Investment Advisor will continue to seek similar opportunities to create certainty around the timing of the wind up of the fund and accelerate the distributions beyond what would be afforded through a prolonged liquidation.

The Investment Advisor manages and advises other client accounts in addition to the Trust. Investment liquidation decisions for client accounts with similar investment objectives are subject to client specific guidelines and liquidity requirements.

### Leverage

On November 19, 2009 the Trust terminated a revolving loan facility that it used to employ leverage to enhance investment returns. As a result, as at December 31, 2009, the Trust did not employ any financial leverage (December 31, 2008: 22.59%).

### Risks

The following tables present information for the periods from inception and for the years ended December 31, 2009 and 2008 regarding the risk profile of both the Trust and the Trust's hedge fund holdings.

<b>Trust Statistics</b>	<b>For the period from inception to December 31, 2009</b>	<b>For the period from inception to December 31, 2008</b>
# of positive monthly returns	102	96
# of negative monthly returns	47	41
% of negative months	31.5%	29.9%
Average size of negative months	(1.60)%	(1.72)%
Worst monthly return	(12.53)%	(12.53)%

<b>Single Hedge Fund Statistics</b>	<b>For the year ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
# of hedge funds with positive returns <sup>(1)</sup>	10	6
# of hedge funds with negative returns <sup>(1)</sup>	7	19
Average annual hedge fund standard deviation <sup>(2, 3)</sup>	18.12%	15.87%
Average correlation between hedge funds <sup>(2, 4)</sup>	0.39	0.41

1. Measured for hedge funds in the portfolio as at December 31, 2009 and December 31, 2008 respectively.
2. As measured over the past 24 months for hedge funds in the portfolio as at December 31, 2009 and December 31, 2008 respectively, excludes hedge funds with less than 24 months of historical returns.
3. Standard deviation is defined as a measure of dispersion of returns around a mean (average return). A low standard deviation implies low risk of experiencing returns that vary highly in magnitude from the mean.
4. Correlation is a measure of the degree to which variables (such as performance of two hedge funds) move together.

Material changes affecting the overall risk of investing in the Trust for the year ended December 31, 2009 are a direct result of the unprecedented turmoil in the markets due to the ongoing credit crisis that has affected many market participants including the hedge fund industry. Material changes to risk include a decrease in diversification due to the reduced number of hedge fund investments and the liquidity restrictions imposed by many of the underlying hedge fund managers.

The change in the risk characteristics of the Trust reflects the magnitude of the stress felt across the entire financial system in 2009.

As illustrated in the Single Hedge Fund Strategies chart above, diversification across managers was not sufficient to avoid the overwhelming negative impact from the industry wide deleveraging. The volatility in the underlying managers (as expressed by standard deviation) was 15.34% versus the 2008 level of 16.07%.

The similarity of manager returns (average correlation between hedge funds), which had historically been very low and stable, continued to be high in 2009, which is reflective of the illiquidity of the investments in the Hedge Fund Portfolio and reduced portfolio diversification.

The Investment Advisor has submitted redemption requests to all the underlying hedge funds. No new investments were made during the year ended December 31, 2009.

Based on current market conditions, the Investment Advisor anticipates that due to liquidity constraints in the Hedge Fund Portfolio, the Trust will continue to exist and be winding down its operations over an extended period of time beyond the originally scheduled December 31, 2009 termination date of the Trust. As a result of the termination of the hedging program on December 31, 2009, the Trust is exposed to the fluctuation in the U.S. dollar exchange rate.

As at June 30, 2010, approximately 91% of the Trust will continue to have exposure to underlying hedge fund market movements. All of the Hedge Fund Portfolio's 17 hedge fund investments are subject to restrictions on liquidity that extend beyond the December 31, 2009 termination date of the Trust.

The Investment Advisor continues to actively seek alternative means of affecting the monetization of the underlying Hedge Fund Portfolio of the Trust in an effort to distribute the proceeds to unitholders as soon as practicable. In the event that the Investment Advisor pursues an alternative means of monetizing the underlying Hedge Fund Portfolio, it is likely that the value achieved through such transactions may materially differ from the net asset values and estimates received from administrators or managers of the Trust's underlying hedge funds.

The following table shows the expected payout timeline of redemption proceeds from the underlying hedge fund managers based on the information the Investment Advisor had available to it as of the date hereof:

<b>Payments of redemptions expected in 2010, classified by status of the hedge funds being redeemed from as at December 31, 2009:</b>		
	<b>Amount</b>	<b>% of total hedge fund portfolio</b>
Restricted redemptions <sup>(1)</sup>	\$ 1,638,042	21%
Liquidating	1,506,390	20%
	\$ 3,144,432	41%
<b>Payments of redemptions expected beyond 2010, classified by status of the hedge funds being redeemed from:</b>		
	<b>Amount</b>	<b>% of total hedge fund portfolio</b>
Restricted redemptions <sup>(1)</sup>	\$ 1,288,219	17%
Liquidating	3,163,676	42%
	\$ 4,451,895	59%

(1) Restricted redemptions category includes situation where the manager has placed some form of restriction on the redemption request, including suspending redemptions, enforcing gates on redemption or restructuring the fund, to for example, create a liquidating share class.

The detailed risks of investing in the Trust are listed in the Trust's prospectus. A copy of the prospectus of the Trust is available by visiting the SEDAR website at [www.sedar.com](http://www.sedar.com).

As stated above the receipt of redemption proceeds from underlying managers will impact timing of distribution to unitholders.

## Results of Operations

During the year ended December 31, 2009, the Trust posted a loss of -1.97% (year ended December 31, 2008: -31.23% ). Distributions during the year ended December 31, 2009, in aggregate, totaled \$14,270,443 or \$3.60 per unit (year ended December 31, 2008: \$3,694,732 or \$0.85 per unit). The multi-strategy funds, in aggregate, contributed most positively to the Trust's return among all the strategies, for the year ended December 31, 2009 while the statistical arbitrage strategy, in aggregate, was the weakest performer.

All of the underlying investments in the Hedge Fund Portfolio held by the Trust are currently constrained in providing liquidity to their investors. As such, many of the negative returns are reflective of the illiquidity of these investments. Positive returns from the multi-strategy investments demonstrate our current experience of the liquidity gradually coming back to the underlying investments and a rebound in the negative mark-to-market of 2008.

The following table presents returns by investment strategy for the years ended December 31, 2009 and 2008.

Strategy	For the years ended December 31,	
	2009	2008
Activist investments	-	(35.34)%
Asset-backed securities arbitrage	(1.03)%	0.61%
Distressed securities arbitrage	(1.74)%	(22.55)%
Fixed-income arbitrage	0.22%	(54.01)%
Mortgage-backed security arbitrage	(25.88)%	(33.71)%
Multi-strategy	29.23%	(38.96)%
Re-insurance arbitrage	-	(1.88)%
Statistical arbitrage	(49.18)%	(10.93)%
Structured finance	(9.93)%	(59.36)%

Investments were fully redeemed from the activist investments, fixed-income arbitrage and re-insurance arbitrage strategies.

With the exception of the returns posted by the multi-strategy managers, the returns illustrated in the above chart are more indicative of specific manager situations rather than a reflection of the performance of a particular strategy.

In the case of statistical arbitrage, this return is indicative of the small residual illiquid positions held by a fund which is in the process of complete liquidation. In the case of the mortgage-backed security arbitrage return, the negative return reflects a secondary market sale of a position at a discount to the hedge fund's reported NAV. This trade was undertaken to provide liquidity and prevent a prolonged exposure to a specific illiquid hedge fund.

The borrowings of the Trust fluctuated between \$nil and \$6,981,592 throughout the year ended December 31, 2009 through a revolving loan facility with a Canadian financial institution (year ended December 31, 2008 the borrowings of the Trust fluctuated between: \$3,356,096 and \$12,752,641). The Trust did not utilize financial leverage as at December 31, 2009 (December 31, 2008: 23.59%). In 2009, the leverage contributed to the negative performance of the Trust.

The Trust was able to capitalize on the share buy-back and cancellation program with 386,300 units of the Trust being repurchased and cancelled during the year ended December 31, 2009 for cash of \$1,800,468 (year ended December 31, 2008: 398,500 units for \$3,892,171 in cash). During the year ended December 31, 2009, this program contributed 1.89% to the overall return (year ended December 31, 2008: 0.90% contribution to overall return).

## Summary of Investment Portfolio

The Trust was established to invest in hedge funds that emphasized sectors of the capital markets that the Investment Advisor believed were relatively inefficient or presented opportunities to generate uncorrelated returns. The Trust was to have terminated on December 31, 2009.

Because the Trust is invested in hedge funds that pursue non-traditional investment strategies, it is subject to the special risks of investing in these strategies. As at December 31, 2009, the Trust was invested in 17 hedge funds (December 31, 2008: 25 hedge funds) with 16 managers (December 31, 2008: 24 managers) engaged in six market-neutral or hedged investment strategies. The hedge funds in which the Trust is invested have been established in offshore jurisdictions and prepare annual audited financial statements, in accordance with U.S. or International generally accepted accounting principles (“GAAP”).

During the year ended December 31, 2009, the Trust did not place investments with any new funds and redeemed from eight hedge funds (consisting of one activist investments, one asset-backed securities arbitrage, two fixed income arbitrage, one mortgage-backed security arbitrage, two re-insurance arbitrage and one statistical arbitrage) (year ended December 31, 2008, the Trust did not place investments with any new funds and redeemed from twelve hedge funds).

As at year end, the portfolio composition reflected the state of illiquidity that continued across many of the hedge fund strategies. Redemptions have been submitted for the remaining hedge funds in the Hedge Fund Portfolio and the Investment Advisor continues to actively seek alternative means of liquidating the underlying Hedge Fund Portfolio in an effort to distribute the proceeds to unitholders as soon as practicable.

## Asset Allocation by Investment Strategy

The following table shows the hedge fund holdings by strategy as at December 31, 2009 and 2008. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

Strategy	As at December 31, 2009			As at December 31, 2008		
	No. of Hedge Funds	Fair Value		No. of Hedge Funds	Fair Value	
Activist investments	-	-		1	\$ 1,351,261	5%
Asset-backed securities arbitrage	2	\$ 1,533,397	20%	3	5,790,168	22%
Distressed securities arbitrage	2	1,640,805	22%	2	2,869,818	11%
Fixed-income arbitrage	1	-	0%	3	1,402,414	5%
Mortgage-backed security arbitrage	2	679,545	9%	3	3,313,968	12%
Multi-strategy	3	1,653,081	22%	4	4,236,603	16%
Re-insurance arbitrage	-	-		2	1,048,106	4%
Statistical arbitrage	3	70,073	1%	3	3,783,424	14%
Structured finance	4	2,019,426	26%	4	3,048,779	11%
	17	\$ 7,596,327	100%	25	\$ 26,844,541	100%

The following table presents the largest individual hedge fund holding for each investment strategy as a percentage of the net assets of the Trust as at December 31, 2009 and 2008.

Strategy	As at December 31, 2009	As at December 31, 2008
Activist investments	-	4.37%
Asset-backed securities arbitrage	10.60%	10.52%
Distressed securities arbitrage	9.91%	8.09%
Fixed-income arbitrage	-	2.44%
Mortgage-backed security arbitrage	4.70%	5.37%
Multi-strategy	10.22%	3.80%
Re-insurance arbitrage	-	2.21%
Statistical arbitrage	0.25%	6.34%
Structured finance	7.99%	5.52%

The following table lists all the hedge funds by fair value as at December 31, 2009. The Trust will disclose the names of those hedge funds held by the Trust that represent more than 5% of the net assets of the Trust at the end of the year. For hedge funds that represent less than 5% of the Trust's net assets, the Trust has adopted unique fund numbers as identifiers. These numbers are used consistently in reporting by the Trust.

Hedge Fund Investments	Type of Investment	Cost	Fair Value	Fair Value as a % of Net Assets
CRC Global Structured Credit Fund, Ltd.*	Participating shares	\$ 1,334,751	\$ 1,489,794	10.60%
Citadel Kensington Global Strategies Fund Ltd.*	Participating shares	1,798,935	1,436,469	10.22%
Cerberus International SPV Ltd.	Participating shares	638,383	1,392,530	9.91%
Fortress Value Recovery Fund I Ltd.* <sup>†</sup>	Voting shares and capital Balance	2,577,577	1,123,214	7.99%
Medley Opportunity Fund, Ltd.*	Participating shares	776,689	856,281	6.09%
Fund 189*	Participating shares	1,234,714	660,015	4.70%
Fund 212*	Participating shares	-	248,281	1.77%
Fund 183*	Participating shares	162,481	174,391	1.24%
Fund 171*	Participating shares	20,684	43,604	0.31%
Fund 146*	Participating shares	59,359	42,222	0.30%
Fund 220*	Participating shares	120,314	39,921	0.28%
Fund 211*	Participating shares	-	35,659	0.25%
Fund 226*	Participating shares	-	21,864	0.16%
Fund 103*	Participating shares	14,002	19,531	0.14%
Fund 104*	Participating shares	157,129	12,551	0.09%
Fund 187*	Participating shares	1,687,130	-	-
Fund 191*	Participating shares	-	-	-
		\$ 10,582,148	\$ 7,596,327	

\* held by other investment funds managed by Northwater Fund Management Inc. or advised by Northwater capital Management Inc.

<sup>†</sup> formerly known as D.B. Zwirn Special Opportunity Fund, Ltd.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Trust. There are no non-arm's length relationships between the Trust or Northwater Fund Management Inc. and any of the hedge funds held by the Trust. On a quarterly basis, an updated listing of holdings will be available.

## Financial Highlights

The following tables show selected key financial information about the Trust and are intended to assist in understanding the Trust's financial performance for the past five years. The information included in the below tables has been derived from the Trust's audited annual financial statements.

### The Trust's Net Assets per Unit

	For the year ended December 31,				
	2009	2008	2007	2006	2005
Net assets, beginning of year	\$ 7.40	\$ 11.76	\$ 14.15	\$ 13.88	\$ 14.73
<b>Increase (decrease) from operations:</b>					
Total revenue	0.02	0.04	0.05	0.05	0.04
Total expenses	(0.13)	(0.27)	(0.41)	(0.41)	(0.35)
Realized gains (losses) for the year	(0.02)	(1.88)	2.80	(0.02)	0.28
Unrealized gains (losses) for the year	(0.07)	(1.40)	(1.99)	1.70	0.33
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.20)</b>	<b>(3.51)</b>	<b>0.45</b>	<b>1.32</b>	<b>0.29</b>
<b>Distributions:</b>					
From income (excluding dividends)	0.46	0.85	1.71	0.04	0.36
From capital gains	-	-	-	-	-
Return of capital	3.60	-	1.16	1.10	0.80
Total Distributions for the year <sup>(2)</sup>	3.60	0.85	2.87	1.14	1.16
Net Assets, at end of year <sup>(3)</sup>	\$ 3.71	\$ 7.40	\$ 11.76	\$ 14.15	\$ 13.88

- (1) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial year.
- (2) Distributions were both paid in cash and reinvested in additional units of the Trust.
- (3) It is not intended that the Trust's Net Assets per Unit table act as a reconciliation of the opening and closing of the net assets per unit of the Trust.

### Ratios and Supplemental Data

	2009	2008	2007	2006	2005
Total net assets (000's) <sup>(1)</sup>	\$ 14,053	\$ 30,906	\$ 53,778	\$ 67,651	\$ 71,507
Number of units outstanding <sup>(1)</sup>	3,788,115	4,174,415	4,572,915	4,782,615	5,150,015
Management expense ratio <sup>(2)</sup>	3.91%	9.16%	9.17%	6.60%	7.08 %
Management expense ratio before waivers or absorptions <sup>(2)</sup>	3.91%	9.16%	9.17%	6.60%	7.08 %
Portfolio turnover rate <sup>(3)</sup>	0.02%	3.87%	12.11%	22.97%	40.56 %
Trading expense ratio <sup>(4)</sup>	0.13%	0.03%	0.03%	0.05 %	0.00 %
Closing market price, end of year	\$ 3.71	\$ 5.85	\$ 9.58	\$ 13.00	\$ 12.55

- (1) This information is provided as at December 31 of the years shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of month-end average net asset value during the year. Please note that the management expense ratio includes not only the expenses of the Trust itself but also reflects expenses to which the underlying hedge funds were subject. The expense ratio of the underlying hedge funds included in the above ratios for the year ended December 31, 2009 added 1.51%, for the year ended December 31, 2008 added 6.51% , for the year ended December 31, 2007 added 6.23% and for each of the years ended December 31, 2006, and 2005 added 3.72% for each of the years to the expense ratio of the Trust. The annualized expense ratio has been calculated using the total expenses of the underlying hedge funds, invested in by the Trust, per their annual audited financial statements. The 2005 to 2007 expense ratios reflect the expenses of the hedge funds for the year 2006. Management continues to receive the audited financial statements for the year 2008 and will reflect the total expenses of the underlying hedge funds once all of such information has been received. The expenses together with estimates for hedge funds with year-ends other than December 31 have been prorated based on the relative percentage of the hedge funds held by the Trust at December 31, 2008. Performance fees incurred by the underlying hedge funds can vary significantly from period to period based on such factors as the market conditions, fund strategy, manager performance and the timing of redemptions. As a result, the expense ratios of the underlying funds for the prior year may be significantly different than the actual expenses incurred by these underlying hedge funds for the current year.
- (3) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio adviser manages its portfolio investments and rebalances its investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. Hedge fund trades do not generally result in trading costs.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net asset value during the year.

## Past Performance

### General

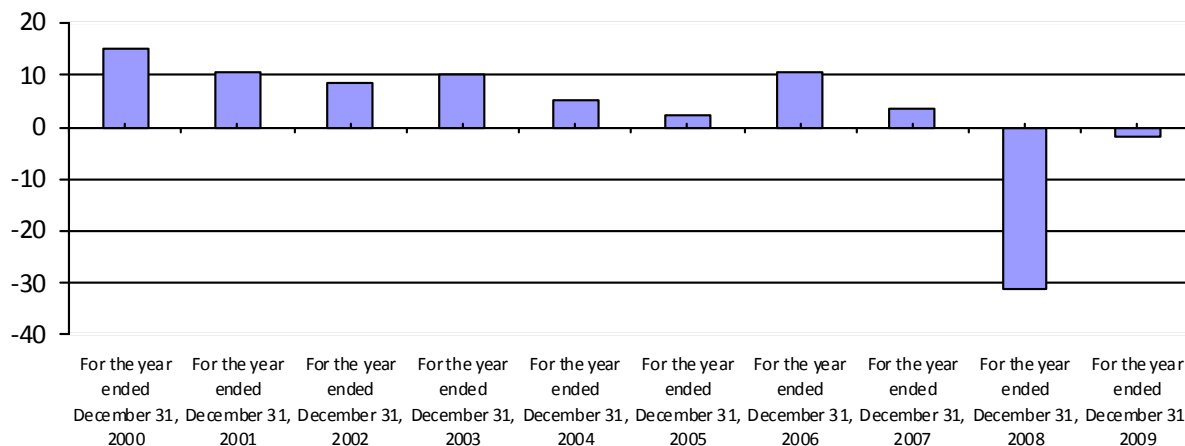
With respect to the following information in the “Past Performance” section of this report, please note the following:

- (a) the performance information shown assumes that all distributions made by the Trust in the year shown were reinvested in additional securities of the Trust;
- (b) the performance information does not take into account sales and distribution charges that would have reduced returns or performance; and
- (c) how the Trust has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

With respect to the following chart, please note the following:

- (a) the bar chart shows the Trust’s performance for each of the years shown, and illustrates how the Trust’s performance has changed from year to year; and
- (b) the bar chart shows, in percentage terms, how much an investment made on the first day of each period would have grown or decreased by the last day of each year.



## Annual Compound Returns


This chart compares the historical annual compound returns of the Trust over the periods indicated relative to various market Indices.

	Since Inception *	Past 5 years	Past 3 years	Past year
Northwater Market-Neutral Trust	2.46%	-4.68%	-11.33%	-1.97%
S&P/TSX Composite Index	6.53%	7.66%	-0.21%	35.05%
Scotia Capital 91 day T-Bill Index	3.51%	2.98%	2.78%	0.61%
DEX Universe Bond Index	6.21%	5.20%	5.16%	5.41%

\* inception date of the Trust is July 30, 1997.

The S&P/TSX Composite Index is a broad index of Canadian common shares.

The Scotia Capital 91-day T-Bill Index shows how a portfolio of three month Canadian Treasury Bills would have performed over the relevant period.



The DEX Universe Bond Index is a broad index of Canadian federal government, provincial government and corporate fixed income securities.

The chart demonstrates that while the long-term, since inception return is positive, the impact of modest leverage combined with the poor performance experienced during 2008 resulted in unfavourable results over the three and five-year time horizons. The recent year performance is a reflection of the illiquidity of the remaining assets despite the positive equity and bond markets.

## Management Fees and Related Party Transactions

The Manager is responsible for the day-to-day administration, portfolio management and unitholder services to the Trust. In exchange for these services, the Manager is entitled to an annual fee of 1.25% of the net asset value of the Trust, calculated on the last Valuation Date of each month. The fee is paid monthly in arrears. During the year ended December 31, 2009, the management fee expense was \$271,053 and the amount payable by the Trust as at December 31, 2009 was \$47,127.

The Manager will pay a portion of its fee to the Investment Advisor in consideration of the Investment Advisor's services to the Trust. Substantially all of the management fees are applied to the provision of portfolio management and investment advisory services of the Manger and Investment Advisor.

## Net Assets and Price Per Unit

The value of investments held by the Trust is affected by factors beyond the control of the Investment Advisor, the Manager or the Trust. The process of valuing investments for which no published market price exists is based upon the definitive or provisional net assets of the hedge funds supplied by the administrators or managers of such underlying hedge funds. These values are net of the management fees and expenses to which the underlying hedge funds are subject.

The Trust's net assets per unit is calculated and reported monthly. During the year ended December 31, 2009, the reported net asset value fluctuated between a low of \$3.71 per unit and a high of \$7.40 per unit (year ended December 31, 2008: low of \$7.40 and a high of \$11.61), after taking into account distributions.

The market price for units of the Trust is determined by the actions of buyers and sellers in the market. During the year ended December 31, 2009, the daily closing price of the units fluctuated between \$2.54 and \$7.19 (year ended December 31, 2008: between \$4.50 and \$11.55).

## Distributions

During the year ended December 31, 2009, the Trust made distributions totaling \$3.60 per unit (\$14,270,443 was distributed in aggregate) compared to \$0.85 per unit (\$3,694,732 in aggregate) during the year ended December 31, 2008.

The Trust is required to distribute all of its net income and net realized capital gains so that the Trust will not be liable to pay income tax under Part I of the Income Tax Act.

The character of the quarterly distributions for tax purposes has been determined as of the end of the year in accordance with the trust agreement of the Trust and the tax laws then in effect. There can be no assurance that income tax laws will not be changed in a manner that adversely affects the Trust or distributions paid by the Trust and the Manager will continue to monitor any changes in the tax laws as they occur.

The following table represents the distribution of the Trust for the year ended December 31, 2009.

### Distribution History

<b>Record date</b>	<b>Date distribution paid</b>	<b>Character of distribution for tax purposes</b>	<b>Amount per unit</b>
March 31, 2009	April 29, 2009	Return of Capital	\$ 0.15
June 30, 2009	July 29, 2009	Return of Capital	\$ 3.29
September 30, 2009	October 29, 2009	Return of Capital	\$ 0.08
December 31, 2009	January 29, 2010	Return of Capital	\$ 0.08

### 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 are offered for sale is less than 92.5% of the current reported net asset value per unit as at the close of business on the preceding valuation date.

In August of 2008, the Trust filed a notice of intention to make normal-course purchases of units with the Toronto Stock Exchange. In that filing the Trust indicated an intention to purchase up to 428,607 of the units of the Trust, representing 10% of the public float of the Trust then outstanding during the period from September 11, 2008 to September 10, 2009. In accordance with exchange rules and by-laws, the Trust may not pay more than the most recent market price for the units purchased. Units purchased under the bid are cancelled. In anticipation of the scheduled wind-up and termination of the Trust under the terms of its offering documents, the Trust did not renew the notice of intention to make normal-course purchases of units after the September 10, 2009 expiry of its previous normal course issuer bid filing.

During the year ended December 31, 2009, the Trust purchased 386,300 units for total proceeds of \$1,800,468 (year ended December 31, 2008: 398,500 units for \$3,892,171 in cash) for cancellation under this program. During the year ended December 31, 2009, this program contributed 1.89% to the overall return (year ended December 31, 2008: 0.90% contribution to overall return).

### Potential Tax implication of Wind-Up

The Manager commenced cash distributions (“Termination Distributions”) to unitholders of record as of June 30, 2009 in connection with the scheduled termination of the Trust. As previously announced by the Trust, upon the payment of the initial Termination Distribution to unitholders of record as of June 30, 2009, the percentage of certain illiquid holdings in relation to the Trust’s assets exceeded the 10% concentration limits and thereby caused the Trust to cease to qualify as a unit trust for Canadian income tax purposes effective as of July 29, 2009.

Since the Trust no longer qualified as a unit trust, it no longer qualified as a mutual fund trust for Canadian income tax purposes and the Trust is no longer a “qualified investment” for registered accounts, including without limitation, RRIF’s, RRSP’s and RESP’s. If you have not already done so, investors are advised to speak with their advisors as soon as possible to obtain tax advice regarding the failure of the Trust to maintain its “qualified investment” status.



## Future Accounting Standards

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises such as investment funds and other reporting issuers. The Canadian Securities Administrators (the “CSA”) has issued CSA Staff Notice 52-320, which requires Northwater to provide progress updates on the changeover plan to the new reporting standards at each interim and annual reporting period up until the changeover date. The Fund is developing a changeover plan to meet the timeline published by the CICA. The key elements of the plan include the disclosures of the qualitative and quantitative impact, if any, in the 2010 financial statements and preparation of the 2011 financial statements in accordance with IFRS. Northwater anticipates there will be changes to the financial statements but the impact, if any, cannot be reasonably estimated at this time. Northwater does anticipate an increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and changes needed to gather and process the required information.

## Independent Review Committee Report

Dear Investor:

Effective November 1, 2007, the advisory board (the “Advisory Board”) of Northwater Market-Neutral Trust (the “Trust”) was designated as the independent review committee of the Trust (the “IRC”) pursuant to the provisions of *National Instrument 81-107, Independent Review Committee for Investment Funds*.

This report is the IRC’s third annual report to unitholders of the Trust under the requirements of National Instrument 81-107. However, the Advisory Board has reported annually to unitholders since March 10, 2006.

Our role as required by securities regulators is to review investment fund conflict of interest matters identified and referred to us by Northwater Fund Management Inc. (the “Manager”) and to give our approval or recommendation with respect to such matters. The focus of our review of such conflict of interest matters is whether or not the Manager’s proposed action achieves a fair and reasonable result for the Trust.

At least once per year, we will also review the Manager’s policies and procedures relating to conflict of interest matters and will assess the adequacy and effectiveness of such policies and procedures in respect of the Trust.

In addition to the regulatory requirements for independent fund governance, we are also retaining our role as an advisory board and, as such, assisting the Manager on other issues relating to the management and operation of the Trust.

As previously disclosed by the Trust, the Trust was scheduled to terminate effective as of December 31, 2009. The IRC worked with the Manager throughout 2009 in accordance with the terms of our mandate. Unfortunately, all portfolio investments could not be liquidated by the scheduled termination date of the Trust on December 31, 2009.

We look forward to continuing our open and effective relationship with the Manager for the benefit of the Trust.

Regards,



Peter Vesely  
Chair of the Independent Review Committee

## Members of the Independent Review Committee

## Length of Service on Advisory Board / IRC

<u>Name</u>	<u>Residence</u>	<u>First Appointed</u>
Ann Marshall	Toronto, Ontario	March 10, 2006
Peter Vesely	Toronto, Ontario	November 1, 2007

\* As disclosed in the 2009 Letter to Investors, Jeffrey Francoz resigned his position as Chair of the IRC with effect as of March 31, 2009. There were no other changes in the composition of the IRC during the period.

\* Ann Marshall also serves as an independent review committee member for iShares funds managed by Barclays Global Investors Canada Limited. Peter Vesely does not currently serve as an independent review committee member for other investment funds other than those managed by the Manager.

## Holdings of Securities

(a) The Trust

As at December 31, 2009, the percentage of units of the Trust beneficially owned, directly or indirectly, in aggregate, by all members of the IRC did not exceed 10%.

(b) The Manager

As at December 31, 2009, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of the Manager.

(c) Service Providers

As at December 31, 2009, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of a company that provides services to the Trust or the Manager that could reasonably result in an actual or perceived loss of independence of the member.

The IRC is pleased to report on its activities for the period ended December 31, 2009.

Both members of the IRC are non-related and independent of management.

### **General**

During the period ended December 31, 2009, the members of the IRC held four meetings. Both members of the IRC attended all of the meetings held by the IRC during the period.

During the period ended December 31, 2009, the IRC reviewed: (i) the Charter of the IRC, (ii) the reporting to unitholders as required by National Instrument 81-106, (iii) periodic reports on the performance and the composition of the investment portfolio of the Trust, (iv) compliance with Investment Guidelines, (v) the compensation of IRC members to determine whether such compensation continues to be reasonable, (vi) the presentation of certain information in the quarterly and annual reports, and (vii) the standing instructions issued to the Manager in respect of conflict of interest matters under National Instrument 81-107. The IRC also reviewed the various policies and procedures of the Manager related to conflict of interest matters to determine their adequacy and effectiveness.

During the period ended December 31, 2009, the Manager advised the members of the IRC of the difficulties experienced by the Trust in its efforts to liquidate its portfolio to meet the December 31, 2009 scheduled termination of the Trust. The Manager further advised the IRC of its intention to seek alternative means of monetizing and liquidating the portfolio in an effort to return capital to unitholders on the scheduled termination date or as soon as reasonably practicable after the scheduled termination date. Unfortunately, as of the date of this report it has not been possible to liquidate the portfolio and the Trust continues to exist and the Manager continues to monitor the portfolio and work with the underlying hedge fund managers to seek to liquidate the portfolio in as timely and efficient a manner as possible. The Manager brought these matters to the attention of the IRC solely for informational purposes and did not represent these matters to the IRC as presenting any sort of conflict of interest matter requiring review by the IRC.

The IRC reports that management of the Manager has been open and cooperative, permitting the members to review such documents and speak to such members of management of the Manager as deemed necessary by the IRC in order to properly execute their responsibilities.

### **Compensation and Indemnities**

The aggregate compensation paid by the Trust to the IRC for the twelve-month period through December 31, 2009 was \$16,403.80.

No indemnities were paid to the IRC during the period.

The initial compensation of the IRC was set by the Manager. At least annually, the IRC will review their compensation giving consideration to the following:

1. the best interests of the Trust;
2. that compensation paid to the IRC by the Trust should fairly and reasonably reflect the general and specific benefits accruing to the Trust;
3. the recommendation of the Manager;
4. the nature and complexity of the Trusts business; and
5. the nature and extent of the workload of each member of the IRC.

## Conflict of Interest Matters

No Conflict of Interest Matters were referred to the IRC during the period. The IRC is not aware of any instance in which the Manager acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation.

Furthermore, the IRC is not aware of any instance in which the Manager acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation or approval.

The Manager relied on the following standing instructions of the IRC in the period. In each case, the standing instructions required the Manager to comply with its related policy and procedures and to report periodically to the IRC.

### *Standing Instructions*

1. allowing transfers between the Trust and other entities advised by the Manager, provided that all such transfers will exclusively involve hedge fund investments transferred at an independently determined net asset value and must be consistent with the investment guidelines of the transferee; and
2. allowing the Manager and its affiliates to act in various capacities with respect to other entities, including without limitation in such capacities as manager, investment advisor, administrator or trustee, provided that the Manager and its affiliates shall in all cases act in accordance with its Procedures for Minimizing Potential Conflicts of Interest and its Code of Ethics.

The Manager also received positive recommendations and standing instructions with respect to the conflict of interest matters addressed by the following policies. In each case, the standing instructions required the Manager to comply with its related policies and procedures and to periodically report to the IRC.

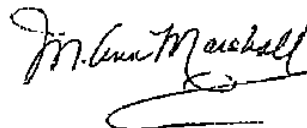
### *Policies that address conflicts of interest matters*

1. Statement of Policies Respecting Related and Connected Issuers and Procedures for Minimizing Potential Conflicts of Interest
2. Code of Ethics
3. Allocation of Trades Procedures
4. Selection of Brokers, Best Execution and Soft Dollar Procedures
5. Consistency of Client Portfolio with Client Investment Objectives
6. Personal Securities Transactions Policy
7. Insider Trading Policy
8. Cross Trading Procedures

We look forward to continuing to discharge our duties in 2010 for the benefit of the Trust.



**Peter Vesely**



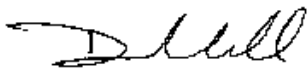
**Ann Marshall**

## Management's Responsibility

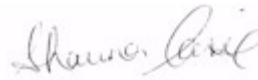
The accompanying financial statements have been prepared by Northwater Fund Management Inc (the "Manager"), and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and other sections of the annual 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 judgments. The significant accounting policies that management believes are appropriate for the Trust are described in note 2 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 20.



Daniel Mills, CFA  
Managing Director



Shauna Cassidy, CFA  
Vice President

August 30, 2010

August 30, 2010

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
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Royal Trust Tower, Suite 3000  
Toronto-Dominion Centre  
Toronto, Ontario  
Canada M5K 1G8  
Telephone +1 416 863 1133  
Facsimile +1 416 365 8215  
[www.pwc.com/ca](http://www.pwc.com/ca)

**Auditors' Report**

**To the Unitholders of  
Northwater Market-Neutral Trust**

We have audited the statement of investment portfolio of **Northwater Market-Neutral Trust** (the Trust) as at December 31, 2009, the statements of net assets as at December 31, 2009 and 2008 and the statements of operations, changes in net assets and cash flows for the years then ended. 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 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, 2009 and 2008 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

## NORTHWATER MARKET-NEUTRAL TRUST

### Statements of Net Assets

	As at December 31, 2009	As at December 31, 2008
<b>Assets</b>		
Cash and short-term investments (cost: 2009 - \$6,083,609; 2008 - \$11,440,374)	\$ 6,083,640	\$ 10,144,376
Short-term investments held as margin deposited on futures contracts – at market value (note 6) (cost: 2009 - \$199,976; 2008 - \$1,295,723)	199,994	1,297,647
Hedge fund investments – at fair value (note 4) (cost: 2009 - \$10,582,148; 2008 - \$29,740,622)	7,596,327	26,844,541
Prepaid interest on loans	-	4,373
Settlement receivable on currency futures (note 6)	75,273	270,639
Hedge fund redemptions receivable (note 3)	501,266	1,322,384
	<u>14,456,500</u>	<u>39,883,960</u>
<b>Liabilities</b>		
Audit, legal and custody fees payable	53,626	73,742
Management fees payable (note 9)	47,127	108,520
Interest and standby fees payable	-	1,964
Distribution payable (note 13)	303,049	667,906
Bank loan (note 7)	-	6,981,592
Hedge fund investment sale in advance	-	1,144,272
	<u>403,802</u>	<u>8,977,996</u>
<b>Net assets</b>	<u>\$ 14,052,698</u>	<u>\$ 30,905,964</u>
<b>Net assets and unitholders' equity (note 8)</b>		
Unit capital	\$ 71,302,567	\$ 91,014,866
Contributed surplus	23,310,368	17,852,138
Deficit	(80,560,237)	(77,961,040)
<b>Total</b>	<u>\$ 14,052,698</u>	<u>\$ 30,905,964</u>
<b>Number of units outstanding (note 8)</b>	<u>3,788,115</u>	<u>4,174,415</u>
<b>Net assets per unit</b>	<u>\$ 3.71</u>	<u>\$ 7.40</u>

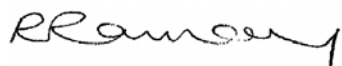
Signed on behalf of the Trustee,

RBC Dexia Investor Services Trust

Per:



Per:



## NORTHWATER MARKET-NEUTRAL TRUST

### Statements of Operations

	For the year ended December 31, 2009	For the year ended December 31, 2008
<b>Investment income</b>		
Interest income	\$ 38,141	\$ 183,370
Other income	30,801	1,581
	68,942	184,951
<b>Expenses</b>		
Management fees (note 9)	271,053	586,809
Audit fees	99,335	85,550
Independent review committee fees	15,929	21,620
Custodian and trustee fees	3,155	11,349
Legal fees	-	55,795
Security holder reporting costs	71,401	92,696
Interest and standby fees (note 7)	34,675	318,505
Transaction costs	5,299	13,454
	500,847	1,185,778
<b>Net investment loss</b>	<b>(431,905)</b>	<b>(1,000,827)</b>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized gain (loss) on:		
Hedge fund investments	(1,758,656)	9,205,521
Currency futures (note 6)	2,502,952	(10,111,401)
Change in unrealized appreciation (depreciation) on:		
Hedge fund investments	(89,740)	(6,967,436)
Currency futures (note 6)	(195,366)	873,822
Net loss on currency, excluding hedge fund investments	(809,640)	(7,284,430)
<b>Net realized and unrealized loss on investments for the year</b>	<b>(350,450)</b>	<b>(14,283,924)</b>
<b>Decrease in net assets from operations for the year</b>	<b>\$ (782,355)</b>	<b>\$ (15,284,751)</b>
<b>Decrease in net assets from operations per unit for the year*</b>	<b>\$ (0.20)</b>	<b>\$ (3.51)</b>

\*Based on the average number of units outstanding of 3,943,507 (2008 – 4,350,669) for the year.

## NORTHWATER MARKET-NEUTRAL TRUST

### Statements of Changes in Net Assets

	For the year ended December 31, 2009	For the year ended December 31, 2008
<b>Net assets – beginning of the year</b>	\$ 30,905,964	\$ 53,777,617
<b>Decrease in net assets from operations for the year</b>	(782,355)	(15,284,751)
<b>Unit transactions (note 8)</b>		
Cancellation of units	(1,800,468)	(3,892,170)
	(1,800,468)	(3,892,170)
<b>Distributions to unitholders (note 10)</b>		
Return of capital	(14,270,443)	(3,694,732)
	(14,270,443)	(3,694,732)
<b>Net assets – end of the year</b>	\$ 14,052,698	\$ 30,905,964

## NORTHWATER MARKET-NEUTRAL TRUST

### Statements of Cash Flows

	For the year ended December 31, 2009	For the year ended December 31, 2008
<b>Cash flows from operating activities</b>		
Decrease in net assets from operations	\$ (782,355)	\$ (15,284,751)
Items not affecting cash:		
Change in unrealized depreciation in value of hedge fund investments	89,740	6,967,436
Change in unrealized depreciation (appreciation) in value of currency futures	195,366	(873,822)
Net realized loss (gain) on hedge fund investments	1,758,656	(9,205,521)
Changes in non-cash working capital:		
Change in payables and other assets	(79,100)	(79,572)
Purchase of hedge fund investments	(1,144,272)	(4,725,414)
Proceeds on sale of hedge fund investments	18,220,936	39,666,001
Change in short-term pledged as collateral on futures contracts	1,097,653	275,536
	19,356,624	16,739,893
<b>Cash flows from financing activities</b>		
Repayment of bank loan	(6,981,592)	(5,597,052)
Distributions paid	(14,635,300)	(12,172,656)
Units purchased for cancellation	(1,800,468)	(3,892,171)
	(23,417,360)	(21,661,879)
Net decrease in cash and short-term investments	(4,060,736)	(4,921,986)
Cash and short-term investments at the beginning of the year	10,144,376	15,066,362
<b>Cash and short-term investments at the end of the year</b>	<b>\$ 6,083,640</b>	<b>\$ 10,144,376</b>
Supplementary information:		
Interest paid	\$ 23,161	\$ 308,298

## NORTHWATER MARKET-NEUTRAL TRUST

### Statement of Investment Portfolio

As at December 31, 2009

	Credit rating	Maturity date	Face value	Cost	Fair value	Fair value as a % of net assets
<b>Hedge fund investments*</b>						
Asset-backed securities arbitrage				\$ 1,355,435	\$ 1,533,397	10.91%
Distressed securities arbitrage				638,383	1,640,805	11.68%
Mortgage-backed security arbitrage				1,248,716	679,545	4.84%
Multi-strategy				2,020,775	1,653,081	11.75%
Statistical arbitrage				157,129	70,073	0.50%
Structured finance				5,161,710	2,019,426	14.37%
<b>Hedge fund investments</b>				<b>10,582,148</b>	<b>7,596,327</b>	<b>54.05%</b>
<b>Cash</b>				<b>333,914</b>	<b>333,914</b>	<b>2.38%</b>
<b>Treasury bills **</b>						
Government of Canada	R-1(H)	January 7, 2010	\$ 4,050,000	4,049,814	4,049,879	28.82%
Government of Canada (note 6)	R-1(H)	January 7, 2010	200,000	199,976	199,994	1.42%
Government of Canada	R-1(H)	January 21, 2010	1,700,000	1,699,881	1,699,847	12.10%
<b>Cash and short-term investments</b>				<b>6,283,585</b>	<b>6,283,634</b>	<b>44.72%</b>
<b>Total investment portfolio</b>				<b>\$ 16,865,733</b>	<b>13,879,961</b>	<b>98.77%</b>
<b>Other net assets</b>					<b>172,737</b>	<b>1.23%</b>
<b>Total net assets and unitholders' equity</b>					<b>\$ 14,052,698</b>	<b>100.00%</b>

\*These investments are denominated in U.S. dollars and have been converted to Canadian dollars at the prevailing year end rate.

\*\* Short-term investments held at December 31, 2009 have yields ranging from 0.20% to 1.50%; credit ratings as at December 31, 2009 as per DBRS rating agency.

## NORTHWATER MARKET-NEUTRAL TRUST

### Notes to Financial Statements

For the year ended December 31, 2009 and 2008

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#### 1. Establishment and Operations of the Trust

The Northwater 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 amended and restated on August 17, 1999 (the "Trust Agreement"). The Trust Agreement was further amended as a result of a special meeting of unitholders held on April 19, 2004. RBC Dexia Investor Services ("RBC Dexia") acts as Trustee. The Trust retained Northwater Fund Management Inc., then known as Newcastle Fund Management Inc., (the "Manager") under a management agreement dated July 18, 1997. The Trust began operations on July 30, 1997 when it completed its initial public offering. The Trust's units were listed on the Toronto Stock Exchange under the symbol NMN.UN but were delisted on December 31, 2009.

The Trust began the process of winding up in 2008 in anticipation of the December 31, 2009 scheduled termination date ("Termination Date"). The Manager began distributing net assets pro-rata to unitholders on record as of June 30, 2009 with the initial termination distribution of \$3.14 per unit. The Trust has made a second termination distribution after year-end to unitholders on record as of January 27, 2010 of \$1.54 per unit. Despite efforts to have redeemed from all of the hedge fund positions prior to the scheduled Termination Date, the Trust continues to own illiquid positions that are in the process of returning capital over an extended period of time. The Manager continues to seek alternative means of affecting the monetization of the underlying hedge fund portfolio of the Trust in an effort to distribute the proceeds to unitholders as soon as practicable. In the event that the Manager pursues an alternative means of monetizing the underlying hedge fund portfolio, it is likely that the value achieved through such transactions may materially differ from the net asset values and estimates received from administrators or managers of the Trust's underlying hedge funds. As at December 31, 2009, all of the underlying hedge fund positions have restrictions on liquidity and the Manager anticipates that the Trust will continue to operate and wind down its portfolio throughout 2010 and beyond until all of the Trust's assets have been distributed.

Throughout the year the assets of the Trust were invested in cash and short-term investments, a diversified portfolio of market-neutral hedge funds and currency futures contracts. The currency futures contracts were terminated on December 31, 2009.

#### 2. Summary of Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

##### Adoption of Accounting Standards/Amendment

In March 2009, the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), was amended to include enhanced disclosures about inputs to fair value measurement, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The standard also established a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

## 2. Summary of Significant Accounting Policies (continued)

The Trust generally uses the definitive net asset values reported by the underlying administrators or portfolio managers or, if not available, the most recent provisional net asset values based on preliminary returns reported by the administrators or the portfolio managers of such funds, as the primary input to its valuation; however, where deemed appropriate, adjustments to the reported net asset value of the underlying fund may be made based on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, and any restrictions or illiquidity on such interests, and the fair value of such fund's investment portfolio or other assets and liabilities.

The amendments to Section 3862 are effective for annual financial statements relating to annual periods ending after September 30, 2009 and have been reflected in these notes to the financial statements.

As a result, investments measured and reported at fair value are classified into one of the following three categories:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 Inputs that are not based on observable market data.

The following paragraphs outline the accounting policies of the Trust.

### (a) Cash and short-term investments

Cash and short-term investments including short-term investments held as margin consist of cash in interest bearing accounts at RBC Dexia, cash held with the futures broker and short-term investments with maturities generally less than 90 days when purchased. Short-term investments are valued at the bid price for such instruments on each Valuation Date. Interest income is accrued on a monthly basis.

### (b) Investments in market-neutral hedge funds

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

Investments in market-neutral hedge funds are valued on the basis of the definitive net asset values reported by the administrators or the portfolio managers of such funds on the Valuation Date or, if not available, the most recent provisional reported net asset values based on preliminary returns reported by the administrators or the portfolio managers of such funds. In determining the definitive or provisional reported net asset values, certain hedge funds may be required to make estimates and assumptions that affect the reported net asset values. The Manager may, in its sole discretion, use a different valuation methodology to price the underlying hedge funds, that in the opinion of the Manager, is more reflective of fair value. Actual results could differ from those estimates. The difference between fair value and cost is shown as an unrealized gain or loss on hedge fund investments. Average cost is used to compute realized and unrealized gains and losses.

Hedge Fund redemptions receivable are fair valued based on the facts and circumstances surrounding the collectability of amounts receivable.

### (c) Currency Hedging

Throughout the years ended December 31, 2008 and 2009, the Trust entered into exchange-traded currency futures contracts to hedge the Canadian dollar value of portfolio securities and liabilities denominated in foreign currencies. As at December 31, 2009, the currency hedging program was eliminated and all futures contracts were terminated. This allowed for the release of cash that was previously required to be reserved for the purpose of settling the Trust's obligations under the currency hedging program. The following paragraphs describe the currency hedging program that was in effect.

## 2. Summary of Significant Accounting Policies (continued)

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

Futures contracts were valued at their bid price, as published by the clearing house of the relevant exchange, on each Valuation Date. In the absence of reported bid and offer quotations, the Manager may, from time to time, have determined a value that more accurately reflected the fair value based on the current market value of the underlying interest. The notional values of the futures contracts were not recorded as assets in the Statements of Net Assets.

### (d) Foreign Currency Translation

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

### (e) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### (f) Transaction Costs

Transaction costs are expensed and are included in the Statement of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment.

### 3. Financial Instrument Risk

The Trust's investment activities may expose it to a variety of financial risks including market price risk, liquidity risk, currency risk, interest rate risk, and credit risk. The following provides an overview of these risks and describes actions taken by the Trust in an effort to mitigate the potential adverse impact of these risks on the performance of the Trust.

Material changes affecting the overall risk of investing in the Trust include a decrease in diversification due to the reduced number of hedge fund investments in the Trust's portfolio, the liquidity restrictions imposed by many of the underlying hedge fund managers and the elimination of the currency hedging program.

The hedge fund industry, like other market participants, has continued to be subject to turmoil in the capital markets. This has impacted the returns and the volatility of the Trust in 2009. In addition, as the Trust is going through the wind up process its exposure to hedge funds has continuously changed and the diversification of its hedge fund holdings has decreased, causing concentration risk to increase. Hence, the overall risk profile of the Trust has been impacted as discussed below.

#### Market price risk

Market price risk is the risk that the future value of a financial instrument will fluctuate as a result of changes in its market price, whether caused by factors specific to the individual investment, its issuer, or any other market factor that may affect its price.

The Trust invests its assets primarily in a portfolio of privately offered market-neutral hedge funds. The hedge funds are priced in the Trust's portfolio based on net asset values and monthly returns reported by administrators and managers of such funds. No published market exists for the hedge funds held by the Trust. The process of fair valuing these hedge funds is based upon the fair value of the underlying holdings of each hedge fund. These values may differ from values available had a ready market existed for such hedge funds and may differ from the prices at which such hedge funds may be sold. The Trust may have indirect exposure to market price risk in the event the underlying funds are invested in equities.

Prior to the commencement of the wind down of the Trust, the Manager attempted to mitigate market price risk by investing in a diversified portfolio of market-neutral hedge funds. As the Trust has liquidated underlying hedge fund positions, portfolio diversification has decreased. This has resulted in an increase in the risk of the Trust's overall performance being materially affected by a change in price of an individual hedge fund position.

The impact on net assets of the Trust, based on a change in the strategy's returns, as approximated by that strategy's standard deviation, is included in the following table.

Strategy	As at December 31, 2009	As at December 31, 2009	As at December 31, 2008	As at December 31, 2008
	Potential change in strategy return *		Potential change in strategy return *	
Activist investments	-	\$ -	16.72%	\$ 186,164
Asset-backed securities arbitrage	5.38%	82,713	4.93%	235,537
Distressed securities arbitrage	9.27%	152,162	10.38%	245,491
Fixed-income arbitrage	-	-	28.19%	325,719
Mortgage-backed security arbitrage	15.28%	103,832	12.94%	353,309
Multi-strategy	19.26%	318,344	17.23%	601,476
Re-insurance arbitrage	-	-	4.46%	38,551
Statistical arbitrage	28.97%	20,297	14.44%	449,949
Structured finance	30.30%	611,938	30.09%	755,729

\* Potential change in strategy return is based on standard deviation for each strategy as measured in U.S. dollars over the past 24 months for hedge funds in the hedge fund portfolio as at December 31, 2009 and December 31, 2008, respectively.

In practice, actual results may differ from this sensitivity analysis and this difference could be material.

### 3. Financial Instrument Risk (continued)

#### Liquidity risk

Liquidity risk is the risk that the Trust will encounter difficulty in meeting its obligations associated with its financial liabilities. The financial liabilities of the Trust may consist of loans, distributions, settlement of futures contracts, obligations due to market support requirements and fees to service providers.

The Trust investments primarily consist of privately offered hedge funds for which there is no active secondary market. As such, the investments are illiquid. The Trust is subject to redemption restrictions for all of the hedge funds remaining in its portfolio. These hedge funds are in the process of returning capital over an extended period of time. Redemptions may, in some cases, be subject to lock-up periods, gates, suspensions and side pocket restrictions.

A credit facility that was available to provide liquidity within certain restrictions was terminated by the Trust on November 19, 2009. With the termination of the currency hedging program, the Trust does not anticipate any exposure that would not be satisfied with the Trust's current cash position or through the proceeds from the redemption of hedge fund positions.

To mitigate liquidity risk, the hedge fund portfolio has been diversified across different managers and strategies. However, many of the trading strategies employed by hedge funds, which depend on functional financial markets, including the ability of managers to enter into short positions, have suffered losses not only due to market movements, but also due to liquidity constraints. Certain of the managers have been unable to sell assets to prevent additional losses or fund investor redemptions. Continuing illiquidity has caused numerous underlying hedge funds held by the Trust to invoke various restrictions on redemptions including, without limitation restricting redemptions to a limited percentage of the aggregate net asset value of such underlying hedge funds (invoking gates), the temporary suspension of redemptions altogether, or the commencement of a controlled liquidation and wind-up of the underlying hedge funds' business.

The Investment Advisor has been managing the Trust's portfolio taking into account the Trust's Termination Date. As such, as of December 31, 2008, the Manager submitted redemption requests to all of the underlying hedge funds. No new investments were made during the year ended December 31, 2009.

The payments of redemptions expected in 2010 from hedge fund investments will be \$3,144,432 (41% of the total hedge fund portfolio).

The payments of redemptions expected beyond 2010 from hedge fund investments will be \$4,451,895 (59% of the total hedge fund portfolio).

The receipt of redemption proceeds by the Trust has extended beyond the scheduled Termination Date and has impacted the timing of distributions of the assets to unitholders.

### 3. Financial Instrument Risk (continued)

As at December 31, 2009, the Trust has hedge fund redemption receivables outstanding of \$501,266 (2008: \$1,322,384) net of a provision of US\$215,739 (2008: US\$471,161). The Trust is exposed to liquidity risk as these amounts may not be realized (collected) for an extended period of time. The hedge fund receivables aging was as follows:

As at December 31, 2009:

	< 60 days	61-90 days	91 -120 days	> 120 days	Total
Hedge Fund Redemptions Receivables	\$ -	\$ -	\$ 184,306	\$ 316,960	\$ 501,266

As at December 31, 2008:

	< 60 days	61-90 days	91 -120 days	> 120 days	Total
Hedge Fund Redemptions Receivables	\$ 137,251	\$ -	\$ 201,274	\$ 983,859	\$ 1,322,384

The Investment Advisor is in regular contact with hedge fund administrators to determine timing of receipt of remaining redemptions. Most of the receivables outstanding as at year end fall into two categories: audit holdbacks, which represent a small percentage of redemptions being withheld by the hedge fund managers on full redemptions pending completion of the audit; and liquidation, which primarily represent underlying hedge fund positions in assets that are being liquidated.

The below table shows hedge fund redemptions receivable broken down by type.

Type	As at December 31, 2009	As at December 31, 2008
Audit Holdbacks	\$ 30,498	\$ 714,797
Liquidations	470,768	607,587
	\$ 501,266	\$ 1,322,384

### 3. Financial Instrument Risk (continued)

#### Credit risk

As at December 31, 2009, the Trust invests in debt obligations of a government issuer in addition to its hedge fund investments. These financial instruments involve the risk that the counterparty cannot or will not fulfill its obligations in respect of such financial instruments.

The Trust also assumes credit risk to its financial counterparties in connection with cash. In evaluating credit risk, the Manager will often be dependent upon information provided by the counterparty or a rating agency which may be materially inaccurate. As at December 31, 2009, the credit rating of the counterparty was as follows:

<b>Counterparty to:</b>	<b>Balance</b>	<b>Credit rating</b>
Cash at custodian	\$ 96,542	AA-*
Cash at broker	\$ 237,372	A+*
Short-term investments	\$ 5,949,720	R-1(H)**

\* credit ratings as per Standard and Poor's rating agency.

\*\* credit ratings as per DBRS rating agency.

As at December 31, 2008, the credit rating of the counterparties was as follows:

<b>Counterparty to:</b>	<b>Balance</b>	<b>Credit rating</b>
Cash at custodian	\$ 1,179,508	AA-*
Cash at broker	\$ 11,232	A+*
Short-term investments	\$ 10,251,283	R-1(H)**
Credit facilities	\$ 6,981,592	AA-*

\* credit ratings as per Standard and Poor's rating agency.

\*\* credit ratings as per DBRS rating agency.

For all fixed income securities purchased, the debt issuer must have a credit rating of R-1 Mid or higher as per DBRS. For a listing of all current ratings by debt issuer see the Statement of Investment Portfolio.

Certain of the hedge funds invest in various debt securities and as such are exposed to movements in credit markets. In many cases hedge fund managers mitigate their risk to overall credit market changes through various hedging techniques.

In addition, credit risk on hedge fund investments is mitigated through a due diligence process which focuses on monitoring each hedge fund investment.

#### Currency risk

Currency risk arises from the Trust holding financial instruments denominated in a currency other than Canadian dollars, which is the Trust's functional currency.

The Trust has invested in various underlying funds and may have indirect exposure to the currency risk in the event the underlying funds invested in financial instruments which are denominated in other currencies. As the Trust invests in hedge fund investments that are primarily denominated in U.S. dollars, the value of such investments may fluctuate with the exchange rate. To manage its currency risk, the Trust attempted to hedge such currency fluctuations through the use of currency futures. As at December 31, 2009, the Termination Date of the Trust, the hedging program was ceased in order to maximize the return of capital to investors.

### 3. Financial Instrument Risk (continued)

As at December 31, 2009, the Trust's currency risk exposure is to U.S. dollar cash, U.S. dollar hedge fund investments and U.S. dollar hedge fund redemptions receivables for a net exposure of US\$7,902,290 (2008: U.S. dollar cash & short-term investments, U.S. dollar currency futures, U.S. dollar hedge fund investments, U.S. dollar hedge fund redemptions receivables, U.S. dollar hedge fund investment sale in advance and U.S. dollar bank loan for a net exposure of US\$1,270,451).

The impact on net assets per 1% change in the Canadian dollar would have been \$82,650 (2008: \$15,422). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

#### Interest rate risk

Interest rate risk is the risk that a change in interest rates will adversely affect the fair value of fixed income securities or cause fluctuations in future cash flows of a financial instrument. The financial instruments which potentially expose the Trust to interest rate risk are short-term fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price sensitive a security is to changes in interest rates. The effective duration of a security indicates the approximate change in fair value expected for a 1% change in interest rates. The longer the duration, the more sensitive the security is to changes in interest rates. The Trust has minimal sensitivity to change in rates since fixed-income securities are usually held to maturity and are short-term in nature. In practice, actual results may differ from this sensitivity analysis and the difference could be material. The Trust has invested in various underlying funds and may have indirect exposure to interest rate risk in the event the underlying funds invested in interest bearing financial instruments.

### 4. Investment in Market-Neutral Hedge Funds

In anticipation of the Trust's scheduled Termination Date, the Trust began the redemption process from the underlying hedge funds towards the end of 2008. Despite these efforts, the Trust continues to own illiquid hedge fund positions that are in the process satisfying redemption requests by returning capital over an extended period of time.

The market-neutral hedge funds included in the Trust's portfolio are organized and domiciled in non-U.S. jurisdictions consisting primarily of the Cayman Islands, Bermuda and the British Virgin Islands. These market-neutral hedge funds are managed by independent portfolio managers who are compensated for their services by the respective market-neutral hedge funds they manage. Such compensation generally consists of an asset-based advisory fee, ranging from 1% to 2% annually, and a performance-based incentive fee, generally 20% of net profits earned above a high water mark. Compensation paid to independent portfolio managers of the market-neutral hedge funds is not separately computed and disclosed by the Trust but rather is reflected in the valuation of each market-neutral hedge fund. Redemption provisions for the market-neutral hedge funds vary ranging generally from 30 days' notice to 180 days' notice and may be subject to lock-up and gating provisions.

The Manager of the Trust continues to actively seek alternative means of affecting the monetization of the Trust's hedge fund investments in an effort to distribute the proceeds to unitholders as soon as practicable. In the event that the Manager pursues an alternative means of monetizing the underlying hedge fund investments, it is likely that the value achieved through such transactions may materially differ from the net asset values and estimates received from administrators or managers of the Trust's underlying hedge funds.

The following table shows the hedge fund holdings by strategy as at December 31, 2009 and December 31, 2008. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

#### 4. Investment in Market-Neutral Hedge Funds (continued)

Strategy	As at December 31, 2009			As at December 31, 2008		
	No. of Hedge Funds	Fair Value		No. of Hedge Funds	Fair Value	
Activist investments	-	\$ -		1	\$ 1,351,261	5%
Asset-backed securities arbitrage	2	1,533,397	20%	3	5,790,168	22%
Distressed securities arbitrage	2	1,640,805	22%	2	2,869,818	11%
Fixed-income arbitrage	1	-	0%	3	1,402,414	5%
Mortgage-backed security arbitrage	2	679,545	9%	3	3,313,968	12%
Multi-strategy	3	1,653,081	22%	4	4,236,603	16%
Re-insurance arbitrage	-	-		2	1,048,106	4%
Statistical arbitrage	3	70,073	1%	3	3,783,424	14%
Structured finance	4	2,019,426	26%	4	3,048,779	11%
	17	\$ 7,596,327	100%	25	\$ 26,844,541	100%

In preparation for the wind up the Trust has submitted redemption requests to all of the underlying hedge funds as at December 31, 2009.

#### 5. Fair Value Measurements

The following table presents the investments carried on the statement of net assets by level within the valuation hierarchy as of December 31, 2009.

	Assets at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Short-term investments – at fair value	\$ 5,949,720	\$ -	\$ -	\$ 5,949,720
Hedge fund investments - at fair value	-	-	7,596,327	7,596,327
Total	\$ 5,949,720	\$ -	\$ 7,596,327	\$ 13,546,047

The following table includes a roll-forward of the amounts for the year ended December 31, 2009 for investments classified within level 3. The classification of an investment within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

	Fair value measurement using level 3 inputs
	Hedge Fund investments
Balance at beginning of year	\$ 26,844,541
Net purchases and sales	(17,399,817)
Gains/(Losses)	
Realized	(1,758,656)
Unrealized	(89,740)
Balance at end of year	\$ 7,596,327

## 6. Futures Contracts

As at December 31, 2009, the Trust had terminated futures contracts that it had entered into to hedge the currency exposure of portfolio securities and liabilities of the Trust denominated in foreign currencies.

As at December 31, 2009, short-term investments with a face value of \$200,000 (2008: US\$1,000,000) were deposited as initial margin for currency futures contracts. As at December 31, 2009, the initial margin requirement for the futures contracts was US\$ nil (2008: US\$1,131,900).

## 7. Bank Loan

The Trust had a revolving loan facility with a Canadian financial institution (the "Bank") that was terminated on November 19, 2009.

The facility entitled the Trust to borrow funds in Canadian or U.S. dollars up to an amount not exceeding 25% of the reported net asset value of the Trust for the purposes of making additional investments. In addition, the Trust may have borrowed, on a temporary basis, up to 10% of the reported 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. A general security interest in the assets of the Trust had been provided in favour of the Bank.

Throughout the year ended December 31, 2009, the bank loan fluctuated between \$nil and \$6,981,592 (year ended December 31, 2008 the loan varied between: \$3,356,096 and \$12,752,641 throughout the period). The total interest paid on the loan for the year ended December 31, 2009 was \$23,161 (2008: \$308,298) and the average rate of interest paid on the average loan balance throughout the year ended December 31, 2009 was 1.37% (2008: 4.04%).

## 8. Unitholders' Equity

The authorized capital of the Trust consists of an unlimited number of non-redeemable units and was derived from the initial public offering. The capital is managed in accordance with the Trust's investment objectives and is not subject to any external capital requirements. The Trust is a closed end vehicle and as such redemptions are not permitted.

Unitholders were able to trade their units on the Toronto Stock Exchange up until they were delisted on December 31, 2009. 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.

In August of 2008, the Trust filed a notice of intention to make normal-course purchases of units with the Toronto Stock Exchange. In that filing the Trust indicated an intention to purchase up to 428,607 of the units of the Trust, representing 10% of the public float of the Trust then outstanding during the period from September 11, 2008 to September 10, 2009. In accordance with exchange rules and by-laws, the Trust may not pay more than the most recent market price for the units purchased. Units purchased under the bid are cancelled. In anticipation of the scheduled wind-up and termination of the Trust under the terms of its offering documents, the Trust did not renew the notice of intention to make normal-course purchases of units after the September 10, 2009 expiry of its previous normal course issuer bid filing.

Under a normal course issuer bid and the Trust's quarterly market support obligation, the Trust purchased 386,300 units for cancellation for cash of \$1,800,468 during the year ended December 31, 2009 (year ended December 31, 2008: 398,500 units were purchased for cash of \$3,892,171).

The distribution re-investment plan was cancelled for the December 31, 2008 record date and beyond.

Unitholders' equity is comprised of unit capital, contributed surplus and deficit. The following table shows the transactions for unit capital, contributed surplus and deficit during the relevant years:

## 8. Unitholders' Equity (continued)

Year ended December 31, 2009	Units Outstanding	Unit Capital	Contributed Surplus	Deficit	Unitholders' Equity
<b>Balance – December 31, 2008</b>	4,174,415	\$ 91,014,866	\$ 17,852,138	\$ (77,961,040)	\$ 30,905,964
Decrease in net assets from operations for the year	-	-	-	(782,355)	(782,355)
Units cancelled during the year	(386,300)	(7,258,698)	5,458,230	-	(1,800,468)
Distributions	-	(12,453,601)	-	(1,816,842)	(14,270,443)
<b>Balance – December 31, 2009</b>	3,788,115	\$ 71,302,567	\$ 23,310,368	\$ (80,560,237)	\$ 14,052,698

Year ended December 31, 2008	Units Outstanding	Unit Capital	Contributed Surplus	Deficit	Unitholders' Equity
<b>Balance – December 31, 2007</b>	4,572,915	\$ 98,502,804	\$ 14,256,371	\$ (58,981,557)	\$ 53,777,618
Increase (decrease) in net assets from operations for the year				(15,284,751)	(15,284,751)
Units cancelled during the year	(398,500)	(7,487,938)	3,595,767	-	(3,892,171)
Distributions				(3,694,732)	(3,694,732)
<b>Balance – December 31, 2008</b>	4,174,415	\$ 91,014,866	\$ 17,852,138	\$ (77,961,040)	\$ 30,905,964

## 9. Management Fees

Northwater Fund Management Inc., the Manager, is responsible for the day-to-day administration, portfolio management and unitholder services to the Trust. In return for these services, the Manager is entitled to an annual fee of 1.25% of the net asset value of the Trust, calculated on the last Valuation Date of each month. The fee is paid quarterly in arrears. The Manager will pay a portion of its fee to the Investment Advisor in consideration of the Investment Advisor's services to the Trust.

Northwater Capital Management Inc. (the "Investment Advisor"), a company formed under the laws of Ontario, Canada, acts as the advisor to the Trust. The Investment Advisor is registered in Canada as an advisor in the category portfolio manager and as a dealer in the category exempt market dealer under the *National Instrument 31-103 Registration Requirements and Exemption*, and as an advisor in the category commodity trading manager under the *Commodity Futures Act* (Ontario), as amended. The Investment Advisor is registered as a securities advisor under the *Securities Act* (Quebec), as amended. The Investment Advisor also has equivalent registrations in the Canadian provinces of New Brunswick, Prince Edward Island, Nova Scotia, Saskatchewan, Alberta and British Columbia under the securities legislation in these provinces. The Advisor is also registered in the United States as an investment advisor under the *U.S. Investment Advisers Act of 1940*, as amended, and as a commodity trading advisor and commodity pool operator under the *U.S. Commodity Exchange Act*, as amended. The Advisor is a member of the U.S. National Futures Association.

## 10. Distributions

The Trust paid quarterly distributions to unitholders equal to 2% of the reported net asset value per unit as of the month end preceding the given calendar quarter. The Trust also paid its initial termination distribution of \$3.14 per unit to unitholders on record as of June 30, 2009.

During the year ended December 31, 2009, distributions of \$3.60 per unit and \$14,270,443 in aggregate (year ended December 31, 2008: \$0.85 per unit and \$3,694,732 in aggregate) were made by the Trust.

## 11. Income Taxes

As at July 29, 2009, the Trust ceased to qualify as a “mutual fund trust” within the meaning of the Income Tax Act (Canada) and the Trust is no longer a “qualified investment” for registered accounts, including without limitation, RRIF’s, RRSP’s and RESP’s. Investors are advised to speak with their advisors as soon as possible to obtain tax advice regarding the failure of the Trust to maintain its “qualified investment” status.

Net taxable income may differ from net income for accounting purposes.

As at December 31, 2009, the Trust had \$5,869,639 (2008: \$7,613,586) in non-capital loss carryforwards and \$6,079,042 (2008: \$3,967,856) in capital loss carryforwards. The expiry of non-capital losses is as follows:

	2009	2008
<b>Year</b>		
2028	\$ 5,869,639	\$ 7,613,586
<b>Total</b>	\$ 5,869,639	\$ 7,613,586

## 12. Future Accounting Policy Changes

The Canadian Accounting Standards Board (AcSB) has confirmed International Financial Reporting Standards (“IFRS”) will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises such as investment funds and other reporting issuers. The AcSB proposes to defer its IFRS changeover date for investment funds from the original date of January 1, 2011 to January 1, 2012. The proposed amendment to the CICA Handbook would allow investment companies applying Accounting Guidelines -18 to continue to apply the current accounting standards for an additional year. Further, adoption of IFRSs by investment companies would be mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. The AcSB proposal is expected to be finalized in September 2010. Based on the current form of the proposal, the Fund expects to adopt IFRS for the first time for the June 30, 2012 interim financial statements.

The Canadian Securities Administrators has issued *CSA StaffNotice 52-320*, which requires the Manager to provide progress updates on the changeover plan to the new reporting standards at each interim and annual reporting period up until the changeover date. The Fund is developing a changeover plan to meet the timeline published by the CICA. The key elements of the plan include the disclosures of the qualitative and quantitative impact, if any, in the June 30, 2012 interim financial statements and the preparation of December 31, 2012 annual financial statements in accordance with IFRS.

The Manager anticipates there will be changes to the financial statements but the impact, if any, cannot be reasonably estimated at this time. The Manager does anticipate an increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and changes needed to gather and process the required information.



### 13. Subsequent Events

On January 29, 2010, the distribution payable of \$303,049 was paid by the Trust.

On January 20, 2010, the Trust declared a second termination distribution to unitholders of record on January 27, 2010 in the amount of \$1.54 per unit and \$5,833,697 in aggregate. The distribution was paid on February 3, 2010.

On March 19, 2010, the Trust declared a third termination distribution to unitholders of record on March 31, 2010 in the amount of \$0.50 per unit and \$1,894,058 in aggregate. The distribution was paid on April 7, 2010.

On June 21, 2010, the Trust declared a fourth termination distribution to unitholders of record June 30, 2010 in the amount of \$0.17 per unit and \$643,980 in aggregate. The distribution was paid on July 8, 2010.



## **NORTHWATER CAPITAL MANAGEMENT INC.**

Northwater Capital Management Inc. is a privately owned investment company with offices in Toronto, New York and Chicago. Northwater advises institutional and high net worth clients in Canada, the United States, Australia and Europe.

Northwater has had a long history of bringing innovative financial solutions to institutional and retail investors. In 1989, Northwater was the first investment management firm to introduce the use of index futures and over-the-counter (“OTC”) derivatives to create synthetic index portfolios for Canadian pension, endowment, and mutual funds. In 1994, Northwater launched a market-neutral fund of hedge funds portfolio. In 1998, the firm secured the first institutional portable alpha mandate. In 2006, the firm launched its first Intellectual Property Fund.

In October 2009, Northwater announced the acquisition of certain assets related to Northwater's hedge fund of funds and beta overlay investment management businesses by Crestline Investors Inc. This acquisition allowed Northwater to better focus resources on its Intellectual Property fund business and other growth initiatives.

With fifteen years of experience in fund of hedge funds, Northwater remains committed to managing the orderly wind up of the remaining fund of hedge fund assets.

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## NORTHWATER MARKET-NEUTRAL TRUST

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