NORTHWATER

Northwater Market-Neutral Trust
Report for the six-month period ended
June 30, 2009
(unaudited)

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 six-month period ended June 30, 2009 are included in this report.

CONTENTS

MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

The Northwater Market-Neutral Trust (the “Trust”) is a closed-end fund traded on the Toronto Stock Exchange under the symbol NMN.UN that delivers the return of a portfolio of market-neutral hedge funds. As at June 30, 2009, the net asset value of the Trust per unit was $3.92. For the six-month period ended June 30, 2009, the return of the Trust was -0.51% including distributions. During the same time period, the DEX Universe Bond Index returned 2.79%, the S&P/TSX Composite Index increased by 17.56% and the S&P 500 in U.S. dollar terms, went up by 3.16% which translates to a loss of 2.95% in Canadian dollar terms. The Trust made distributions of $3.44 per unit during the period.

Overall, the return of the Trust for the first six months was disappointing. While many hedge funds experienced a performance rebound from the lows of Q4 2008, the redemption pressures overhanging the hedge funds with illiquid assets continue to suppress the Trust’s returns.

While the first half of 2009 has shown improvement in both the credit and equity markets as seen by tighter credit spreads and increased market liquidity, this has not translated into business as usual in the hedge fund industry. Many funds continue to restrict the return of capital through on–going restructurings and suspended redemptions and this has impacted our ability to liquidate the portfolio as originally set out when the Trust was launched in 1997. Where liquidity has been available, we have redeemed and distributed the capital in advance of the formal termination date of December 31, 2009 (the “Termination Date”) and this orderly windup remains the primary objective to the second half of 2009.

Although the market outlook for many of the hedge fund strategies has improved, the Trust is proceeding with an orderly windup scheduled for the Termination Date in accordance with its prospectus. As such we are focused on creating liquidity and returning capital to unitholders.

Based on current market conditions, we anticipate that due to liquidity constraints imposed by many of the underlying hedge funds it is likely that the Trust will continue to exist and be winding down its operations beyond the Termination Date.

As of June 30, 2009, approximately 79% of the Trust will continue to have exposure to underlying hedge funds market movements. Based on the most recent information available to us, we anticipate that approximately 71% of the Trust (representing 20 hedge funds) may be subject to restrictions on liquidity that could extend beyond the Termination Date.

PAUL ROBSON, CFA	DAVID S. FINCH, CFA
President	Managing Director
Northwater Capital Management Inc.	Northwater Capital Management Inc.

August 20, 2009

MANAGEMENT REPORT OF FUND PERFORMANCE

This Management Report of Fund Performance contains financial highlights for the six-month period ended June 30, 2009 but does not contain the complete financial statements of Northwater Market-Neutral Trust (the "Trust"). A copy of the unaudited 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 investment fund'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* or visit the SEDAR website at *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.

Investment Objectives and Strategies

The original investment objectives listed in the Trust's prospectus are consistent with the existing portfolio holdings, however the current primary objective of the Trust is the maximization of value and return of capital through the orderly liquidation of the underlying investments. The market events of the last quarter of 2008 negatively impacted the Trust's ability to meet its original objectives and these events continue to create challenges in the current environment. These market events have also negatively impacted the Trust's ability to liquidate the underlying investments in the portfolio of hedge funds held by the Trust (the "Hedge Fund Portfolio").

Risks

With the exception of the impact on diversification of the reduced number of hedge fund investments and the liquidity restrictions imposed by many of the underlying hedge fund managers, no material changes affecting the overall risk of investing in the Trust were made by the Investment Advisor in the six-month period ended June 30, 2009.

The change in the risk characteristics of the Trust reflects the magnitude of the stress felt across the entire financial system in late 2008 and 2009.

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 15.17% versus the 2008 level of 15.87%.

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 underlying hedge funds and reduced portfolio diversification.

Many of the trading strategies employed by hedge funds depend on functional financial markets, including the ability of managers to enter into short positions. Hedge funds have not only suffered losses as a result of the stress felt in the markets, including the difficulty encountered in maintaining short positions, but also because of the liquidity freeze experienced in many markets. 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, the temporary suspension of redemptions altogether, or the commencement of a controlled liquidation and wind-up of the underlying hedge funds' business.

Based on current market conditions, the Investment Advisor anticipates that due to liquidity constraints in the Hedge Fund Portfolio it is likely that the Trust will continue to exist and be winding down its operations beyond the scheduled December 31, 2009 termination date (the "Termination Date") of the Trust.

As at June 30, 2009, approximately 79% of the Trust will continue to have exposure to underlying hedge fund market movements. Based on the most recent information that the Investment Advisor had available to it, the Investment Advisor anticipates that approximately 71% of the Trust (representing 20 hedge funds) may be subject to restrictions on liquidity that could extend beyond the Termination Date.

As at December 31, 2008, the Investment Advisor submitted redemption requests to all of the underlying hedge funds in the Hedge Fund Portfolio in anticipation of the Termination Date. No new investments were made in the six-month period ended June 30, 2009.

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:

Payments of redemptions expected in the second half of 2009, classified by status of the hedge funds being redeemed from:

	Amount (USD$)	% of total hedge fund portfolio
Restricted redemptions [1]	516,405	5%
Liquidating	750,375	7%
	1,266,780	12%

Payments of redemptions expected beyond 2009, classified by status of the hedge funds being redeemed from:

	Amount (USD$)	% of total hedge fund portfolio
Restricted redemptions [1]	4,541,313	43%
Liquidating	4,696,132	45%
	9,267,445	88%

(1) Restricted redemptions category includes situations 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 amounts set out in the tables above are subject to change without notice as additional information becomes available to the Investment Advisor from the underlying managers in the Hedge Fund Portfolio.

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*.

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

Results of Operations

During the six-month period ended June 30, 2009, the Trust posted a loss of -0.51% (six-month period ended June 30, 2008: -1.59%) taking into account distributions made during the period. Distributions during the six-month period ended June 30, 2009, in aggregate, totaled $13,658,160 or $3.44 per unit (six-month period ended June 30, 2008: $2,082,714 or $0.47 per unit). The multi-strategy funds, in aggregate, contributed most positively to the Trust's return among all the strategies, for the six-month period ended June 30, 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 both asset-backed and 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 six month period ended June 30, 2009 and 2008.

	Six-month period ended June 30	
Strategy	**2009**	**2008**
Activist investments	–	(9.40)%
Asset-backed securities arbitrage	(4.34)%	5.00%
Distressed securities arbitrage	(1.65)%	(2.04)%
Fixed-income arbitrage	(0.10)%	(12.15)%
Mortgage-backed security arbitrage	(1.36)%	(1.70)%
Multi-strategy	11.73%	(0.64)%
Re-insurance arbitrage	(2.95)%	1.82%
Statistical arbitrage	(50.68)%	7.56%
Structured finance	3.12%	(5.17)%

The borrowings of the Trust fluctuated between $3,811,032 and $6,981,582 throughout the six-month period ended June 30, 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 financial leverage as at June 30, 2009 was 24.49% (December 31, 2008: 23.59%).

The Trust was able to capitalize on the share buy-back and cancellation program with 207,500 units of the Trust being repurchased and cancelled during the six-month period ended June 30, 2009 for cash of $1,270,516 (year ended December 31, 2008: 398,500 units for $3,892,171 in cash) as the units were offered for sale at less than 92.5% of the reported net asset value. During the six-month period ended June 30, 2009, this program contributed 0.80% to the overall return (year ended December 31, 2008: 0.90% contribution to overall return).

Summary of Investment Portfolio [1]

The Trust has invested 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 current Hedge Fund Portfolio is in the process of being liquidated in anticipation of the wind-up of the Trust and activities have focused around this liquidation.

During the six-month period ended June 30, 2009, the Trust did not place investments with any new hedge funds and redeemed from five hedge funds (consisting of one activist investments, one asset-backed securities arbitrage, two fixed income arbitrage and one reinsurance arbitrage) (six-month period ended June 30, 2008, the Trust did not place investments with any new hedge funds and redeemed from seven hedge funds).

The Investment Advisor believes that the number of hedge funds and managers will continue to decrease over time as the Trust pursues an orderly wind-up of its operations.

As at June 30, 2009, the portfolio composition reflects the Investment Advisor's actions in liquidating the Hedge Fund Portfolio. As no new funds were added to the Hedge Fund Portfolio, the asset allocation changes are a function of the market moves and the liquidations of specific managers. Redemptions have been submitted for the remaining hedge funds in anticipation of the Termination Date.

Asset Allocation by Investment Strategy

The following table shows the hedge fund holdings by strategy as at June 30, 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.

	As at June 30, 2009			As at December 31, 2008		
Strategy	No. of Hedge Funds	Fair Value		No. of Hedge Funds	Fair Value	
Activist investments	–	$ –	–	1	$ 1,351,261	5%
Asset-backed securities arbitrage	2	2,154,517	18%	3	5,790,168	22%
Distressed securities arbitrage	2	1,994,471	16%	2	2,869,818	11%
Fixed-income arbitrage	1	53,365	0%	3	1,402,414	5%
Mortgage-backed security arbitrage	3	2,662,973	22%	3	3,313,968	12%
Multi-strategy	4	2,565,044	21%	4	4,236,603	16%
Re-insurance arbitrage	1	34,245	0%	2	1,048,106	4%
Statistical arbitrage	3	75,546	1%	3	3,783,424	14%
Structured finance	4	2,664,698	22%	4	3,048,779	11%
	20	$12,204,859	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 June 30, 2009 and December 31, 2008.

Strategy	As at June 30, 2009	As at December 31, 2008
Activist investments	–	4.37%
Asset-backed security arbitrage	13.11%	10.52%
Distressed securities arbitrage	10.89%	8.09%
Fixed-income arbitrage	0.34%	2.44%
Mortgage-backed security arbitrage	9.30%	5.37%
Multi-strategy	8.82%	3.80%
Re-insurance arbitrage	0.22%	2.21%
Statistical arbitrage	0.25%	6.34%
Structured finance	10.30%	5.52%

The following table lists all hedge funds by fair value as at June 30, 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 period. 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	$1,668,438	$2,040,714	13.11%
Cerberus International, Ltd.*	Participating shares	708,206	1,695,414	10.89%
D.B. Zwirn Special Opportunity Fund, Ltd.*	Voting shares and capital balance	2,577,577	1,602,505	10.30%
Sorin Offshore Fund*	Participating shares	1,564,541	1,447,071	9.30%
Citadel Kensington Global Strategies Fund Ltd.*	Participating shares	1,912,500	1,372,962	8.82%
Medley Opportunity Fund Ltd.*	Participating shares	796,279	964,552	6.20%
H/2 Credit Partners Ltd.*	Participating shares	969,916	917,074	5.89%
Fund 121*	Participating shares	725,930	767,474	4.93%
Fund 183*	Participating shares	326,053	323,663	2.08%
Fund 212*	Participating shares	-	299,057	1.92%
Fund 103*	Participating shares	531,171	298,828	1.92%
Fund 171*	Participating shares	108,594	113,803	0.73%
Fund 146*	Participating shares	171,617	100,946	0.65%
Fund 220*	Participating shares	320,263	97,630	0.63%
Fund 191*	Participating shares	213,899	53,365	0.34%
Fund 211*	Participating shares	-	39,614	0.25%
Fund 195*	Participating shares	-	34,245	0.22%
Fund 226*	Participating shares	-	24,313	0.16%
Fund 104*	Participating shares	157,129	11,619	0.07%
Fund 187*	Participating shares	1,687,130	10	0%
		$14,439,243	$12,204,859	

* Held by other investment funds managed by Northwater Fund Management Inc. or advised by Northwater Capital Management Inc.

(1) 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 unaudited annual financial statements for the six-month period ended June 30, 2009 and the audited financial statements for the years ended December 31, 2008, 2007 and 2006, 2005 and 2004.

The Trust's Net Assets per Unit

	For the six-month period ended June 30	For the year ended December 31				
	2009	2008	2007	2006	2005	2004
Net assets, beginning of period	$7.40	$11.76	$14.15	$13.88	$14.73	$15.81
Increase (decrease) from operations:						
Total revenue	0.02	0.04	0.05	0.05	0.04	0.03
Total expenses	(0.09)	(0.27)	(0.41)	(0.41)	(0.35)	(0.52)
Realized gains (losses) for the period	(0.11)	(1.88)	2.80	(0.02)	0.28	1.83
Unrealized gains (losses) for the period	0.08	(1.40)	(1.99)	1.70	0.33	(0.57)
Total increase (decrease) from operations (1)	(0.10)	(3.51)	0.45	1.32	0.29	0.77
Distributions (4) **:**	3.44	0.85	2.87	1.14	1.16	1.85
Net Assets, at end of period(3)	$3.92	$7.40	$11.76	$14.15	$13.88	$14.73

(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 period.

(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 net assets per unit of the Trust.

(4) For the six-month period ended June 30, 2009 the nature of the distribution will be determined at the end of the year.

Ratios and Supplemental Data

	For the six-month period ended June 30	For the year ended December 31				
	2009	2008	2007	2006	2005	2004
Total net assets (000's) (1)	$15,562	$30,906	$53,778	$67,651	$71,507	$77,232
Number of units outstanding (1)	3,966,915	4,174,415	4,572,915	4,782,615	5,150,015	5,243,585
Management expense ratio (2)	8.47%	9.16%	9.17%	6.60%	7.08 %	7.94 %
Management expense ratio before waivers or absorptions	8.47%	9.16%	9.17%	6.60%	7.08 %	7.94 %
Portfolio turnover rate (3)	–	3.87%	12.11%	22.97%	40.56 %	26.96 %
Trading expense ratio (4)	0.01%	0.03%	0.03%	0.05 %	0.00 %	0.00 %
Closing market price, end of period	$2.86	$5.85	$ 9.58	$13.00	$12.55	$15.06

(1) This information is provided as at June 30, 2009 and 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 period. 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, 2008 added 6.51% , for the year ended December 31, 2007 added 6.23% and for each of the years ended December 31, 2006, 2005, and 2004 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 2004 to 2006 expense ratios reflect the expenses of the hedge funds for the year 2005. 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 period.

(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 period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. 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 period.

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 periods 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

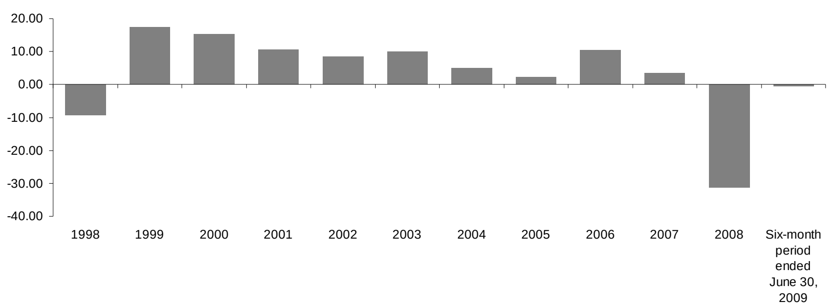
(c) how the Trust has performed in the past does not necessarily indicate how it will perform in the future.

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 periods shown, and illustrates how the Trust's performance has changed from period to period; 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 period.



Management Fees and Related Party Transactions

Northwater Fund Management Inc., (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 six-month period ended

June 30, 2009, the management fee expense was $176,957 and the amount payable by the Trust as at June 30, 2009 was $79,329.

The Manager will pay a portion of its fee to Northwater Capital Management Inc. (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 Manager 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 six-month period ended June 30, 2009, the reported net asset value fluctuated between a low of $3.92 per unit and a high of $7.40 per unit (six-month period ended June 30, 2008: low of $11.09 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 six-moth period ended June 30, 2009, the daily closing price of the units fluctuated between $2.54 and $7.19 (six-month period ended June 30, 2008: low of $9.42 and high of $11.55).

Distributions

During the six-month period ended June 30, 2009, the Trust made distributions totaling $3.44 per unit ($13,658,840,160 was distributed in aggregate) compared to $0.47 per unit ($2,082,714 in aggregate during the six-month period ended June 30, 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 period in accordance with the trust agreement of the Trust and the applicable 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 presents the distributions of the Trust for the six-month period ended June 30, 2009.

Distribution History

Record date	Date distribution paid	Character of distribution for tax purposes	Amount per unit
March 31, 2009	April 29, 2009	To be determined	$0.15
June 30, 2009	July 29, 2009	To be determined	$3.29

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 its filing with the Exchange, 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.

During the six-month period ended June 30, 2009, the Trust 205,700 units for total proceeds of $1,270,516 (six-month period ended June 30, 2008: 194,000 units for $1,988,598) for cancellation under this program. During the six-month period ended June 30, 2009, this program contributed 0.80% to the overall return (six-month period ended June 30, 2008: 0.46% contribution to overall return).

Potential Tax Implication of Wind-Up

The Manager commenced special cash distributions ("Termination Distributions") to investors effective as of June 30, 2009. Upon the commencement of the payment of Termination Distributions from the Trust, the percentage of a particular illiquid holding in relation to the Trust's assets is likely to exceeded the 10% concentration limits required in order for the Trust to continue to qualify as a unit trust for Canadian income tax purposes.

The Manager confirms that the Trust lost its "qualified investment" status for Canadian income tax purposes on July 29, 2009. When the Trust failed to qualify as a unit trust it was no longer qualified as a mutual fund trust for Canadian income tax purposes and the Trust ceased to be 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..

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.

Paul Robson, CFA
President

August 20, 2009

Shauna Cassidy, CFA
Vice-President

UNAUDITED FINANCIAL STATEMENTS

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Net Assets
(unaudited)

	As at June 30 2009	As at December 31 2008
Assets		
Cash and short-term investments		
(cost: 2009 - $19,134,451; 2008 - $11,440,374)	$19,134,561	$10,144,376
Short-term investments held as margin deposited on futures contracts – at market value (note 5)		
(cost: 2009 - $799,616; 2008 - $1,295,723)	799,712	1,297,647
Hedge fund investments – at fair value (note 4)		
(cost: 2009 - $14,439,243; 2008 - $29,740,622)	12,204,859	26,844,541
Prepaid interest on loans	–	4,373
Settlement receivable on currency futures	–	270,639
Hedge fund redemptions receivable (note 3)	499,426	1,322,384
	32,638,558	39,883,960
Liabilities		
Audit, legal, trustee and custody fees payable	66,050	73,742
Management fees payable (note 8)	79,329	108,520
Interest and standby fees payable	4,422	1,964
Settlement payable on currency futures	67,390	–
Distribution payable	13,048,518	667,906
Bank loan (note 6)	3,811,032	6,981,592
Hedge fund investment sale in advance	–	1,144,272
	17,076,741	8,977,996
Net assets	$15,561,817	$30,905,964
Net assets and unitholders' equity (note 7)		
Unit capital	87,115,880	91,014,866
Contributed surplus	20,480,610	17,852,138
Deficit	(92,034,673)	(77,961,040)
	$15,561,817	$30,905,964
Number of units outstanding (note 7)	3,966,915	4,174,415
Net assets per unit	$3.92	$7.40

Signed on behalf of the Trustee,

RBC Dexia Investor Services Trust

Per: ____________________

Per: ____________________

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

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Operations
(unaudited)

	For the six-month period ended June 30 2009	2008
Investment income		
Interest income	$32,554	$136,472
Other income (loss)	30,801	(2,294)
	63,355	134,178
Expenses		
Management fees (note 8)	176,957	329,818
Audit fees	53,669	15,996
Independent review committee fees	8,691	10,810
Custodian and trustee fees	6,670	6,571
Legal fees	9,613	213
Security holder reporting costs	60,076	58,197
Interest and standby fees (note 6)	29,321	227,254
Transaction costs	3,332	6,741
	348,329	655,600
Net investment loss	(284,974)	(521,422)
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Hedge fund investments	(3,723,593)	148,931
Currency futures (note 5)	1,297,858	(1,500,488)
Change in unrealized appreciation (depreciation) on:		
Hedge fund investments	661,697	906,673
Currency futures (note 5)	(338,029)	252,756
Net gain (loss) on currency, excluding hedge fund investments	1,971,570	(424,599)
Net realized and unrealized gain (loss) on investments for the period	(130,497)	(616,727)
Increase (decrease) in net assets from operations for the period	$(415,471)	$(1,138,149)
Increase (decrease) in net assets from operations per unit for the period*	$ (0.10)	$(0.26)

*Based on the average number of units outstanding of 4,042,801 (2008 – 4,451,601) for the period.

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

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Changes in Net Assets
(unaudited)

	For the six-month period ended June 30 2009	2008
Net assets – beginning of the period	$30,905,964	$53,777,617
Increase (decrease) in net assets from operations for the period	(415,471)	(1,138,149)
Unit transactions (note 7)		
Issuance (cancellation) of units	(1,270,516)	(1,988,598)
Distribution to unitholders (note 9)	(13,658,160)	(2,082,714)
Net assets – end of the period	$ 15,561,817	$48,568,156

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

Statements of Cash Flows
(unaudited)

	For the six-month period ended June 30	
	2009	2008
Cash flows from operating activities		
Increase (decrease) in net assets from operations	$(415,471)	$(1,138,149)
Items not affecting cash:		
Change in unrealized (appreciation) depreciation in value of hedge fund investments	(661,697)	(906,673)
Change in unrealized depreciation (appreciation) in value of currency futures	338,029	(252,756)
Net realized (gain) loss on hedge fund investments	3,723,593	(148,931)
Changes in non-cash working capital:		
Change in payables and other assets	(34,425)	(99,414)
Purchase of hedge fund investments	–	(4,418,523)
Proceeds on sale of hedge fund investments	11,260,845	15,990,205
Change in cash pledged as collateral on futures contracts	497,935	559,956
	14,708,809	9,585,715
Cash flows from financing activities		
Repayment of bank loan	(3,170,560)	(7,185,894)
Distributions paid	(1,277,548)	(10,221,394)
Repurchase of units	(1,270,516)	(1,988,598)
	(5,718,624)	(19,395,886)
Net increase (decrease) in cash and short-term investments	8,990,185	(9,810,171)
Cash and short-term investments at the beginning of the period	10,144,376	15,066,362
Cash and short-term investments at the end of the period	$19,134,561	$5,256,191
Supplementary information: Interest paid	$26,863	$265,887

Statements of Investment Portfolio
(unaudited)
As at June 30, 2009

	Credit Rating	Maturity Date	Face Value	Cost	Fair Value	Fair Value as a % of Net Assets
Hedge Fund Investments*						
Asset-backed securities arbitrage				$1,777,032	$2,154,517	13.84%
Distressed securities arbitrage				708,206	1,994,471	12.82%
Fixed-income arbitrage				213,899	53,365	0.34%
Mortgage-backed security arbitrage				3,065,628	2,662,973	17.11%
Multi-strategy				3,136,000	2,565,044	16.48%
Re-insurance arbitrage				-	34,245	0.22%
Structured finance				5,381,249	2,664,698	17.12%
Statistical arbitrage				157,129	75,546	0.49%
Hedge Fund Investments				14,439,243	12,204,859	78.42%
Cash				1,088,448	1,088,448	6.99%
**Treasury Bills ** **						
Government of Canada		July 23, 2009	13,300,000	13,298,403	13,298,537	85.46%
Government of Canada		September 3, 2009	800,000	799,616	799,712	5.14%
Banker's Acceptances ***						
Royal Bank of Canada	R-1High	July 2, 2009	100,001	100,000	100,000	0.64%
Bank of Montreal	R-1High	July 2, 2009	2,439,998	2,439,990	2,439,973	15.68%
Royal Bank of Canada	R-1High	July 2, 2009	2,207,625	2,207,610	2,207,603	14.19%
Cash and Short-Term Investments				19,934,067	19,934,273	128.10%
Total Investment Portfolio				34,370,310	32,139,132	206.52%
Other Net Assets					(16,577,315)	(106.52)%
Total net assets and unitholders' equity					$15,561,817	100.00%

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

** Short-term investments held at June 30, 2009 have yields ranging from 0.20% to 1.50%. Where investments were denominated in U.S. dollars, they were converted to Canadian dollars at the prevailing period end rate.

*** Credit ratings as at June 30, 2009 as per DBRS rating agency.

Schedule 1 - Currency futures contracts:

	Bid Price	Notional contract value	Settlement receivable (payable) on futures contracts
145 Canadian Dollar Futures Contract - September 2009	$86.10	$ 12,484,500 USD	$ (58,000) USD
		$14,505,741 CAD	$ (67,390) CAD

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. Northwater Capital Management Inc. acts as investment advisor (the “Investment Advisor”). The Trust began operations on July 30, 1997 when it completed its initial public offering. The Trust's units are listed on the Toronto Stock Exchange under the symbol NMN.UN.

The Trust has begun the process of winding up its operations and is scheduled to terminate on or about December 31, 2009, (the “Termination Date”). Based on the information available to the Investment Advisor as of June 30, 2009, the Investment Advisor anticipates that approximately 71% of the Trust may be subject to restrictions on liquidity that extend beyond the Termination Date. Based on the current market conditions the Manager anticipates that it is likely that the Trust will continue to exist beyond the scheduled Termination Date as it pursues an orderly liquidation and wind down of its operations.

Throughout the period the assets of the Trust were invested in cash and short-term investments, a portfolio of market-neutral hedge funds (the “Hedge Fund Portfolio”) and currency futures contracts.

2. Summary of Significant Accounting Policies

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

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 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 Investment Advisor may, in its sole discretion, use a different valuation methodology to price the underlying hedge funds, that in the opinion of the Investment Advisor, 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.

(c) Currency Hedging

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

Upon entering into a futures contract, the Trust is required to deposit an "initial margin" with a broker based on a certain amount per contract. Subsequent payments representing variation margin are 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 are 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, determine a value that more accurately reflects the fair value based on the current market value of the underlying interest. The notional values of the futures contracts are not recorded as assets in the 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 period. 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.

With the exception of the impact on diversification of the reduced number of hedge fund investments and the illiquidity of the underlying Hedge Fund Portfolio , no material changes affecting the overall risk of investing in the Trust were made by the Investment Advisor in the six-month period ended June 30, 2009. In addition, the hedge fund industry, like other market participants, has been subject to unprecedented turmoil in the markets due to the ongoing credit crisis. This has had an adverse impact on both the returns and the volatility the Trust has experienced in late 2008 and 2009.

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 impact on net assets of the Trust, based on a change in the strategy's returns, as approximated by that strategy's standard deviation, as at June 30, 2009, is included in the following table.

Strategy	Potential change in strategy return* (%)	Impact on net assets (USD$)
Asset-backed Securities	5.01%	92,871
Distressed Securities	9.50%	163,054
Fixed Income Arbitrage	28.17%	12,937
Mortgage-backed Securities	12.19%	279,336
Multi-strategy	17.92%	395,539
Reinsurance	4.55%	1,342
Statistical Arbitrage	30.16%	19,610
Structured Finance	30.51%	699,669

* Potential change in strategy return is based on standard deviation for each strategy as measured over the past 24 months for hedge funds in the hedge fund portfolio as June 30, 2009.

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 may be considered illiquid. The Trust is subject to redemption restrictions for each of the hedge funds forming part of its portfolio that are generally monthly, quarterly, semi-annually or annually. Notice periods for redemptions range from 30 days notice to 180 days. Redemptions may, in some cases, be subject to lock-up periods, gates, suspensions and side pocket restrictions.

To assist the Trust in its ability to meet its ongoing financial obligations, a credit facility is available to provide liquidity within certain restrictions.

To mitigate liquidity risk, the hedge fund portfolio has been diversified across different managers and strategies. However, due to the prolonged market uncertainties, 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 of December 31, 2008 the Investment Advisor had submitted redemption requests to all of the underlying hedge funds. No new investments were made in the six-month period ended June 30, 2009.

The value of total redemption requests for hedge funds held as equity as at June 30, 2009 broken out by effective date of redemption, are included in the table below:

Effective Date of redemption	Amount (USD$) to be received subsequent to June 30, 2009	% of total hedge fund held
January 1, 2008	1,477,157	14%
April 1, 2008	267,386	2%
July 1, 2008	535,753	5%
January 1, 2009	4,178,245	40%
April 1, 2009	830,151	8%
June 1, 2009	1,756,359	14%
July 1, 2009	1,459,174	17%
	10,504,225	100%

The following table shows the expected payout timeline of redemption proceeds from the underlying hedge fund managers:

Payments of redemptions expected in the second half of 2009, classified by status of the funds being redeemed from as:

	Amount (USD$)	% of total hedge fund portfolio
Restricted redemptions (1, 2)	516,405	5%
Liquidating	750,375	7%
	1,266,780	12%

Payments of redemptions expected beyond 2009, classified by status of the funds being redeemed from:

	Amount (USD$)	% of total hedge fund portfolio
Restricted redemptions (1)	4,541,313	43%
Liquidating	4,696,132	45%
	9,267,445	88%

(1) Restricted redemptions category includes situations 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.

(2) Although these redemptions are currently restricted, the Investment Advisor anticipates that the redemption proceeds will still be received during 2009.

The receipt of redemption proceeds by the Trust could extend beyond the scheduled Termination Date and hence impact the ultimate distribution of the assets to unitholders.

The Trust has hedge fund redemption receivables outstanding of $499,426 as at June 30, 2009. The Trust is exposed to liquidity risk as these amounts may not be realized (collected) for an extended period of time. As at June 30, 2009 the hedge fund redemptions receivable aging was as follows:

	< 60 days	61-90 days	91 -120 days	> 120 days	Total
Hedge Fund Redemptions Receivable	$1,640	–	$14,114	$483,672	$499,426

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 period 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 of hedge fund positions in assets that are being liquidated.

The below table shows hedge fund redemptions receivable as at June 30, 2009 broken down by type.

Type	Amount ($)
Audit Holdbacks	153,279
Liquidations	346,147
	499,426

Credit Risk

The Trust invests in debt obligations of both government and corporate issuers 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 derivatives, loans and 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 June 30, 2009, the credit rating of the counterparty was as follows:

Counterparty to:	Credit Rating *
Cash at custodian	AA-
Cash at broker	A+
Credit facilities	AA-

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

For all debt 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 an extensive due diligence process which focuses on monitoring each hedge fund investment in order to ensure the decision to invest in a particular hedge fund strategy continues to be suitable for the Trust's portfolio.

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.

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 attempts to hedge such currency fluctuations through the use of currency futures.

As at June 30, 2009, the impact on net assets per 1% change in the Canadian dollar would have been $685.

Interest 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 and the bank loan. 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 changes in interest rates since fixed-income securities are usually held to maturity and are short-term in nature.

As at June 30, 2009, assuming that the yield curve shifts in a parallel move and the bank loan balance remains at June 30, 2009 levels until December 31, 2009, if the interest rates are increased/decreased by 1% the impact on the Trust’s net assets would be $38,110.

4. Investment in Market-Neutral Hedge Funds

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 may from time to time, in very limited circumstances, affect the purchase or sale of certain hedge funds to other investment vehicles advised by Northwater Capital Management Inc. These transactions are executed at the monthly net asset value as reported by the hedge fund.

The following table shows the hedge fund holdings by strategy as at June 30, 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.

	As at June 30 2009			As at December 31 2008		
Strategy	No. of Hedge Funds	Fair Value		No. of Hedge Funds	Fair Value	
Activist investments	–	–	–	1	$1,351,261	5%
Asset-backed securities arbitrage	2	$2,154,517	18%	3	5,790,168	22%
Distressed securities arbitrage	2	1,994,471	16%	2	2,869,818	11%
Fixed-income arbitrage	1	53,365	-	3	1,402,414	5%
Mortgage-backed security arbitrage	3	2,662,973	22%	3	3,313,968	12%
Multi-strategy	4	2,565,044	21%	4	4,236,603	16%
Re-insurance arbitrage	1	34,245	0%	2	1,048,106	4%
Statistical arbitrage	3	75,546	1%	3	3,783,424	14%
Structured finance	4	2,664,698	22%	4	3,048,779	11%
	20	$12,204,859	100%	25	$26,844,541	100%

5. Futures Contracts

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

As at June 30, 2009, short-term investments with a face value of CAD $ 800,000 (2008: CAD $1,300,000) were deposited as initial margin for currency futures contracts. As at June 30, 2009, the initial margin requirement for the futures contracts was U.S. $261,000 (2008 – U.S.$1,131,900).

6. Bank Loan

The Trust has a revolving loan facility with a Canadian financial institution (the "Bank"). The facility entitles the Trust to borrow funds in Canadian or U.S. dollars up to an amount not exceeding 25% of the reported net asset value of the Trust for the purposes of making additional investments. In addition, the Trust may borrow, on a temporary basis, up to 10% of the 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. Borrowing limits for U.S. dollar loans are evaluated by converting to Canadian dollars using the Bank’s notional exchange rates. Interest and stand-by fees are payable on a monthly basis. Interest rates are based on bank prime and/or Bankers' Acceptances for Canadian funds and bank prime and/or LIBOR for U.S. funds. A general security interest in the assets of the Trust has been provided in favour of the Bank. Loans outstanding as at the period end were denominated in U.S. dollars.

Throughout the six-month period ended June 30, 2009, the bank loan fluctuated between $3,811,032 and $6,981,592 (year ended December 31, 2008 the loan varied between: $3,356,096 and $12,752,641 throughout the period). The average rate of interest paid on the loan for the year was 1.36%.

Subsequent to June 30, 2009, the loan was repaid in full.

7. 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 may trade their units on the exchange. 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 its filing with the Exchange, 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.

Under a normal course issuer bid and the Trust’s quarterly market support obligation, the Trust purchased 207,500 units for cancellation for cash of $1,270,516 during the six-month period ended June 30, 2009 (six-month period ended June 30, 2008: 194,000 units were purchased for cash of $1,988,598).

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

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

Six-month period ended June 30, 2009	**Units Outstanding**	**Unit Capital**	**Contributed Surplus**	**Retained Earnings (Deficit)**	**Unitholders’ Equity**
Balance – December 31, 2008	4,174,415	$91,014,867	$17,852,139	$(77,961,042)	$30,905,964
Increase (decrease) in net assets from operations for the period	–	–	–	(415,471)	(415,471)
Units cancelled during the period	(207,500)	(3,898,987)	2,628,471	–	(1,270,516
Distributions	–	–	–	(13,658,160)	(13,658,160)
Balance – June 30, 2009	3,966,915	$87,115,880	$20,480,610	$(92,034,673)	$15,561,817

Six-month period ended June 30, 2008	**Units Outstanding**	**Unit Capital**	**Contributed Surplus**	**Retained Earnings (Deficit)**	**Unitholders’ Equity**
Balance – December 31, 2007	4,572,915	$98,502,805	$14,256,371	$(58,981,559)	$53,777,617
Increase (decrease) in net assets from operations for the period	–	–	–	(1,138,149)	(1,138,149)
Units cancelled during the period	(194,000)	(3,645,320)	1,656,722	–	(1,988,598)
Distributions	–	–	–	(2,082,714)	(2,082,714)
Balance – June 30, 2008	4,378,915	$94,857,485	$15,913,093	$(62,202,422)	$48,568,156

8. 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 corporation 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 categories investment counsel and portfolio manager and as a dealer in the category limited market dealer under the *Securities Act* (Ontario), as amended, 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 Investment 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 Investment Advisor is a member of the U.S. National Futures Association.

9. Distributions

The Trust pays 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 has also paid an initial termination distribution of $3.14 per unit to unitholders of record at June 30, 2009.

During the six-month period ended June 30, 2009, distributions of $3.44 per unit and $13,658,160 in aggregate (six-month period ended June 30, 2008: $0.47 per unit and $2,082,714 in aggregate) were made by the Trust.

10. Income Taxes

As at June 30, 2009, the Trust qualified as a "mutual fund trust" within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"). Due to activities related to wind up, the Trust lost this status on July 29, 2009 and therefore its “qualified investment” status. Investors are advised to speak with their advisors to receive tax advice regarding this loss of status.

As all of the net taxable income of the Trust, including net realized gains from private investment funds and deemed income computed under proposed Section 94.1 of the Tax Act, will be paid or payable to unitholders in each calendar year, no income tax will be payable by the Trust under the present provisions of the Tax Act. Such income is taxable in the hands of the unitholder. Occasionally, more income may be distributed than is earned by the Trust for tax purposes. This excess distribution is called a "return of capital" and is not taxable to the unitholder but reduces the adjusted cost base of the unit for tax purposes.

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

As at December 31, 2008, the Trust had $7,017,956 (2007: $nil) in non-capital loss carryforwards and $33,652 (2007: $2,716,191) in gross capital loss carryforwards.

11. Indemnities

The Trust enters into various agreements that contain indemnity provisions, whereupon payment by the Trust may become due upon the occurrence of certain events. Historically, no payments have been required to be made under these indemnities and the Trust estimates the current liability at zero.

NORTHWATER MARKET-MARKET NEUTRAL TRUST

Suite 4700, BCE Place
Bay Wellington Tower
181 Bay Street, P.O. Box 794
Toronto, Ontario M5J 2T3
Telephone: (416) 360-5435
Fax: (416) 360-0671
E-mail: mpt@northwatercapital.com

INVESTMENT MANAGER

Northwater Fund Management Inc.
Suite 4700, BCE Place
181 Bay Street, P.O. Box 794
Toronto, Ontario M5J 2T3
Telephone: (416) 360-5435
Fax: (416) 360-0671
E-mail: mpt@northwatercapital.com

INVESTMENT ADVISOR

Northwater Capital Management Inc.
Suite 4700, BCE Place
181 Bay Street, P.O. Box 794
Toronto, Ontario M5J 2T3
Telephone: (416) 360-5435
Fax: (416) 360-0671
E-mail: mpt@northwatercapital.com

LEGAL ADVISOR

McCarthy Tétrault LLP
Suite 4700, Box 48
Toronto Dominion Bank Tower
Toronto, Ontario M5K 1E6

AUDITORS

PricewaterhouseCoopers LLP
Suite 3000, Box 82
Royal Trust Tower, Toronto Dominion Centre
Toronto, Ontario M5K 1G8

FOR FURTHER INFORMATION PLEASE CONTACT

Mohamed Khaki
Telephone: (416) 360-5435
Fax: (416) 360-0671
E-mail: mpt@northwatercapital.com

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

TSE Symbol: NMN.UN

Aussi disponible en français