




NORTHWATER

Northwater Market-Neutral Trust

Report for the six-month period ended
June 30, 2010
(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, 2010 are included in this report.

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NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

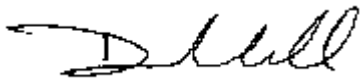
Northwater Fund Management Inc., the Manager of the Trust, appoints an independent auditor to audit the Trusts’ annual financial statements. Canadian securities law, specifically, National Instrument 81-106, requires that, if an auditor has not reviewed the Trusts’ interim financial statements, this must be disclosed in an accompanying notice. The enclosed Northwater Market-Neutral Trust interim financial statements have not been subject to a review by the Trusts’ external auditors. Due to the fact that the Trust has been unable to obtain final audited financial statements from certain underlying hedge funds in the Trust’s portfolio in order to complete the Trust’s annual audit for the year ended December 31, 2009, it is not possible or practical for the Trust to seek an interim review by the Trust’s external auditors.

MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

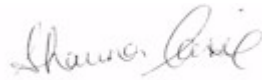
The Northwater Market-Neutral Trust (the "Trust") is a closed-end fund which was listed on the Toronto Stock Exchange until December 31, 2009. As at June 30, 2010, the net asset value of the Trust per unit was \$1.46. The one year return, including distributions, was -2.22%. Throughout 2010, the Trust distributed \$2.21 per unit and it is anticipated that distributions will continue until all of the illiquid hedge funds have been converted to cash and the Trust is terminated.

With the scheduled termination date of December 31, 2009 behind us, the Trust continues to focus on the liquidation of the assets and the orderly wind up of the Trust. No new secondary market transactions were completed, as all of the hedge fund redemption proceeds came directly from the fund administrators.

The continuing liquidation process has resulted in an increased concentration of exposures to individual hedge funds. Of the 14 remaining hedge fund investments, four funds represent over 80% of the net asset value of the Trust and each of these funds owns illiquid assets where the timing of the liquidation proceeds remains uncertain. We will continue to work to maximizing the ultimate value to unitholders and will advise on our progress throughout the course of the year.



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



SHAUNA CASSIDY, CFA
Vice President
Northwater Capital Management Inc.

August 6, 2010

MANAGEMENT REPORT OF FUND PERFORMANCE

This Management Report of Fund Performance contains financial highlights for the six-month period ended June 30, 2010 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 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.

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

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 conditions during the fourth quarter of 2008 and subsequent events prior to the December 31, 2009 termination date negatively impacted the Trust's ability to meet its original investment objectives. The result has meant that the wind up of the Trust has extended beyond the original termination date.

Risks

The changes affecting the overall risk of investing in the Trust for the six-month period ended June 30, 2010 are primarily a function of the current state of the wind up of the Trust. The on-going liquidation has resulted in a portfolio that has increased concentrations in fewer and less liquid hedge funds. Additionally, the termination of the currency hedging program at the Trust level, has resulted in an increased risk to the US dollar exposure inherent in the Trust's investment in offshore US denominated funds.

The Investment Advisor has submitted redemption requests to all the underlying hedge funds. No new investments were made during the six-month period ended June 30, 2010.

Based on current market conditions, the Investment Advisor anticipates that due to liquidity constraints in the portfolio of hedge funds held by the Trust (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 14 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 Hedge Fund Portfolio.

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 2010, classified by status of the hedge funds being redeemed from:		
	Amount	% of total hedge fund portfolio
Restricted redemptions ⁽¹⁾	US\$ 64,159	1%
Liquidating	602,370	13%
	US\$ 666,529	14%
Payments of redemptions expected beyond 2010, classified by status of the hedge funds being redeemed from:		
	Amount	% of total hedge fund portfolio
Restricted redemptions ⁽¹⁾	US\$ 1,219,014	26%
Liquidating	2,881,394	60%
	US\$ 4,100,408	86%

(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.

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, 2010, the Trust posted a loss of -0.78% (six-month period ended June 30, 2009: -0.52%). Distributions during the six-month period ended June 30, 2010, in aggregate, totalled \$8,371,734 or \$2.21 per unit (six month period ended June 30, 2009: \$13,658,160, or \$3.44 per unit). The mortgage backed securities funds, in aggregate, contributed most positively to the Trust's return among all the strategies, for the six-month period ended June 30, 2010 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 investments demonstrate our current experience of the liquidity gradually coming back to the underlying investments and a rebound in the negative mark-to-market.

The following table presents returns by investment strategy for the six-month periods ended June 30, 2010 and 2009.

Strategy	For the six-month periods ended June 30,	
	2010	2009
Asset-backed securities arbitrage	2.85%	(4.34)%
Distressed securities arbitrage	(1.11)%	(1.65)%
Fixed-income arbitrage	0.00%	(0.10)%
Mortgage-backed security arbitrage	7.88%	(1.36)%
Multi-strategy	4.55%	11.73%
Re-insurance arbitrage	0.00%	(2.95)%
Statistical arbitrage	(6.69)%	(50.68)%
Structured finance	0.13%	3.12%

The positive six month returns from mortgage-backed and asset-backed securities arbitrage as well as multi-strategy funds is reflective of the reversal in sentiment following 2009's massive US government intervention. The negative returns from the distressed securities arbitrage strategy and the remaining statistical arbitrage fund is indicative of the continued lack of liquidity for the specific holding in these funds.

The Trust's revolving loan facility with a Canadian financial institution was terminated on November 19, 2009. During six-month period ended June 30, 2009 the borrowings of the Trust fluctuated between: \$3,811,032 and \$6,981,592.

The Trust did not utilize the share buy-back and cancellation program during the six-month period ended June 30, 2010 (year ended December 31, 2009: 386,300 units were purchased for \$1,800,468 in cash). During the six-month period ended June 30, 2010, the program did not contribute to the overall return (year ended December 31, 2009: 1.89% 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 June 30, 2010, the Trust was invested in 14 hedge funds (December 31, 2009: 17 hedge funds) with 14 managers (December 31, 2009: 16 managers) engaged in seven 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 six-month period ended June 30, 2010, the Trust did not place investments with any new funds other than one that was a result of a restructuring of an existing position and redeemed from three hedge funds (consisting of one asset-backed securities arbitrage, one mortgage-backed security arbitrage and one multi-strategy) (six month period ended June 30, 2009, the Trust did not place investments with any new funds and redeemed from five hedge funds).

As at period 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 June 30, 2010 and December 31, 2009. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

Strategy	As at June 30, 2010			As at December 31, 2009		
	No. of Hedge Funds	Fair Value		No. of Hedge Funds	Fair Value	
Asset-backed securities arbitrage	1	1,360,933	27%	2	1,533,397	20%
Distressed securities arbitrage	2	1,551,160	31%	2	1,640,805	22%
Fixed-income arbitrage	1	-	0%	1	-	0%
Mortgage-backed security arbitrage	1	120,130	2%	2	679,545	9%
Multi-strategy	2	138,249	3%	3	1,653,081	22%
Statistical arbitrage	3	66,307	1%	3	70,073	1%
Structured finance	4	1,819,034	36%	4	2,019,426	26%
	14	\$ 5,055,813	100%	17	\$ 7,596,327	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, 2010 and December 31, 2009.

Strategy	As at June 30, 2010	As at December 31, 2009
Asset-backed securities arbitrage	24.54%	10.60%
Distressed securities arbitrage	24.97%	9.91%
Fixed-income arbitrage	-	-
Mortgage-backed security arbitrage	2.17%	4.70%
Multi-strategy	2.18%	10.22%
Statistical arbitrage	0.65%	0.25%
Structured finance	16.16%	7.99%

The following table lists all the hedge funds by fair value as at June 30, 2010. 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
Cerberus International SPV Ltd.*	Participating shares	\$ 597,307	\$ 1,385,384	24.97%
CRC Global Structured Credit Fund, Ltd.*	Participating shares	1,184,876	1,360,933	24.54%
Fortress Value Recovery Fund I Ltd.* ⁺	Voting shares and capital Balance	2,356,042	896,064	16.16%
Medley Opportunity Fund, Ltd.*	Participating shares	776,689	892,455	16.09%
Fund 212*	Participating shares	-	165,776	2.99%
Fund 183*	Participating shares	106,047	121,016	2.18%
Fund 189*	Participating shares	633,944	120,130	2.17%
Fund 211*	Participating shares	-	36,161	0.65%
Fund 220*	Participating shares	87,501	30,505	0.55%
Fund 226*	Participating shares	-	22,156	0.40%
Fund 146*	Participating shares	23,404	17,233	0.31%
Fund 104*	Participating shares	157,129	7,990	0.14%
Fund 187*	Participating shares	1,687,130	10	0.00%
Fund 191*	Participating shares	-	-	0.00%
		\$ 7,610,069	\$ 5,055,813	

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

⁺ 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 unaudited financial statements for the six-month period ended June 30, 2010, the year ended and December 31, 2009 and the audited annual financial statements for the years ended December 31, 2008, 2007, 2006 and 2005.

The Trust's Net Assets per Unit

	For the six-month period ended June 30	For the year ended December 31,				
	2010	2009	2008	2007	2006	2005
Net assets, beginning of period	\$ 3.71	\$ 7.40	\$ 11.76	\$ 14.15	\$ 13.88	\$ 14.73
Increase (decrease) from operations:						
Total revenue	-	0.02	0.04	0.05	0.05	0.04
Total expenses	(0.03)	(0.13)	(0.27)	(0.41)	(0.41)	(0.35)
Realized gains (losses) for the period	(0.10)	(0.02)	(1.88)	2.80	(0.02)	0.28
Unrealized gains (losses) for the period	0.09	(0.07)	(1.40)	(1.99)	1.70	0.33
Total increase (decrease) from operations ⁽¹⁾	(0.04)	(0.20)	(3.51)	0.45	1.32	0.29
Distributions:						
From income (excluding dividends)	-	-	0.85	1.71	0.04	0.36
Return of capital	2.21	3.60	-	1.16	1.10	0.80
Total Distributions for the period ^(2,4)	2.21	3.60	0.85	2.87	1.14	1.16
Net Assets, at end of period ⁽³⁾	\$ 1.46	\$ 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.
- (4) For the six-month period ended June 30, 2010, the nature of 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				
	2010	2009	2008	2007	2006	2005
Total net assets (000's) ⁽¹⁾	\$ 5,545	\$ 14,053	\$ 30,906	\$ 53,778	\$ 67,651	\$ 71,507
Number of units outstanding ⁽¹⁾	3,788,115	3,788,115	4,174,415	4,572,915	4,782,615	5,150,015
Management expense ratio ⁽²⁾	6.69%	3.91%	9.16%	9.17%	6.60%	7.08 %
Management expense ratio before waivers or absorptions ⁽²⁾	6.69%	3.91%	9.16%	9.17%	6.60%	7.08 %
Portfolio turnover rate ⁽³⁾	3.51%	0.02%	3.87%	12.11%	22.97%	40.56 %
Trading expense ratio ⁽⁴⁾	0.00%	0.13%	0.03%	0.03%	0.05 %	0.00 %
Closing market price, end of period	\$ 1.46	\$ 3.71	\$ 5.85	\$ 9.58	\$ 13.00	\$ 12.55

- (1) This information is provided as at June 30, 2010 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 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 2009 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, 2009. 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

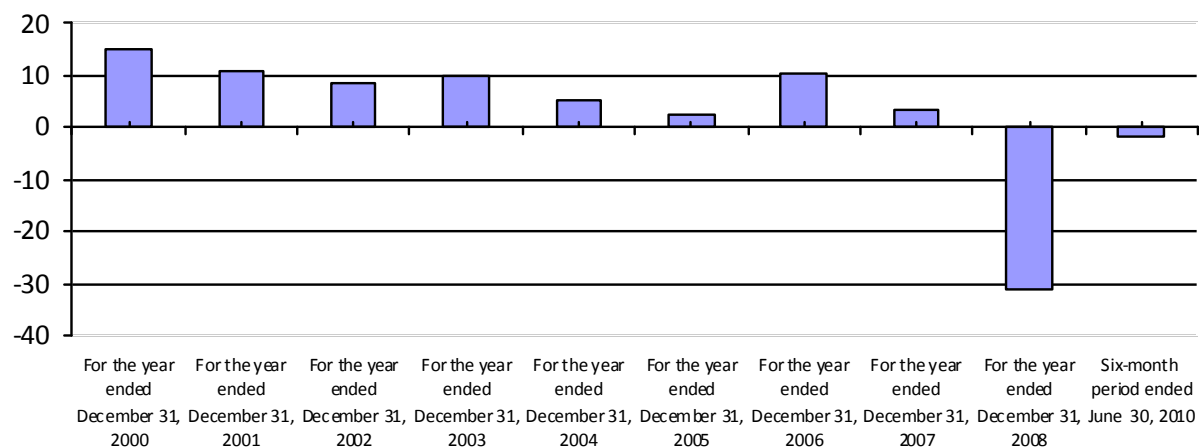
With respect to the following information in the “Past Performance” section of this report, please note the following:

- (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.



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 six-month period ended June 30, 2010, the management fee expense was \$44,084 and the amount payable by the Trust as at June 30, 2010 was \$19,263.

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 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, 2010, the reported net asset value fluctuated between \$1.46 per unit and \$2.17 per unit (six-month period ended June 30, 2009: \$3.92 and \$7.40), after taking into account distributions.

Distributions

During the six-month period ended June 30, 2010, the Trust made distributions totalling \$2.21 per unit (\$8,371,734 was distributed in aggregate) compared to \$3.44 per unit (\$13,658,160 in aggregate) during the six-month period ended June 30, 2009.

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 distributions for tax purposes will be 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 six-month period ended June 30, 2010.

Distribution History

Record date	Date distribution paid	Character of distribution for tax purposes	Amount per unit
January 27, 2010	February 3, 2010	To be determined	\$1.54
March 31, 2010	April 17, 2010	To be determined	\$0.50
June 30, 2010	July 8, 2010	To be determined	\$0.17

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. The purchases for cancellation program was terminated on December 31, 2009, when the Trust was delisted by the Toronto Stock Exchange.



Potential Tax implication of Wind-Up

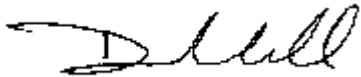
The Manager commenced cash distributions (“Termination Distributions”) to unitholders of record as of June 30, 2009 in connection with the scheduled termination of the Trust. As previously announced by the Trust, upon the payment of the initial Termination Distribution to unitholders of record as of 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.


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.



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



SHAUNA CASSIDY, CFA
Vice President
Northwater Fund Management Inc.

August 6, 2010

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Net Assets (unaudited)

	As at June 30, 2010	As at December 31, 2009
Assets		
Cash and short-term investments (cost: 2010 - \$1,025,588; 2009 - \$6,083,609)	\$ 1,025,800	\$ 6,083,640
Cash and short-term investments held as margin deposited on futures contracts – at market value (cost: 2010 - \$nil; 2009 - \$199,976)	-	199,994
Hedge fund investments – at fair value (note 4) (cost: 2010 - \$7,610,069; 2009 - \$10,582,148)	5,055,813	7,596,327
Settlement receivable on currency futures (note 6)	-	75,273
Hedge fund redemptions receivable (note 3)	161,208	501,266
	<u>6,242,821</u>	<u>14,456,500</u>
Liabilities		
Audit, legal and custody fees payable	34,320	53,626
Management fees payable (note 9)	19,263	47,127
Distribution payable	643,980	303,049
	<u>697,563</u>	<u>403,802</u>
Net assets	<u>\$ 5,545,258</u>	<u>\$ 14,052,698</u>
Net assets and unitholders' equity (note 8)		
Unit capital	\$ 62,930,833	\$ 71,302,567
Contributed surplus	23,310,368	23,310,368
Deficit	(80,695,943)	(80,560,237)
Total	<u>\$ 5,545,258</u>	<u>\$ 14,052,698</u>
Number of units outstanding (note 8)	<u>3,788,115</u>	<u>3,788,115</u>
Net assets per unit	<u>\$ 1.46</u>	<u>\$ 3.71</u>

Signed on behalf of the Trustee,

RBC Dexia Investor Services Trust

Per: 

Per: 

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Operations (unaudited)

	For the six month period ended June 30,	
	2010	2009
Investment income		
Interest income	\$ 1,578	\$ 32,554
Other income	-	30,801
	1,578	63,355
Expenses		
Management fees (note 9)	44,084	176,957
Audit fees	36,540	53,669
Independent review committee fees	3,619	8,691
Custodian and trustee fees	(400)	6,670
Legal fees	14,885	9,613
Security holder reporting costs	18,343	60,076
Interest and standby fees	-	29,321
Transaction costs	-	3,332
	117,071	348,329
Net investment loss	(115,493)	(284,974)
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Hedge fund investments	(399,059)	(3,723,593)
Currency futures	75,273	1,297,858
Change in unrealized appreciation (depreciation) on:		
Hedge fund investments	431,565	661,697
Currency futures	(75,273)	(338,029)
Net (loss) gain on currency, excluding hedge fund investments	(52,719)	1,971,570
Net realized and unrealized loss on investments for the period	(20,213)	(130,497)
Decrease in net assets from operations for the period	\$ (135,706)	\$ (415,471)
Decrease in net assets from operations per unit for the period*	\$ (0.04)	\$ (0.10)

*Based on the average number of units outstanding of 3,788,115 (2009 – 4,042,801) for the period.

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Changes in Net Assets (unaudited)

	For the six month period ended June 30,	
	2010	2009
Net assets – beginning of the year	\$ 14,052,698	\$ 30,905,964
Decrease in net assets from operations for the year	(135,706)	(415,471)
Unit transactions (note 8)		
Cancellation of units	-	(1,270,516)
Distributions to unitholders	(8,371,734)	(13,658,160)
Net assets – end of the year	\$ 5,545,258	\$ 15,561,817

NORTHWATER MARKET-NEUTRAL TRUST

Statements of Cash Flows (unaudited)

	For the six month period ended June 30,	
	2010	2009
Cash flows from operating activities		
Decrease in net assets from operations	\$ (135,706)	\$ (415,471)
Items not affecting cash:		
Change in unrealized depreciation in value of hedge fund investments	(431,565)	(661,697)
Change in unrealized depreciation (appreciation) in value of currency futures	75,273	338,029
Net realized loss (gain) on hedge fund investments	399,059	3,723,593
Changes in non-cash working capital:		
Change in payables and other assets	(47,170)	(34,425)
Purchase of hedge fund investments	(183,559)	-
Proceeds on sale of hedge fund investments	3,096,637	11,260,845
Change in short-term pledged as collateral on futures contracts	199,994	497,935
	<u>2,972,963</u>	<u>14,708,809</u>
Cash flows from financing activities		
Repayment of bank loan	-	(3,170,560)
Distributions paid	(8,030,803)	(1,277,548)
Units purchased for cancellation	-	(1,270,516)
	<u>(8,030,803)</u>	<u>(5,718,624)</u>
Net decrease in cash and short-term investments	(5,057,840)	8,990,185
Cash and short-term investments at the beginning of the period	6,083,640	10,144,376
Cash and short-term investments at the end of the period	\$ 1,025,800	\$ 19,134,561
Supplementary information:		
Interest paid	\$ -	\$ 26,863

NORTHWATER MARKET-NEUTRAL TRUST

Statement of Investment Portfolio (unaudited)
As at June 30, 2010
(in U.S. dollars)

	Maturity date	Face value	Cost	Fair value	Fair value as a % of net assets
Hedge fund investments*					
Asset-backed securities arbitrage			\$ 1,184,876	\$ 1,360,933	24.54%
Distressed securities arbitrage			597,307	1,551,160	27.97%
Fixed income arbitrage			-	-	0.00%
Mortgage-backed security arbitrage			633,944	120,130	2.17%
Multi-strategy			129,451	138,249	2.49%
Statistical arbitrage			4,907,362	1,819,034	32.80%
Structured finance			157,129	66,307	1.20%
Hedge fund investments			7,610,069	5,055,813	91.17%
Cash			65,963	65,963	1.19%
Treasury bills **					
Government of Canada	July 22, 2010	960,000	959,626	959,837	17.31%
Cash and short-term investments			1,025,589	1,025,800	18.50%
Total investment portfolio			\$ 8,635,658	6,081,613	109.67%
Other net assets				(536,355)	(9.67)%
Total net assets and unitholders' equity				\$ 5,545,258	100.00%

*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 June 30, 2010 have a yield of 0.28%.

NORTHWATER MARKET-NEUTRAL TRUST

Notes to Financial Statements (unaudited)

For the six-month period ended June 30, 2010 and 2009

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 terminal distribution of \$3.14 per unit. The Trust has made three additional termination distributions after year end to unitholders of \$2.21 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 June 30, 2010, 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 period, the assets of the Trust were invested in cash and short-term investments and a portfolio of hedge funds.

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.

2. Summary of Significant Accounting Policies (continued)

(b) Investments in 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 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.

Investments in hedge funds are classified into 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.

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.

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 indirectly; and
- Level 3 Inputs that are not based on observable market data.

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

(c) Currency Hedging

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.

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.

2. Summary of Significant Accounting Policies (continued)

(c) Currency Hedging (continued)

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 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.

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 and 2010. 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 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.

3. Financial Instrument Risk (continued)

Market price risk (continued)

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.

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 hedge funds. As the Trust has liquidated underlying hedge fund positions, portfolio diversification has decreased. In addition, the market neutrality of the underlying hedge funds has declined as the hedge fund managers dispose of positions to satisfy redemption requests. 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 June 30, 2010		As at December 31, 2009	
	Potential change in strategy return *	Impact in \$	Potential change in strategy return *	Impact in \$
Asset-backed securities	4.84%	65,895	5.38%	82,713
Distressed securities	9.17%	142,259	9.27%	152,162
Fixed-income arbitrage	25.53%	-	-	-
Mortgage-backed securities	32.67%	39,251	15.28%	103,832
Multi-strategy	19.23%	26,592	19.26%	304,373
Statistical arbitrage	28.07%	18,610	28.97%	20,297
Structured finance	30.63%	557,205	30.30%	611,938

*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 June 30, 2010 and December 31, 2009, respectively.

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

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.

3. Financial Instrument Risk (continued)

Liquidity risk (continued)

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 period ended June 30, 2010, other than one that was a result of a restructuring of an existing position.

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 2010, classified by status of the hedge funds being redeemed from:		
	Amount	% of total hedge fund portfolio
Restricted redemptions ⁽¹⁾	\$ 64,159	1%
Liquidating	602,370	13%
	\$ 666,529	14%
Payments of redemptions expected beyond 2010, classified by status of the hedge funds being redeemed from:		
	Amount	% of total hedge fund portfolio
Restricted redemptions ⁽¹⁾	\$ 1,219,014	26%
Liquidating	2,881,394	60%
	\$ 4,100,408	86%

(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 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.

As at June 30, 2010, the Trust has hedge fund redemption receivables outstanding of \$161,208 net of a provision of US\$215,739. 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 June 30, 2010:

	< 60 days	61-90 days	91 -120 days	> 120 days	Total
Hedge Fund Redemptions Receivables	US\$ -	US\$ -	US\$ -	US\$ 151,997	US\$ 151,997

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 broken down by type.

Type	As at June 30, 2010
Audit Holdbacks	US\$ 62,724
Liquidations	89,273
	US\$ 151,997

3. Financial Instrument Risk (continued)

Credit risk

As at June 30, 2010, 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 June 30, 2010, the credit rating of the counterparty was as follows:

Counterparty to:	Balance	Credit rating
Cash at custodian	\$ 65,963	A-1+*

* credit ratings as per Standard and Poor's 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.

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.

As at June 30, 2010, 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\$4,980,678 (December 31, 2009: US\$7,902,290).

The impact on net assets per 1% change in the Canadian dollar would have been \$52,825 (December 31, 2009: \$82,650). 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.

4. Investment in 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 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 hedge funds are managed by independent portfolio managers who are compensated for their services by the respective 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 hedge funds is not separately computed and disclosed by the Trust but rather is reflected in the valuation of each hedge fund. Redemption provisions for the 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 June 30, 2010. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

Strategy	As at June 30, 2010			As at December 31, 2009		
	No. of Hedge Funds	Fair Value		No. of Hedge Funds	Fair Value	
Asset-backed securities arbitrage	1	1,360,933	27%	2	1,533,397	20%
Distressed securities arbitrage	2	1,551,160	31%	2	1,640,805	22%
Fixed-income arbitrage	1	-	0%	1	-	0%
Mortgage-backed security arbitrage	1	120,130	2%	2	679,545	9%
Multi-strategy	2	138,249	3%	3	1,653,081	22%
Statistical arbitrage	3	66,307	1%	3	70,073	1%
Structured finance	4	1,819,034	36%	4	2,019,426	26%
	14	\$ 5,055,813	100%	17	\$ 7,596,327	100%

In preparation for the wind up, the Trust had 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 June 30, 2010.

	Assets at Fair Value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Short-term investments – at fair value	\$ 959,837	\$ -	\$ -	\$ 959,837
Hedge fund investments - at fair value	-	-	5,055,813	5,055,813
Total	\$ 959,837	\$ -	\$ 5,055,813	\$ 6,015,650

5. Fair Value Measurements

	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 period ended June 30, 2010 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	\$ 7,596,327
Net purchases and sales	(2,573,020)
Realized	(399,059)
Unrealized	431,565
Balance at end of period	\$ 5,055,813

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 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.

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 six month period ended June 30, 2009, the loan varied between: \$3,811,032 and \$6,981,592. The total interest paid on the loan for the six month period ended June 30, 2009 was \$29,321 and the average rate of interest paid on the average loan balance throughout the six-month period ended June 30, 2009 was 1.36%.

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.

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 six-month period:

For the six-month period ended June 30, 2010	Units Outstanding	Unit Capital	Contributed Surplus	Deficit	Unitholders' Equity
Balance – December 31, 2009	3,788,115	\$ 71,302,567	\$ 23,310,368	\$ (80,560,237)	\$ 14,052,698
Decrease in net assets from operations for the period	-	-	-	(135,706)	(135,706)
Units cancelled during the period	-	-	-	-	-
Distributions	-	(8,371,734)	-	-	(8,371,734)
Balance – June 30, 2010	3,788,115	\$ 62,930,833	\$ 23,310,368	\$ (80,695,943)	\$ 5,545,258

For the six-month period ended June 30, 2009	Units Outstanding	Unit Capital	Contributed Surplus	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

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

Until the Termination Date, 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 to its unitholders termination distributions totalling \$5.35 per unit.

During the six months ended June 30, 2010, distributions of \$2.21 per unit and \$8,371,734 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
Year		
2028	\$ 5,869,639	\$ 7,613,586
Total	\$ 5,869,639	\$ 7,613,586

12. Future Accounting Policy Changes

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.

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TSE Symbol: NMN.UN

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