

NORTHWATER

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

ANNUAL INFORMATION FORM

For the fiscal period ended December 31, 2004

**As at
March 31, 2005**

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INFORMATION INCORPORATED BY REFERENCE

The Annual Report, which includes the audited financial statements of the Northwater Five-Year Market-Neutral Trust for the period from June 30, 2004 to December 31, 2004 and the notes thereto (collectively referred to as the “Financial Statements”).

GENERAL

The information contained in this Annual Information Form is given as of March 31, 2005. All dollar amounts are stated in Canadian currency unless otherwise indicated.

- ITEM 1: NAME AND INCORPORATION**
ITEM 2: BACKGROUND AND DEVELOPMENT OF BUSINESS
ITEM 3: DESCRIPTION OF BUSINESS

THE TRUST

Northwater Five-Year Market-Neutral Trust (the “Trust”) is a closed-end investment trust established under the laws of Ontario pursuant to a declaration of trust dated as of June 18, 2004. Northwater Fund Management Inc. acts as Trustee. The Royal Trust Company acts as Custodian. The Trust began operations on June 30, 2004 when it completed its initial public offering. The Trust issued additional units on December 13, 2004 through a secondary offering. Northwater Fund Management Inc. is the manager of the Trust (the “Manager”). The Manager has appointed Northwater Capital Management Inc. as the investment advisor to the Trust (the “Investment Advisor”).

The address of the Trust’s principal and head office is Suite 4700, BCE Place, Bay Wellington Tower, 181 Bay Street, P.O. Box 794, Toronto, Ontario, M5J 2T3.

The beneficial interest in the net assets and net income of the Trust is divided into trust units of equal value (the “Units”). Holders of Units are referred to herein as Unitholders.

DESCRIPTION OF THE UNITS

The Trust is a closed-end investment trust created pursuant to a declaration of trust and governed by the laws of the Province of Ontario. The Trust was authorized to issue transferable units of beneficial interest on initial public offering. Each Unit represents an equal, undivided interest in the net assets of the Trust.

Each Unit entitles the holder to the same rights and obligations as a holder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholders. Each Unitholder is entitled to one vote for each Unit held and is entitled to

participate equally with respect to any and all distributions made by the Trust, including distributions of net income and net realized capital gains. On termination, the Unitholders of record holding outstanding Units are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

INVESTMENT OBJECTIVES, STRATEGY AND RESTRICTIONS

Investment Objectives

The Trust's investment objectives are to:

- 1) Distributions: to pay to Unitholders quarterly tax-efficient cash distributions of \$0.4375 per Unit (\$1.75 per annum to yield 7% on the subscription price of \$25.00 per Unit);
- 2) Low Correlation: to ensure that the performance of the Trust has a low correlation with major equity and fixed-income markets over the life of the Trust;
- 3) Low Volatility: to achieve a low volatility, which is expected to be similar to that of a mid-term bond portfolio and less than one-half that of major equity markets; and
- 4) Capital Repayment: to return to Unitholders at least the original subscription price of the Units of \$25.00 per Unit on or about June 30, 2009.

Investment Strategy

The Investment Advisor acts as adviser to Northwater Five-Year Market-Neutral Fund Limited (the "Fund"), which holds a broadly diversified portfolio of hedge funds that are either substantially market-neutral or well hedged with respect to major fixed-income and equity markets (the "Hedge Fund Portfolio"). The Hedge Fund Portfolio consists of 43 hedge funds as at December 31, 2004. The Hedge Fund Portfolio is diversified by strategy and is invested in market-neutral hedge funds across 13 distinct investment strategies. The Investment Advisor seeks out hedge funds that have a low correlation with one another. The Investment Advisor utilizes its Proprietary Selection Process (described below) that it developed in advising other funds of market-neutral hedge funds to assist it in making investment recommendations for the Hedge Fund Portfolio.

The Trust has invested the net proceeds of the offering in a portfolio of common shares of Canadian Public companies (the "Common Share Portfolio"). The Trust has then obtained its exposure to the Hedge Fund Portfolio through a forward purchase and sale agreement (the "Forward Agreement") with a U.S. Bank with a credit rating of AA- from Standard & Poor's Corporation.

The Fund has also swapped an exposure to a floating Canadian money market rate with a U.S. Bank in return for receiving a fixed Canadian five year rate of 4.30% (the "Swap"). The Fund's return is composed of the returns of a diversified portfolio of market-neutral hedge funds plus a return earned on the Swap. The value of the interest rate swap changes as the mid-term interest rates change. The Trust has exposure to the Swap through the Forward Agreement.

The Hedge Fund Portfolio emphasizes hedge funds that invest in sectors of the capital markets that the Investment Advisor believes are relatively inefficient. The Investment Advisor believes that such sectors offer arbitrage or relative value opportunities and should reward insightful investment analysis. The following are examples of hedged, non-traditional investment strategies that may be included in the Hedge Fund Portfolio:

- Asset-backed security arbitrage
- Capital structure arbitrage
- Convertible bond arbitrage
- Distressed securities arbitrage
- Fixed-income arbitrage
- Market-Neutral Equity
- Merger arbitrage
- Mortgage-backed security arbitrage
- Re-insurance arbitrage
- Statistical arbitrage
- Structured finance
- Volatility arbitrage

The foregoing list is not exhaustive.

Each of the strategies included in the Hedge Fund Portfolio carries a certain amount of risk, however, the Investment Advisor believes, based on its experience with similar portfolios, that the volatility of investment returns for the Hedge Fund Portfolio will be substantially reduced by the enhanced level of diversification achieved by investing in hedge funds that have a very low level of correlation with one another. As a result, the risk of the Fund, as measured by standard deviation, is expected to be similar to the risk of a mid-term bond fund and less than one-half that of the major equity markets.

The Investment Advisor will continuously monitor and review the investment strategies of the hedge funds in which the Hedge Fund Portfolio is invested as well as the performance of the managers of each fund. In particular, the Investment Advisor reviews organizational changes made to these hedge funds and changes in policy relative to investment objectives, hedging strategy, degree of diversification, leverage and costs. In addition, the Investment Advisor continuously monitors the hedge fund industry and reviews new types of hedge funds being offered. Based on the regular application of its proprietary process, the Investment Advisor may from time to time recommend the reallocation of the Hedge Fund Portfolio's assets among funds with different investment strategies or among different hedge fund managers or recommend the investment in hedge funds with new investment strategies.

The Investment Advisor uses its best efforts to ensure that the Hedge Fund Portfolio maintains the level of liquidity reasonably required to satisfy the current liabilities of the Fund. As many of the hedge funds to which the Hedge Fund Portfolio is exposed have restrictions that limit the liquidity of the investment, the Investment Advisor maintains an appropriate level of liquidity by ensuring that the Hedge Fund Portfolio is also invested in hedge funds that have greater liquidity.

Proprietary Selection Process

The Investment Advisor uses its Proprietary Selection Process to advise with respect to the selection and monitoring of potential hedge fund investments made by the Hedge Fund Portfolio. The Proprietary Selection Process consists of:

- 1) The development of a multi-faceted set of investment beliefs, which serve as a framework for identifying appropriate market-neutral strategies and the managers that employ those strategies. These investment beliefs have evolved with the Investment Advisor's experience in market-neutral hedge fund investing and in managing complex derivatives strategies.
- 2) The use of an established operational infrastructure necessary for managing complex market-neutral and derivative strategies. The Investment Advisor has built a team of investment professionals and developed robust portfolio and risk management systems and tools essential to managing a sophisticated fund of market-neutral hedge funds.
- 3) A progressive global search for market-neutral strategies consistent with the Investment Advisor's investment beliefs and the Hedge Fund Portfolio's investment criteria of market-neutrality and strong risk-adjusted returns. The Investment Advisor's search focuses on managers who have demonstrated expertise in consistently implementing these strategies.
- 4) A comprehensive quantitative and qualitative assessment of hedge fund managers who employ market-neutral strategies that adhere to the Investment Advisor's investment beliefs and the objectives of the Hedge Fund Portfolio.
- 5) The use of specific quantitative procedures, including screens that attempt to identify consistency and adaptability, market-neutrality, and portfolio fit, which are integral to the Investment Advisor's investment process. Various portfolio construction techniques are used, including mathematical optimization, statistical process control and factor analysis.
- 6) An ongoing qualitative assessment of existing and prospective hedge fund managers. Hedge fund manager reviews involve on-site interviews, monthly portfolio reviews and various industry references. The goal of this process is to fully understand the hedge fund manager's investment strategy and risk management processes. The Investment Advisor also seeks to ascertain the strength of a hedge fund manager's competitive advantage, its investment team and its business plans.
- 7) The construction of a diversified model portfolio. The model portfolio serves as a target portfolio for the Trust and will be diversified across approximately 13 market-neutral strategies and includes 43 hedge funds as at December 31, 2004. This is a dynamic process.
- 8) Finally, a comprehensive due diligence process must be completed before the Investment Advisor recommends an investment. This process includes numerous on-site interviews by a variety of investment professionals from the Investment Advisor, an all-inclusive strategy and operational due diligence report, a legal review of the offering documentation, an analysis of the hedge fund's financial statements, an assessment of the fees charged by the hedge fund's manager and an examination of any administrative or other costs associated with making the investment. Rigorous monitoring and due diligence continues once a hedge fund is added to the Hedge Fund Portfolio. This process includes monthly discussions with the hedge fund manager, multiple on-site

interviews each year, continual quantitative and qualitative assessments and monthly justification of the hedge fund's role within the Investment Advisor's model portfolio.

Investment Restrictions

The activities of the Fund are subject to certain investment restrictions contained in its constating documents. For purposes of the restrictions listed below, all percentage limitations apply only immediately after a transaction and any subsequent change in any applicable percentage resulting from changing values will not require elimination of any security from the Hedge Fund Portfolio. These investment restrictions provide, among other things, the following:

1. **Sole Undertaking.** The Fund will not engage in any undertaking other than the investment of the Hedge Fund Portfolio assets in accordance with the Investment Objectives and the Investment Strategy.
2. **Concentration.** The Fund will not purchase any security issued by any issuer (other than short-term debt securities issued or guaranteed by the Government of Canada or any Canadian province or municipality) if as a result more than 10% of its total assets would consist of securities issued by such issuer.
3. **Diversification.** The Hedge Fund Portfolio must be invested in a minimum of 25 underlying hedge funds and a minimum of 7 distinct investment strategies at all times.
4. **Fixed Price.** The Fund will not purchase any security that by its terms requires the Hedge Fund Portfolio to make a contribution in addition to the payment of the purchase price, other than a permitted derivative, provided that this restriction shall not apply to the purchase of securities that are paid for on an instalment basis where the total purchase price and the amount of all such instalments is fixed and set aside at the time the first instalment is paid.
5. **No Material Interest.** The Fund will not purchase securities from, sell securities to, or otherwise contract for the acquisition and disposition of securities with the Investment Advisor or any of its respective affiliates, any officer, director or shareholder of any of them, any person, trust, firm or corporation managed by the Investment Advisor or any of its respective affiliates or any firm or corporation in which any officer, director or shareholder of the Investment Advisor may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any purchase or sale of securities, any such transaction is effected through normal market facilities and the purchase price approximates the prevailing market price or is effected at the then prevailing net asset value of the securities as determined by the issuer of the securities or its administrator.
6. **Restriction on Underwriting.** The Fund will not act as an underwriter except to the extent that the Fund may be deemed to be an underwriter in connection with the sale of securities in the Hedge Fund Portfolio.
7. **No Commodities.** The Fund will not directly purchase or sell physical commodities with the intention to make or take physical delivery.
8. **Related Party Transactions.** The Fund shall not knowingly make an investment in any class of securities of any issuer, other than those issued or guaranteed by Canadian governments,
 - I. for which the Advisor (a related party of the Fund) or any associate or affiliate of the Advisor (individually a "manager") has acted as an underwriter in the

- distribution of such class of securities (except as a member of a selling group distributing 5% or less of the securities underwritten) for a period of at least 60 days following the conclusion of the distribution of the underwritten securities to the public; or
- II. of which any partner, director, officer or employee of a manager or any partner, director, officer or employee of any affiliate or associate of such manager is an officer or director, provided that this prohibition will not apply where any such person does not:
 - i. participate in the formulation of investment decisions made on behalf of the Hedge Fund Portfolio;
 - ii. have access to the investment decision-making process of the Hedge Fund Portfolio prior to the implementation of investment decisions made on behalf of the Hedge Fund Portfolio; and
 - iii. influence (other than through research, statistical and other reports generally available to clients) the investment decisions made on behalf of the Hedge Fund Portfolio; or
 - III. in which a manager or any partner, director, officer or employee of a manager had a material interest (which for these purposes includes beneficial ownership of more than 10% of the voting securities of the issuer).
9. **Liquidity of Investment on Termination of the Hedge Fund Portfolio.** The Fund will not invest in securities that by their terms will not mature, terminate or be redeemable prior to the termination of the Hedge Fund Portfolio.

The investment restrictions applicable to the Hedge Fund Portfolio may only be changed if the approval of the Unitholders by an Extraordinary Resolution has been given.

MANAGEMENT OF THE TRUST

The Manager

Pursuant to the Declaration of Trust, the Manager has exclusive authority to manage the operations and affairs of the Trust, to make all decisions regarding the business of the Trust and has authority to contract on behalf of the Trust. The Manager may, pursuant to the terms of the Declaration of Trust, delegate its powers to third parties at no additional cost to the Trust where, in the discretion of the Manager, it would be in the best interests of the Trust to do so. The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and to exercise the care, diligence and skill of a prudent and qualified person. Among other restrictions imposed on the Manager, it may not dissolve the Trust or wind up the Trust's affairs except in accordance with the provisions of the Declaration of Trust.

The Manager's duties include, without limitation: maintaining accounting records for the Trust; authorizing the payment of operating expenses incurred on behalf of the Trust; calculating the amount of distributions by the Trust; preparing financial statements, income tax returns and financial and accounting information as required by the Trust; ensuring that the Unitholders are

provided with financial statements and other reports as required from time to time by applicable law; ensuring that the Trust complies with regulatory requirements; preparing the Trust's reports to Unitholders and to the Canadian securities regulatory authorities; providing the Trustee with certain information and reports; and negotiating contracts with third-party providers of services, including, but not limited to, custodians, transfer agents, auditors and printers. The Manager provides office facilities and personnel to carry out these services, together with clerical services that are not furnished by the Trust's custodian or transfer agent.

The Declaration of Trust entitles the Manager, in payment for the services noted above, to receive a monthly management fee equal to one twelfth of 0.15% of the Net Asset Value of the Trust at month end calculated and paid monthly in arrears. The Manager is entitled to be reimbursed for all expenses and liabilities properly incurred by it in connection with the activities of the Trust.

The Manager is currently also manager of two other closed-end investment trusts, Northwater Market-Neutral Trust and Northwater Top 75 Income Trusts^{Plus}.

The Investment Advisor

The Investment Advisor, an affiliate of the Manager, has been retained by the Manager to provide investment advisory and portfolio management services to the Manager for the benefit of the Trust pursuant to an investment management agreement (the "Investment Management Agreement") dated as of June 18, 2004.

The Investment Advisor was formed in 1989. The Investment Advisor is a leading investment management firm in Canada and the U.S., specializing in hedge fund strategies, synthetic indexing, and enhanced asset-class portfolios for pension plans and endowment funds. Northwater is dedicated to providing clients with attractive risk-adjusted returns and first-class client service. The Investment Advisor had assets under management of C\$10.2 billion as at December 31, 2004. The Investment Advisor's clients include the pension funds of many of the largest corporations and public sector institutions in Canada, the U.S. and Europe. The Investment Advisor also manages pension and endowment assets for a number of universities.

The Investment Advisor is known as an innovator and leader in applying derivatives and other quantitative strategies to create unique investment products for institutional clients. The Northwater Market-Neutral Trust is the first publicly-listed investment vehicle of its kind in Canada to invest in a diversified portfolio of hedge funds. As of December 31, 2004, the Investment Advisor had approximately C\$4.5 billion under management in funds of market-neutral hedge funds.

The Investment Advisor is engaged in a wide range of investment management, investment advisory and other business activities. The services of the Investment Advisor under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents the Investment Advisor or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and restrictions are similar to those of the Trust) or from engaging in other

activities. The Investment Advisor's investment decisions for the Trust will be made independently of those made for its other clients and independently of its own investments. However, the Investment Advisor may make the same investment for the Trust or the Hedge Fund Portfolio and for one or more of its other clients. If the Trust or the Hedge Fund Portfolio and one or more of the other clients of the Investment Advisor is engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The Investment Management Agreement, unless terminated as described below, will continue until the termination of the Trust. The Manager in certain circumstances may, and the Manager upon the direction of the Unitholders authorized by an Extraordinary Resolution will, terminate the Investment Management Agreement upon six months' prior written notice. In the event of the termination of the Investment Management Agreement as a result of the passing of a resolution by the Unitholders as described above, no payments need be made by the Manager to the Investment Advisor or by the Investment Advisor to the Manager, except for amounts owing as of the date of termination. The Investment Advisor may terminate the Investment Management Agreement upon at least 20 business days' written notice given by the Investment Advisor to the Manager if the Manager is in breach or default of any material provision of the Investment Management Agreement and, if capable of being cured, the breach or default has not been cured within twenty business days of written notice of such breach or default given by the Investment Advisor to the Manager. In the event of such termination, no payments need be made by the Manager to the Investment Advisor or by the Investment Advisor to the Manager, except for amounts owing as of the date of termination.

In the Investment Management Agreement, the Investment Advisor covenants to act at all times on a basis that is fair and reasonable to the Manager, to act honestly and in good faith with a view to the best interests of the Manager and, in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that the Investment Advisor will not be liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Trust if it has exercised the degree of care, diligence and skill set forth above. The Investment Advisor will incur liability, however, in cases of willful misconduct, bad faith, gross negligence or disregard of its duties or the standard of care, diligence and skill set forth above.

In the event that the Investment Management Agreement is terminated as provided above, the Manager will appoint a successor investment advisor to carry out the activities of the Investment Advisor until a meeting of the Unitholders is held to confirm such appointment.

The Investment Advisor will receive a portion of the fee payable by the Trust to the Manager in consideration of the Investment Advisor's services to the Trust.

FEES AND OTHER EXPENSES

The Manager is responsible for the ongoing business of the Trust and monitoring the investment portfolio of the Trust. In consideration for these and other services and pursuant to the terms of the Trust Agreement and the Management Agreement, the Trust will pay to the Manager a

monthly management fee equal to one-twelfth of 0.15% of the Net Asset Value at month end, paid monthly in arrears, plus applicable taxes. The Manager may pay a portion of the foregoing fee to the Investment Advisor in consideration of the Investment Advisor's services to the Trust.

The Trust pays for all expenses incurred in connection with the operation and administration of the Trust. These expenses include, without limitation: mailing and printing expenses for periodic reports to Unitholders; fees payable to the Trustee for acting as trustee of the Trust; fees payable to the Custodian (as hereinafter defined) for acting as custodian of the assets of the Trust; fees payable to the registrar and transfer agent for performing certain financial, record-keeping, Unitholder reporting and general administrative services; fees payable to the auditors, valuers, and legal advisors of the Trust; debt service fees (including set-up and commitment fees); ongoing regulatory filing fees and listing and other fees; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Trust; and any expenditures that may be incurred upon the termination of the Trust.

Pursuant to the Investment Advisory Agreement, in exchange for its services provided to the Fund with respect to the Hedge Fund Portfolio, the Advisor will receive from the Fund an annual fee, calculated and paid monthly in arrears, of 1.15% of the NAV of the Hedge Fund Portfolio calculated as of the Valuation Date that coincides with or immediately precedes the date of accrual. For this purpose the NAV used will be before deduction of such fees.

The Trust will pay to the Manager a service fee (accrued monthly, calculated quarterly and paid as soon as practicable after the end of each calendar quarter) of 0.30% per annum of the NAV of the Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes. The service fee will be applied by the Manager to pay a service fee to registered dealers for services they provide to Unitholders, including investment advice and account statements, based on the number of Units held by clients of such dealers at the end of the relevant quarter.

DISTRIBUTIONS

The Trust endeavors to pay to Unitholders at the end of each quarter (the "Record Date") commencing September 30, 2004 cash distributions of \$0.4375 per Unit.

The Trust distributes in respect of each Unit on an annual basis a pro rata share of the net taxable income of the Trust. Such net income is included in the per Unit distribution, to the extent possible, and is paid to Unitholders regardless of the amount of the increase in the Net Asset Value per Unit of the Trust.

Unitholders will be entitled to receive declared distributions if they were Unitholders of record as of 5:00 p.m. (Toronto time) on the relevant Record Date. Distributions will be made within 15 days after the Record Date (a "Distribution Date").

Holders of Units who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Trust. The Trust will cause the withholding from the distributions and the remittance to the relevant tax authority of all amounts

required by law to be withheld and remitted. Non-residents should consult their tax advisors regarding the tax consequences of investing in Units.

NET ASSET VALUE

The total assets of the Trust are comprised of the aggregate value of the Common Share Portfolio and the Forward Agreement. As the value of the Forward Agreement is determined by reference to the Net Asset Value (“NAV”) of the Fund, the NAV of the Trust is in part driven by the NAV of the Fund.

The Manager, as valuation agent for the Trust, and the administrator of the Fund, as valuation agent for the Fund (each, a “Valuation Agent”), as of the last business day of each month (each, a “Valuation Date”) calculate the value of the Trust’s and Fund’s assets, as applicable, as follows:

- a) the value of cash, receivables, prepaid expenses, dividends and interest declared or accrued and not yet received, is deemed to be the face value unless the Valuation Agent, in its discretion, considers otherwise;
- b) the value of treasury bills and other money market instruments is the bid price for such instruments at the applicable exchange’s closing time on the Valuation Date;
- c) the value of any unit or share of a hedge fund is the definitive net asset value reported by that fund’s manager or administrator on the Valuation Date or, if not available, the most recent provisional net asset value based on the preliminary returns reported by such fund’s manager or administrator;
- d) the value of any asset measured in a foreign currency is valued at the rate of exchange current on the Valuation Date as determined by the Valuation Agent in its reasonable discretion;
- e) the value of derivatives traded on an exchange, if any, shall be the settlement price as published by the clearing house of the exchange on the Valuation Date;
- f) the value of forward agreements shall be the gain, if any, that would be realized if on such date the forward agreements were “closed out”, and the value of swaps, if any, shall be the gain, if any, that would be realized if on such date the swaps were “closed out” or terminated; and
- g) the value of all other property, including any property for which a third party valuation is not available, shall be the value the Valuation Agent determines, in its reasonable discretion, most accurately reflects its fair value.

The liabilities of the Trust and the Fund, as applicable, shall be deemed to comprise all liabilities of whatsoever kind and nature, including, for the avoidance of doubt, any accrued Management Fees and Advisory Fees, except liabilities represented by outstanding Units and surplus. In valuing the liabilities, the following are included: bills, amounts owing under any loan facility, accounts payable, fees and administrative expenses payable, contractual obligations for the payment of money or property, allowances for tax or contingencies and all other liabilities of any kind and nature. Without prejudice to the foregoing, the value of the liabilities of the Trust and Fund, as applicable, will be determined as follows:

- a) the value of all liabilities and contractual obligations is the value determined by the Valuation Agent to most accurately reflect fair value including the amount funded by a counterparty thereunder, and the loss, if any, that would be realized if on the Valuation Date forward agreements or swaps were closed out or terminated; and
- b) liabilities and contractual obligations payable in a foreign currency are valued at the rate of exchange current on the Valuation Date as determined by the Valuation Agent in its reasonable discretion.

If the Valuation Agent of either the Trust or the Fund determines, in its sole discretion, that the value provided for any of the assets or liabilities is not appropriate and does not fairly represent its market value, the Valuation Agent, in consultation with such industry professionals and other third parties as such Valuation Agent may reasonably determine, shall value such asset or liability as it reasonably determines and shall set forth the basis of such valuation in writing in the Trust's or Fund's records. Any such determination in respect of the Trust shall be subject to review by the Advisory Board. Any such determination in respect of the Fund shall be subject to review by its board of directors.

The Trust is not required to have valuations independently determined; however, the Valuation Agent is authorized and permitted, in appropriate circumstances, to utilize independent pricing services or appraisers to value its investments.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

All values assigned to securities and other assets and liabilities by the Trust or Fund shall be final and conclusive as to all of the Unitholders.

PURCHASES FOR CANCELLATION

Units of listed investment trusts such as the Trust may trade at a discount from net asset value. In recognition of the possibility that the Units may trade at a discount, the terms and conditions attaching to the Units have been designed to attempt to reduce or eliminate a market value discount from Net Asset Value.

To that end, the Trust Agreement provides that if at any time the price at which Unitholders are then offering their Units for sale on the Toronto Stock Exchange (or such other exchange or market on which the Units are then listed) is less than 95.0% of the Net Asset Value per Unit determined as at the close of business on the preceding Valuation Date, then subject to certain exceptions described herein and compliance with any applicable regulatory requirements, the Trust is obligated to purchase any such Units offered in the market at the then prevailing market price up to a maximum amount in any calendar quarter of 2.50% of the number of Units outstanding at the beginning of such calendar quarter.

In addition, the Trust has the right (but not the obligation) at any time, exercisable in its sole discretion, to purchase Units in the market whenever Unitholders offer their Units for sale at less than Net Asset Value, subject to any applicable regulatory requirements and limitations. It is expected that these purchases will be made as normal course issuer bids through the facilities and under the rules of the Toronto Stock Exchange (or such other exchange or market on which the Units are then listed).

Notwithstanding the foregoing, purchases will not be effected if: (a) in the opinion of the Manager such transactions, if consummated, could result in the marketability of the Units being severely impaired to the detriment of the Unitholders; (b) in order to fund the purchase, the Trust is not able to liquidate portfolio securities in an orderly manner consistent with the Trust's Investment Strategy or, alternatively, it is not in the best interest of the Unitholders to do so; or (c) there is, in the judgment of the Manager (i) any material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Trust, or (ii) a suspension of or limitation on prices for trading securities generally on any exchange on which portfolio securities of the Trust are traded.

Units that have been purchased by the Trust are cancelled thereby reducing the total assets of the Trust. If the Trust must liquidate portfolio securities in order to purchase Units, the Trust may realize gains and losses, which gains will be made paid or payable to Unitholders in the year they are realized.

There can be no assurance that purchases of Units by the Trust will result in the Units trading at a price that is equal to the Net Asset Value of the Units. The Trust anticipates that the market price of the Units will in any event vary from Net Asset Value. The market price of the Units will, among other things, be determined by the relative demand for and supply of Units in the market, the Trust's investment performance, the Unit's yield and investor perception of the Trust's overall attractiveness as an investment as compared with other investment alternatives. Nevertheless, the fact that the Units may be purchased by the Trust may reduce the potential spread between market price and Net Asset Value that might otherwise exist.

Although it is anticipated that actual Unit purchases generally may have a favourable effect on the market price of the Units, it should be recognized that the acquisition of Units by the Trust will decrease the Total Assets of the Trust and therefore have the effect of increasing the Trust's expense ratio provided the total expenses do not change.

In September 2004 the Trust made application to make normal course purchases of its Units in accordance with the Prospectus and the Trust Agreement. The Trust received approval to purchase up to 253,000 of the Units of the Trust representing 10% of the public float of the Trust. The price that the Trust is required to pay for any Units so purchased will be the market price of such Units at the time of acquisition. Units purchased are cancelled. For the period to December 31, 2004, no units were purchased under this plan.

UNITHOLDER MATTERS

Meetings of Unitholders

The Trustee may, at any time, convene a meeting of the Unitholders and is required to convene a meeting on receipt of a request in writing of the Manager or of Unitholders holding, in aggregate, 10% or more of the Units outstanding.

Any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval of Unitholders by extraordinary resolution (an "Extraordinary Resolution") as discussed below, requires the approval of Unitholders by a resolution passed by holders of not less than 50% of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider such matter consists of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units outstanding. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days nor more than 21 days later, selected by the Manager and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum. Each Unitholder is entitled to one vote per Unit held.

Notwithstanding the foregoing, certain matters will require the approval of Unitholders by Extraordinary Resolution. An Extraordinary Resolution is a resolution passed by holders of not less than 66 ²/₃% of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider a matter requiring the approval of Unitholders by Extraordinary Resolution consists of two or more Unitholders present in person or by proxy and representing not less than 25% of the Units then outstanding except, in the case of a meeting convened to extend the term of the Trust which will require the approval of Unitholders by Extraordinary Resolution consisting of two or more Unitholders present in person or by proxy representing not less than 10% of the Units then outstanding. See "Termination of the Trust".

Acts Requiring Unitholder Approval

The Trust Agreement may be amended with the consent of the Unitholders given by Extraordinary Resolution. However, unless all of the Unitholders consent thereto, no amendment can be made to the Trust Agreement that would have the effect of reducing the interest in the Trust of the Unitholders, increasing the liability of any Unitholder or changing the right of a Unitholder to vote at any meeting. No amendment can be made to the Trust Agreement that would have the effect of reducing the fees payable to the Manager or the terms for terminating the Manager unless the Manager, in its sole discretion, consents.

Notwithstanding the foregoing, the Manager is entitled, without the consent of the Unitholders, to make certain amendments to the Trust Agreement that are for the purpose of adding any provisions that, in the opinion of the Manager, are for the protection or benefit of the Unitholders or the Trust, for the purpose of curing an ambiguity or for the purpose of supplementing any

provision that may be defective or inconsistent with another provision, including without limitation, for the purpose of ensuring that the Trust Agreement and this prospectus are not inconsistent. The Manager must disclose such change in the next regularly scheduled report to Unitholders. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder or the Trustee.

Reporting to Unitholders

The Trust's fiscal year is the calendar year. A copy of the Trust's audited annual financial statements and an annual report will be mailed by the Manager to each Unitholder within 140 days following the end of each fiscal year. Effective with the implementation of National Instrument 81-106 on June 1, 2005, the annual financial statements and annual reports commencing with the December 31, 2005 year end will be mailed to each Unitholder within 90 days following the end of the year. Within 60 days following March 31, June 30 and September 30 of each year, an unaudited quarterly report prepared in accordance with applicable regulatory requirements will be mailed to unitholders.

In addition, the Manager shall, on or before March 31 of each year, cause to be forwarded to each Unitholder of record on any Record Date of the preceding year information in a suitable form to enable the Unitholder to comply with his or her income tax reporting obligations relating to his or her interest in the Trust.

The Manager must keep adequate books and records reflecting the activities of the Trust. A Unitholder or his or her duly authorized representative has the right to examine the books and records of the Trust during normal business hours at the offices of the Manager. Notwithstanding the foregoing, a Unitholder shall not have access to any information that, in the opinion of the Manager, should be kept confidential in the interests of the Trust.

TERMINATION OF THE TRUST

The Trust will continue until June 30, 2009 and thereupon will terminate and the net assets of the Trust will be distributed to the Unitholders unless an alternative to termination is approved by the Unitholders as described below. Prior to the Termination Date, the Investment Advisor will, to the extent practicable, convert the assets of the Trust to cash. The Manager may, in its discretion and upon not less than 30 days prior written notice to the Unitholders, extend the Termination Date to September 30, 2009 if the Investment Advisor will be unable to convert all of the portfolio assets to cash and the Manager determines that it would be in the best interests of the Unitholders to do so.

Not less than 9 months nor more than 24 months prior to the Termination Date, the Manager may present a proposal to Unitholders providing an alternative to the dissolution of the Trust on the Termination Date. Such proposal could include, without limitation: (i) continuing the Trust; or (ii) exchanging the Units for units in one or more mutual funds or closed-end investment funds on or after the Termination Date. A meeting of Unitholders to consider such a proposal must be held at least 9 months prior to the Termination Date in order to give the Manager the opportunity

to conduct an orderly liquidation of the assets of the Trust in the event that the Unitholders do not approve the proposal. In order to be implemented, such proposal would require the approval of Unitholders by Extraordinary Resolution (and for any such Extraordinary Resolution a quorum even at an adjourned meeting will consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units then outstanding). Any such proposal may be conditional on such matters as the Manager considers are appropriate including, without limitation, obtaining any necessary regulatory approvals.

LOAN FACILITY

The Manager, on behalf of the Trust, has entered into a loan agreement (the “Loan Agreement”) with a Canadian financial institution (the “Counterparty”) or an affiliate of the Counterparty that permits the Trust to temporarily borrow up to an amount not exceeding 10% of the NAV of the Trust, for the purpose of (i) effecting market purchases of Units, (ii) maintaining liquidity to effect cash distributions, and (iii) paying expenses of the Trust.

The Loan Agreement contains terms and conditions customary for agreements of this nature including a requirement that the Trust provide a security interest in its assets in favour of the Counterparty to secure such borrowings. In the event that the total amount borrowed by the Trust exceeds at any time 10% of the NAV of the Trust, the Manager will take appropriate steps with the Trust’s investment portfolio in order that the amount of the indebtedness does not exceed 10% of the NAV of the Trust, including liquidating certain of the Trust’s investments and using the proceeds thereof to reduce the Trust’s indebtedness.

In the event of a default by the Trust under the Loan Agreement, the Loan Agreement will provide that the Counterparty’s recourse under the Loan Agreement will be limited solely to the assets of the Trust.

RISK FACTORS

An investment in Units of the Trust involves certain risks. Investors should consider the following risk factors before purchasing Units.

Trust Risks

No Assurance of Achieving Investment Objectives and No Guaranteed Rate of Return

There is no assurance that the Trust will be able to achieve its Investment Objectives. As a consequence of entering into the Forward Agreement, the Trust will forego the benefits of any increase in the value of the Common Share Portfolio.

There is no assurance that the Trust will be able to pay quarterly distributions. The Trust expects to exercise its right to settle portions of the Forward Agreement prior to the Termination Date in order to permit the Trust to fund quarterly distributions as well as payment for purchases of Units in the market and expenses of the Trust. Accordingly, the Trust’s ability to pay distributions will be influenced by the performance of the Hedge Fund Portfolio, as the return to Unitholders and

the Trust will be dependent upon the return on the Hedge Fund Portfolio by virtue of the Forward Agreement.

There is no guarantee that the Hedge Fund Portfolio will earn a return. The Hedge Fund Portfolio could be subject to losses. An investment in the Trust is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of the target return not being met in any period.

Limited Operating History

The Trust was recently formed and has little operating history. The past investment performance of the Investment Advisor or Northwater Market-Neutral Trust may not be counted on as an indication of the future results of an investment in the Trust. There can be no assurance that the Investment Advisor's assessment of the short-term or long-term prospects of investments will prove accurate.

Fluctuation in NAV and Trading Price

The NAV and the funds available for distribution will vary according to, among other things, distributions paid on the Units, the value of the securities in the Hedge Fund Portfolio, the performance of the market generally and interest rates. Fluctuations in the market values of the securities in the Hedge Fund Portfolio may occur for a number of reasons beyond the control of the Investment Advisor. The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

Units of the Trust may trade at a premium or a discount to the NAV per Unit and there can be no assurance that Units will trade at a price equal to NAV per Unit.

There can be no assurance that purchases of Units by the Trust will result in the Units trading at a price that is equal to the NAV of the Units. The Trust anticipates that the market price of the Units will in any event vary from NAV. The market price of the Units will, among other things, be determined by the relative demand for and supply of Units in the market, the Trust's investment performance, the Unit's yield and investor perception of the Trust's overall attractiveness as an investment as compared with other investment alternatives. Nevertheless, the fact that the Units may be purchased by the Trust may reduce the potential spread between market price and NAV that might otherwise exist. Although such offers, if undertaken and completed, will provide some liquidity for holders of the Units, there can be no assurance that such offers will in fact be undertaken, completed or, if completed, that they will provide sufficient liquidity for all Unitholders who may desire to sell such Units.

Although it is anticipated that actual Unit purchases by the Trust generally may have a favourable effect on the market price of the Units, it should be recognized that the acquisition of Units by the Trust will decrease the total assets of the Trust and therefore have the effect of increasing the Trust's expense ratio provided the total expenses do not change.

Units that have been purchased by the Trust will be cancelled thereby reducing the Total Assets of the Trust. If the Trust must settle a portion of the Forward Agreement in order to purchase Units, the Trust may realize gains and losses, which gains will be made paid or payable to remaining Unitholders in the year they are realized, unless retained by the Trust to maximize refundable taxes.

Notwithstanding the foregoing, purchases will not be effected if: (a) in the opinion of the Manager such transactions, if consummated, could result in the marketability of the Units being severely impaired to the detriment of the Unitholders; (b) in order to fund the purchase, the Trust is not able to settle a portion of the Forward Agreement in an orderly manner; or, alternatively, it is not in the best interests of the Unitholders to do so; or (c) there is, in the judgement of the Manager (i) any material legal or regulatory action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Trust, or (ii) there exists a suspension of or limitation on prices for hedge funds forming a significant portion of the Hedge Fund Portfolio.

Reliance on Key Personnel

Investors will become Unitholders of the Trust. The Unitholders cannot take part in the management of the Trust's business, which will be the responsibility of the Manager. Except in the limited circumstances described under "Unitholder Matters", the Unitholders will have no voting rights and will not have any authority or power to act for or bind the Trust. All decisions with respect to the management of the assets of the Trust or the Hedge Fund Portfolio are made based on advice from, or recommendations made by, the Advisor. Consequently, the Trust's success depends to a great degree on the skill and experience of the Advisor's management. If the Investment Advisor were to lose the services of its key investment personnel, it may not be able to find satisfactory replacements.

Potential Conflicts of Interest

The Manager, the Investment Advisor, their respective directors and officers and their respective affiliates and associates may engage in the promotion, management or investment management of, or may render advice to, any other account, fund or trust that invests primarily in funds of market-neutral hedge fund securities. The Investment Advisor may have a conflict of interest in rendering advice to the Trust or the Fund because the benefit the Investment Advisor and its principals may receive from managing some other accounts may exceed the benefit from managing the Trust's or the Fund's account, and, therefore, may provide an incentive to favour such other accounts.

Although none of the directors or officers of the Manager or the Investment Advisor will devote his or her full time to the business and affairs of the Trust, the Fund or the Manager, each will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage (in the case of officers) the business and affairs of the Manager, the Trust and the Fund. Although officers, directors, members and professional staff of the Investment Advisor will devote as much time to the Fund as the Investment Advisor deems appropriate to perform its

duties in accordance with the Investment Advisory Agreement, the staff of the Investment Advisor may have conflicts in allocating its time and services among the Hedge Fund Portfolio and the other portfolios of the Investment Advisor.

Neither the Investment Advisor nor any of its affiliates is under any obligation to offer investment opportunities of which they become aware to the Fund or to inform the Fund of any investment before offering any investments to other funds or accounts that the Investment Advisor and/or its affiliates manage or advise. Furthermore, the Investment Advisor and/or its affiliates may make an investment on their own behalf or on behalf of any account that they manage or advise without offering the investment opportunity or making any investment on behalf of the Fund.

In addition, the Investment Advisor and/or its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Investment Advisor from purchasing assets or selling assets for itself or its clients (including the Fund) or otherwise using such information for the benefit of its clients or itself. As a result of investments for other clients, the Investment Advisor may be unable for legal, regulatory or other reasons to effect a particular transaction on behalf of the Fund that it would otherwise effect. The Investment Advisor is expected to advise the Fund with respect to the purchase of securities for the Hedge Fund Portfolio in privately negotiated transactions and such securities may or may not include securities in which the Agents have participated in the distribution or of issuers to which the counterparties or their affiliates are lenders.

Taxation of the Trust and Unitholders

If, contrary to the advice of counsel to the Trust or as a result of a change of law, upon physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced and the Trust could be subject to non-refundable income tax from such transactions.

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders. If the Trust ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations described under the heading “Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects.

On October 31, 2003, the Department of Finance released, for public consultation, draft proposed amendments (the “October 31 Proposals”) to the Tax Act that would be effective for taxation years commencing after 2004. Under the October 31 Proposals, with effect for taxation years commencing after 2004, a taxpayer will only have a loss for a taxation year from a particular source that is a business or property if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or held, or can reasonably be expected to carry on, or to hold, the business or property. The October 31 Proposals expressly provide that profit for this purpose will not include capital gains or capital losses, and do not provide for any carry forward of a loss

that cannot be claimed as a result of the application of the proposed rules. The October 31 Proposals could, among other things, adversely affect the deduction by the Trust of amounts otherwise deductible by the Trust, and the deduction by taxpayers of interest on a borrowing incurred to acquire Units.

Underlying Hedge Fund Securities

The return to Unitholders will be dependent upon the return on the Hedge Fund Portfolio by virtue of the Forward Agreement. The Hedge Fund Portfolio will consist primarily of shares of offshore hedge funds, which have inherent risks. Price and market movements may be volatile. There is no guarantee that the investment strategies or programs used by the hedge funds in the Hedge Fund Portfolio will be successful, and investment results may vary substantially over time. Past performance may not be indicative of future results. Some of the risks associated with hedge funds are described below.

(i) Multi-Manager Risk

Investments in a variety of hedge funds by Fund will increase the costs to Fund. In addition, the Investment Advisor will not have control over the management of the hedge funds in the Hedge Fund Portfolio. The manager of each hedge fund will have exclusive responsibility for making trading decisions with respect to Fund's investment in such fund. At any time, one hedge fund may be purchasing securities of an issuer whose securities are being sold by another hedge fund, resulting in Fund incurring certain transaction costs without achieving any net investment results. The Investment Advisor cannot protect against the risk of fraud, misrepresentation or other misconduct on the part of such managers. There is no guarantee that investments in a variety of hedge funds will reduce risk or volatility for Fund. Some managers may have a limited history in managing hedge funds. The individual performance records of the managers will not be made available to Unitholders. There is no guarantee that hedge funds in the Hedge Fund Portfolio will act in accordance with disclosure documents or descriptive materials given to Fund.

(ii) Leverage

Hedge funds held in the Hedge Fund Portfolio may use leverage, including purchasing securities with borrowed funds, selling securities short, using repurchase agreements, swaps and other derivatives to make investments. If such fund's investments decline in value, the loss will be magnified if the fund has borrowed money to make its investments. A fund may not be able to repay borrowings or it may be forced to sell investments at a disadvantageous time in order to repay borrowings. Costs incurred in connection with the use of leverage may not be recovered by income or appreciation in the investments purchased, and may be lost in the event of a decline in the market value of such securities. Certain hedge funds may borrow or leverage more than 100% of their assets under management. In the event of a precipitous drop in the value of the fund's assets, the fund might not be able to liquidate assets quickly enough to pay off its margin debt. The Fund may elect to sell its more liquid assets first to repay borrowings, thus increasing its concentration in less liquid securities.

(iii) Short Selling

The underlying hedge funds may engage in short-selling of securities. A short sale will result in a gain if the price of the securities sold short declines between the date of the short sale and the date on which securities are purchased to replace those borrowed. A short sale will result in a loss if the price of the security sold short increases. Any gains are decreased by the amount of any payment or interest that a fund may be required to pay with respect to the borrowed securities. Short sales may only be maintained if the securities can be borrowed. It may not be possible at times for a fund to borrow the securities it wishes to sell short or maintain the borrowing of a security sold short. The borrowed securities may need to be returned on short notice. If the securities cannot remain borrowed a hedge fund could be required to cover the short sale by borrowing the security elsewhere or by purchasing securities at a higher price than the short sale transaction thereby creating a loss. If the price of a security that has been sold short increases, there is theoretically no limit to the loss that could be incurred in covering a short sale, as there is no limit on how much the price of a stock may appreciate before the short position is closed out.

(iv) Derivatives

The hedge funds may purchase and sell options or enter into other derivative transactions. These transactions may be used for any purpose, including hedging purposes and to increase the possibility of achieving gains from any level of movement in the price of the underlying securities or group of securities. Use of derivatives in general presents additional risks. If used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent a hedge fund from achieving the intended hedge effect or expose it to the risk of loss. Risks associated with options or instruments and with the instruments themselves may differ from the risks associated with underlying assets. Derivative instruments may not be liquid in all circumstances, so that in volatile markets a hedge fund may not be able to close out a position without incurring a loss. No assurance can be given that short sales, hedging, leverage and other techniques and strategies used by any fund will not result in material losses.

A fund may purchase or write call and put options on securities and stock indexes, on exchanges or over-the-counter markets. The uncovered selling of an option generally exposes the seller to unlimited risk. The ability of a fund to close out a position as a purchaser or writer of a listed put or call option is dependent, in part, upon the liquidity of the option market.

Hedge funds that use over-the-counter derivatives will be subject to the credit risk that its counterparty may not be able to meet its financial obligations, and a hedge fund could possibly lose its margin and any gains on a contract.

(v) Performance Fees

Neither the Manager nor the Investment Advisor will receive any performance fees from the Trust or Fund. However, managers of hedge funds that will be held in the Hedge Fund Portfolio will be paid performance based fees from such hedge funds. A hedge fund manager may earn

such a fee while the Fund's overall investments are at a loss. Performance-based fees may create an incentive for hedge fund managers to engage in investment strategies and make investments that are more speculative than would be the case in the absence of such fees.

Securities Lending

The Trust may engage in securities lending. Although the Trust will receive collateral for the loans and such collateral is marked to market, the Trust will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

Illiquid Securities

Certain securities held by the hedge funds in the Hedge Fund Portfolio may be unlisted, distressed, or otherwise illiquid and difficult to value, and thus the hedge funds themselves may be difficult to value. The valuation of hedge funds held in the Hedge Fund Portfolio is subject to a significant amount of subjectivity and discretion. Fund may be restricted in its ability to withdraw its investment from a hedge fund to meet redemption requests. If the Fund is unable to dispose of some or all of the Hedge Fund Portfolio securities prior to the Termination Date, the Trust may experience a delay in the receipt of the payment of the Counterparties under the Forward Agreement until such time as Fund is able to dispose of such securities.

Legal and Statutory Rights

Investments in the Hedge Fund Portfolio are not expected to be qualified by a prospectus filed with any Canadian provincial securities commission or the U.S. securities regulatory authorities. These hedge funds may not be domiciled in Canada or in the United States, and the hedge funds and their managers may not be subject to Canadian or U.S. securities regulatory authorities. The Fund may have difficulty enforcing certain rights against these managers in that all or a substantial portion of their assets may be situated outside of Canada or the United States. In addition, the hedge funds that are held in the Hedge Fund Portfolio are not governed by or subject to the restrictions and provisions of NI 81-102.

The Fund is located outside of Canada and, as a result, it may not be possible for its shareholders to effect service of process within Canada upon the company. The Fund's assets will be held in accounts with custodians in other jurisdictions. Although the Fund has appointed McCarthy Tétrault LLP as its agent for service of process in Québec, it may not be possible to satisfy a judgement against the Fund in Canada and there may be additional defences available to any judgement obtained in Canada that may affect enforcement against the company outside of Canada.

There can be no assurance that income tax, securities, and other laws or the interpretation and application of such laws by courts or governmental authorities will not be changed in a manner that adversely affects the Trust or the Unitholders.

Investments Include Fees

The Trust obtains exposure to the return of the Hedge Fund Portfolio. The Hedge Fund Portfolio, in turn, invests in hedge funds. To the extent the Trust obtains exposure to the return of hedge funds, Unitholders will indirectly be subject to sales charges, management fees and expenses at the level of the Hedge Fund Portfolio and at the level of the hedge funds in which the Hedge Fund Portfolio invests.

Compliance and Risk Management Systems

Both the Investment Advisor and the Trust maintain significant compliance and risk management processes and systems to ensure active monitoring of the risk incurred by the Trust and the Hedge Fund Portfolio. However, to the extent that such compliance and risk management systems may not be sufficient to guard against all possible operational and other failures, such failures may increase the risks associated with such failures

Possible Negative Impact of Regulation of Hedge Funds

The regulatory environment for hedge funds is evolving and changes to it may adversely affect the Trust. To the extent that regulators, such as the United States Securities and Exchange Commission, adopt practices of regulatory oversight in the area of hedge funds that create additional compliance, transaction, disclosure or other costs for hedge funds, Trust returns based upon hedge fund investments may be negatively affected. In addition, the regulatory or tax environment for derivative and related instruments is evolving and may be subject to modification by government or judicial action that may adversely affect the value of the investments held by the Trust. The effect of any future regulatory or tax change on the Hedge Fund Portfolio is impossible to predict.

Status of the Trust

The Trust is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws will not be available to investors in the Units and certain restrictions imposed on mutual funds under Canadian securities laws, including NI 81-102, do not apply to the Trust.

Investment Risks

Leverage

One element of the Trust’s investment strategy is the utilization of leverage under the Forward Agreement. The obligations under the Forward Agreement are secured by the Common Share Portfolio. Leverage has the potential to enhance returns but also involves additional risks. There can be no assurance that the leveraging strategy employed by the Trust will enhance returns. The use of leverage may reduce returns (both distributions and capital) to Unitholders. If the securities in the Hedge Fund Portfolio suffer a substantial decrease in value, the leverage component will cause a decrease in NAV in excess of that which would otherwise be experienced. In addition, if the aggregate amount of leverage under the Forward Agreement

exceeds at any time 50% of the total assets of the Trust, the aggregate amount of leverage under the Forward Agreement will be reduced to such 50% level. Such an event may adversely affect the value of the Hedge Fund Portfolio and, consequently, the return to the Trust by virtue of the Forward Agreement.

The use of leverage in an investment strategy provides for greater potential for capital appreciation, but at the same time increases the Trust's exposure to capital risk and could result in higher current expenses. Additionally, a relatively small movement in the price of an instrument may result in immediate and substantial losses. Moreover, if the Trust's revenues are not sufficient to meet the Trust's obligations when due, Unitholders could sustain a total loss of their investment.

In addition, the Trust will be entitled to, and may, incur indebtedness secured by the assets of the Trust. As stated above, borrowing may exaggerate changes in the NAV per Unit. Borrowing will cause the Trust to incur interest expense and other fees. The cost of borrowing may reduce the Trust's return.

Interest Rate Changes and Sensitivity of Market Price of Units to Interest Rates

Interest rate risk is the risk that debt obligations will decline in value because of changes in interest rates. Generally, debt securities will decrease in value when interest rates rise and increase in value when interest rates decline. NAV will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Hedge Fund Portfolio.

As the Trust intends to provide Unitholders with a stable stream of tax-efficient monthly distributions consisting of capital gains and returns of capital, the market price of Units may be affected by the level of interest rates prevailing from time to time.

Illiquid Securities

If the Fund is unable to dispose of securities when required, the Trust may experience a delay in the receipt of payments from the Counterparties under the Forward Agreement until such time as the Fund is able to dispose of Hedge Fund Portfolio securities. Disposal of securities in response to the market repurchase of Units may be effected at prices or on terms which may adversely affect the value of the Hedge Fund Portfolio and consequently the returns of the Trust by virtue of the Forward Agreement. Many hedge funds provide restrictions on redemptions and may suspend redemptions or delay the payment of proceeds of redemptions. Some hedge funds have adopted redemption "gates", limiting the ability of investors to redeem over a particular period. In addition, many of the securities in the Hedge Fund Portfolio may be issued in private placement transactions and may be subject to legal or contractual restrictions on resale. In some instances, the sale of securities in the Hedge Fund Portfolio may require lengthy negotiations. If the Advisor determines that it is appropriate to acquire certain securities for the Hedge Fund Portfolio, the Fund may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to the Fund, if the market for such securities is particularly illiquid.

Performance and Marketability of Hedge Fund Portfolio

The NAV per Unit varies primarily in accordance with the value of the investments acquired by the Fund. The value of investments owned by the Hedge Fund Portfolio is affected by factors beyond the control of the Investment Advisor or the Trust. The process of valuing investments for which no published market exists is based upon the value of the underlying holdings of the hedge funds in which the Hedge Fund Portfolio invests as supplied by the managers or administrators of such hedge funds. Although the Investment Advisor will review the valuation procedures used by such managers or administrators, the Investment Advisor will have little or no means of independently verifying valuations of the hedge funds provided to the Investment Advisor. These values may be provisional and thus, may be changed subsequently notwithstanding the fact that the Hedge Fund Portfolio may have used such values in its calculation of NAV per Unit.

Moreover, these values may differ from values that would have been used by the Investment Advisor had a ready market existed for such investments and may differ from the prices at which such investments may be sold. It is likely that no market will exist for investments acquired by the Hedge Fund Portfolio.

No Guarantee of Market-Neutrality

There is no guarantee that an investment in the Units will in fact demonstrate returns and volatility associated with a market-neutral strategy. In addition, there is no guarantee that the Hedge Fund Portfolio or hedge funds in which the Hedge Fund Portfolio invests will execute their strategy successfully or that the strategy will have the results anticipated by the Investment Advisor.

Turnover

The Hedge Fund Portfolio will invest in hedge funds that may invest on the basis of short-term market considerations. The turnover rate within such hedge funds may be significant, potentially involving substantial brokerage commissions and fees. The Investment Advisor will have no control over this turnover. As a result of this turnover, the withdrawal of the Hedge Fund Portfolio from a hedge fund could involve expenses to the Hedge Fund Portfolio under the terms of the Hedge Fund Portfolio's investment.

International Investments

The Fund is incorporated under the laws of the Cayman Islands and invests primarily in offshore hedge funds. An investment in the Trust, the Trust's exposure to the Fund and the Hedge Fund Portfolio's investment in other hedge funds that are foreign to North America are subject to special risks not associated with investments in issuers located in Canada or the United States. In particular, offshore hedge funds generally lack rigorous regulatory oversight. Moreover, accounting, auditing, and financial reporting standards and practices in other countries are not necessarily the same as in North America and there may be less available information about them due to the fact that they are not subject to the uniform and extensive accounting, auditing

and financial reporting standards and practices, government supervisions and regulation and other disclosure obligations that apply to companies in North America. If the accounting standards in another country do not require as much detail as North American accounting standards, it may be harder for the directors of the Fund to completely and accurately assess a hedge fund's financial condition. The hedge funds in which the Fund invests, prepare financial statements, including annual audited financial statements, using U.S. or international accounting standards. Additionally, the Trust may be subject to taxes on income from foreign countries and the possibility of expropriation or confiscatory taxation.

Risks associated with investment in the securities of foreign issuers also include the possible imposition of taxes on income from foreign countries, the possibility of expropriation or confiscatory taxation, adverse changes in investment or exchange control regulations, political instability that could affect investments in foreign countries, and potential restrictions on the flow of international capital.

In addition, to the extent that a hedge fund invests in securities denominated in or traded in currencies other than the U.S. dollar, it will be subject to the risks inherent in the fluctuations of currency exchange rates. Foreign securities in less developed countries often trade with less frequency and volume than securities in developed countries and therefore may exhibit greater price volatility. Changes in foreign taxes and exchange rates will affect the value of foreign securities, particularly those securities that are denominated or quoted in foreign currencies. Also, international securities and commodities markets may not move in correlation with each other or in directions anticipated by the hedge fund manager, so that hedging activities may not be successful.

Certain hedge funds in which the Hedge Fund Portfolio invests may have a limited amount of investments in securities of issuers in emerging market countries. To the extent that the hedge funds in which the Hedge Fund Portfolio invests have such investments, the risks associated with foreign investing may be increased.

Counterparty Risk

Although the Trust will enter into the Forward Agreement only with one or more counterparties believed to be creditworthy, the Trust bears the risk of loss of the amount it is owed in the event of a counterparty's default or bankruptcy. The Trust may engage in transactions in "over-the-counter" or "interdealer" markets with swap counterparties that are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Trust to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Trust to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Trust has concentrated its transactions with a single or small group of counterparties. The Investment Advisor is not restricted from making recommendations that would result in a concentration of the Trust's transactions with one counterparty. The ability of the Trust to transact business with one or a few counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities

and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Trust. Unitholders will have no recourse or rights against the assets of Fund or the Counterparties in respect of, or arising out of, the Forward Agreement.

Risk of Commodity Futures

The Hedge Fund Portfolio may, if necessary or desirable, invest directly or indirectly in hedge funds that trade in commodity futures. Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage is typical of a commodity futures trading account. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to the trader. Moreover, commodity futures positions are marked to market each day and variation margin payments must be paid to or by a trader. Commodity futures trading may also be illiquid, and certain commodity exchanges do not permit trading in particular commodities at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits — which conditions have in the past sometimes lasted for several days with respect to certain contracts — a hedge fund could be prevented from promptly liquidating unfavourable positions and thus be subjected to substantial losses. In addition, the U.S. Commodity Futures Trading Commission and various exchanges impose speculative position limits on the number of positions that a hedge fund may directly hold or control in particular commodities.

Currency Hedging

While the Hedge Fund Portfolio will be hedged against currency fluctuations between Canadian and U.S. dollars, there is no guarantee that such techniques will be successful.

Competition

The hedge fund markets in which the Hedge Fund Portfolio invests are extremely competitive. Furthermore, these markets have experienced unprecedented inflows of capital in recent years, which should be expected to increase competition for attractive investment opportunities and to reduce expected investment returns. Certain hedge funds have since closed to new investors. There can be no assurance that the Hedge Fund Portfolio will be able to identify or successfully pursue attractive investment opportunities in this environment. The Hedge Fund Portfolio competes with many firms, some of which have substantially greater financial resources and more favourable financing arrangements than are available to the Hedge Fund Portfolio.

General Market History

The months of August through October 1998 saw extraordinary events in the fixed-income markets generally and in the investment fund area specifically. These events included the default by Russia on certain of its debt, a flight to quality (e.g. to U.S. Treasuries) by investors worldwide, extreme volatility in emerging markets and other credit-sensitive debt, insolvencies of and large losses at numerous investment funds and the U.S. government-arranged bailout of a

prominent hedge fund. These events are illustrative of the effect that general market developments can have on investment funds such as the Hedge Fund Portfolio, and there can be no assurance that general market developments in the future will not have a material adverse effect on the Trust.

Fund Director Conflict of Interest

Members of the Board of Directors of the Fund may also act as directors of some of the hedge funds in which the Hedge Fund Portfolio invests.

Overall Investment Risk

All securities investments risk the loss of capital. The nature of the securities to be purchased and traded by the Trust and by the hedge funds in which the Hedge Fund Portfolio invest and the investment techniques and strategies to be employed by the managers of such hedge funds may increase such risk. Moreover, the identification of investment opportunities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While the Investment Advisor devotes its best efforts to advising the Trust, there can be no assurance that the Trust will not incur losses. Returns generated from the Trust's investments may not adequately compensate Unitholders for the business and financial risks assumed, including the risk associated with the use of leverage. A Unitholder should be aware that it may lose a substantial part of its investment in the Trust. Many unforeseeable events, including actions by various government agencies and domestic and international economic and political developments, may cause sharp market fluctuations that could adversely affect the Trust's portfolio and performance.

Indemnification of Hedge Funds by the Fund

The Fund in subscription agreements entered into with certain of the hedge funds in which the Hedge Fund Portfolio is invested may agree to indemnify such hedge funds from any liability, damage, cost or expense arising out of, among other things, certain acts or omissions relating to the offer or sale of units or shares of such hedge funds. The managers of such hedge funds often have broad indemnification rights and limitations on liability.

MATERIAL CONTRACTS

Material contracts that have been entered into by the Trust since its formation or prior to Closing, other than contracts entered into in the ordinary course of business, are as follows:

1. the Declaration of Trust Agreement referred to under "Management of the Trust – The Trustee";
2. the Agency Agreement made among the Manager on behalf of the Trust, the Manager and the Agents referred to under "Plan of Distribution";
3. the Forward Agreement;
4. the custodian agreement made among the Manager on behalf of the Trust and The Royal Trust Company referred to under "Auditors, Custodian and Registrar and Transfer Agent"; and

5. the registrar and transfer agency agreement among the Manager on behalf of the Trust and CIBC Mellon Trust Company referred to under “Auditors, Custodian and Registrar and Transfer Agent”.

THE TRUSTEE

Northwater Fund Management Inc. is the Trustee of the Trust. The address of the Trustee is Suite 4700, BCE Place, Bay Wellington Tower, 181 Bay Street, P.O. Box 794, Toronto, Ontario M5J 2T3.

The Trustee or any successor trustee may resign upon 90 days' prior written notice to Unitholders and to the Manager or may be removed with the approval of a majority of the votes cast at a meeting of Unitholders called for such purpose with two or more persons present in person or by proxy representing not less than 10% of the Units then outstanding. Any such resignation or removal shall become effective only on the appointment of a successor trustee. If, after the resignation of the Trustee, no successor has been appointed within 90 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties under the Declaration of Trust except in cases of wilful misconduct, bad faith, negligence or disregard of its obligations and duties under the Declaration of Trust or in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee is entitled to be reimbursed for all expenses and liabilities that are properly incurred by the Trustee in connection with the activities of the Trust.

CUSTODIAN

The Royal Trust Company was appointed as custodian of the securities comprising the investment portfolio of the Trust pursuant to an agreement made as of June 18, 2004.

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company acts as transfer agent and registrar for the Trust at 320 University Avenue, 5th Floor Toronto, Ontario, M5H 4A6. In addition to performing registrar and transfer agency services, CIBC Mellon Trust Company provides certain record-keeping, Unitholder reporting and general administrative services pursuant to the registrar and transfer agency agreement made as of June 18, 2004.

AUDITORS

The auditors of the Trust are PricewaterhouseCoopers LLP, Suite 3000, Box 82, Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario, M5K 1E6.

ITEM 4: SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following summary of financial information has been derived from the financial statements of the Trust. This information should be read in conjunction with the Financial Statements specifically incorporated herein by reference. There have been no changes in accounting policies and no changes in the investment strategy of the Trust. The Trust commenced operations on June 30, 2004.

Distribution History:

YEAR	TYPE	PER UNIT	TOTAL
2004	Return of Capital	\$0.8750	\$2,520,000

For a full discussion of the Trust's distribution policy, please see page 9.

	For the Period from June 30, 2004 (date of commencement of operation) to	
	<u>December 31, 2004</u>	<u>September 30, 2004</u>
(All figures in Canadian dollars)		
Total income	141,463	110,739
Net income from operations	3,569,484	932,376
Net income per unit*	1.36	0.37
Total assets	79,333,176	60,367,918
Net assets and unitholders' equity	77,173,384	58,904,901

* based on average number of Units outstanding for the period

The monthly Net Asset Value per Unit for the Trust was as follows:

Net Asset Value Per Unit (since inception)

(in Canadian dollars)

	Jan. 31 st	Feb. 28 th	Mar. 31 st	Apr. 30 th	May 31 st	June 30 th	July 31 st	Aug. 31 st	Sept. 30 th	Oct. 31 st	Nov. 30 th	Dec. 31 st
2004							23.42	23.76	23.28	23.54	24.12	23.89

ITEM 5: MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the heading Management's Discussion and Analysis on pages 4 to 13 of the Annual Report of the Trust, which information is incorporated herein by reference.

ITEM 6: MARKET FOR SECURITIES

The Units are listed and posted for trading on The Toronto Stock Exchange under the symbol NYF.UN.

ITEM 7: DIRECTORS AND OFFICERS

The Trust is a closed-end investment trust and, as such, has no officers or directors. Disclosure under this item is for the Manager and for the Investment Advisor.

Officers and Directors of the Manager

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are as follows:

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
DAVID G. PATTERSON, M.B.A. Toronto, Ontario	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer, Northwater Capital Management Inc.
JAMES D. SINCLAIR, LL.B. Unionville, Ontario	Vice-President, Secretary and Director	Vice-President, Chief Legal Officer, Chief Compliance Officer and Assistant Secretary, Northwater Capital Management Inc.
BENITA M. WARMBOLD, C.A. Scarborough, Ontario	Managing Director, Chief Financial Officer and Director	Managing Director and Chief Financial Officer, Northwater Capital Management Inc.
DANIEL C.R. MILLS, C.F.A. Mississauga, Ontario	Managing Director and Chief Investment Officer and Director	Managing Director and Chief Investment Officer, Northwater Capital Management Inc.
DAVID S. FINCH, C.F.A. Toronto, Ontario	Vice-President and Director	Vice-President, Northwater Capital Management Inc.

All of the directors and officers of the Manager have held their current offices or other executive offices with the above companies or their affiliates for at least five years except for: Mr. Finch who prior to May 2002 was Vice-President, ING Investment Management Inc.

Officers and Directors of the Investment Advisor

The name, municipality of residence, position with the Investment Advisor and principal occupation of each of the directors and officers of the Investment Advisor are as follows:

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
DAVID G. PATTERSON, M.B.A. Toronto, Ontario	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer
PAUL W. ROBSON, M.B.A., C.F.A. Mississauga, Ontario	Managing Director and Director	Managing Director
BENITA M. WARBOLD, C.A. Scarborough, Ontario	Managing Director, Chief Financial Officer and Director	Managing Director and Chief Financial Officer
DANIEL C.R. MILLS, C.F.A. Mississauga, Ontario	Managing Director and Chief Investment Officer	Managing Director and Chief Investment Officer
DENNIS G. COOK, C.M.C., C.H.R.P. Toronto, Ontario	Executive Vice-President	Executive Vice-President
JAMES D. SINCLAIR, LL.B. Unionville, Ontario	Vice-President, Chief Legal Officer, Chief Compliance Officer and Assistant Secretary	Vice-President, Chief Legal Officer, Chief Compliance Officer and Assistant Secretary
HEATHER L. BROUGHTON, M.B.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
SHAUNA L. CASSIDY, C.F.A. Toronto, Ontario	Vice-President	Vice-President
A. MICHAEL DERZKO New York, New York	Vice-President	Vice-President
DAVID S. FINCH, C.F.A. Toronto, Ontario	Vice-President	Vice-President
DAVID J. FLETCHER, C.F.A. Pickering, Ontario	Vice-President	Vice-President
STEPHEN M. FOOTE, C.F.A. Oakville, Ontario	Vice-President *	Vice-President *
SCOTT C. HENSHAW, M.E.C., M.B.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
CRAIG H. HIPPERN, C.A., C.P.A. Mississauga, Ontario	Vice-President	Vice-President
ELISE R. HUBSHER, M.B.A. Bronx, New York	Vice-President	Vice-President
ADRIAN HUSSEY, M.B.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
TAHA JAFFER, PH.D. Toronto, Ontario	Vice-President	Vice-President
VIKASH JAIN, M.Sc., C.F.A. Etobicoke, Ontario	Associate, Trading Officer	Associate, Trading Officer
EVE N. JEDRZEJEWSKA, C.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
JAMES E. KEATES, C.A., M.B.A. Toronto, Ontario	Vice-President	Vice-President
MOHAMED S. KHAKI, A.S.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
FRANCES KORDYBACK, C.A. Toronto, Ontario	Vice-President	Vice-President
DANIEL S. LAWEE, M.B.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President
HOWARD M.H. LEE, M.Sc. Toronto, Ontario	Vice-President	Vice-President
TIMOTHY E. LUSH Jersey City, New Jersey	Vice-President	Vice-President
IRENE C. MARKUS, LL.B. Toronto, Ontario	Vice-President	Vice-President
DAVID MARLEAU, F.S.A., F.C.I.A. Toronto, Ontario	Associate, Trading Officer	Associate, Trading Officer
SUSAN L. NAYLOR, C.A. Burlington, Ontario	Vice-President	Vice-President
HARRY R.L. PATTERSON., C.F.A. Toronto, Ontario	Vice-President	Vice-President
PETER B. SCHENDEL C.F.A., M.B.A. Toronto, Ontario	Vice-President	Vice-President

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
MARK P. SMITH, M.B.A. New York, New York	Vice-President	Vice-President
JENNY J. WANG, M.A., C.F.A. Toronto, Ontario	Vice-President	Vice-President

* subject to regulatory approval

All of the directors and officers of the Investment Advisor have held their current offices or other executive offices with the above companies or their affiliates for at least five years except for: Mr. Cook who between March 2002 and June 2003 was Vice President with the Investment Advisor, and prior to February 2002 was Director, Deloitte & Touche LLP; Mr. Derzko who prior to February 2004 was Associate with the Investment Advisor; Mr. Finch who prior to May 2002 was Vice President, ING Investment Management Inc.; Mr. Fletcher who prior to May 2001 was Portfolio Manager, Ontario Municipal Employees Retirement; Mr. Foote who prior to March 2005 was Senior Consultant, Mercer Investment Consulting; Mr. Henshaw who between October 2003 and February 2004 was Associate with the Investment Advisor, and prior to October 2003 was Associate Director, UBS Securities Canada Inc.; Mr. Hippern who between January 2002 and June 2002 was associate with the Investment Advisor, and prior to January 2002 was Assistant Vice President, Bank of Butterfield; Ms. Hubsher who prior to January 2003 was Vice President, Equity Derivatives, JP Morgan; Mr. Hussey who prior to October 2002 was Vice President, Senior Portfolio Manager, Elliott and Page; Mr. Jaffer who prior to July 2004 was Associate with the Investment Advisor, between January 2002 and September 2002 was Investment Analyst, Capital Markets, MFC Global Investment Management, and prior to January 2002 was full time student at the University of Toronto; Mr. Jain who between October 2000 and November 2003 was Associate with the Investment Advisor, and prior to September 2000 was Oil Broker, Radix Energy Ltd; Mr. Keates who prior to December 2003 was Senior Manager, PricewaterhouseCoopers; Mr. Khaki who prior to June 2003 was Senior Consultant, Frank Russell Canada Limited; Ms. Kordyback who between January 2003 and December 2004 was Managing Director, CCFL Parklea Capital Inc., and prior to December 2002 was Partner, Plaxton & Co. Limited; Mr. Lawee who between August 2002 and February 2004 was Associate with the Investment Advisor, and prior to August 2002 was Vice President, Foreign Exchange, TD Securities; Mr. Lush who between June 2000 and November 2000 was Project Manager, Deep Bridge, and prior to June 2000 was Project Manager, Inacom Professional Services; Ms. Markus who between August 2000 and July 2004 was Vice-President, J.P. Morgan Securities Inc., and prior to July 2000 was Director, Scotia Capital, Acquisition Finance; Mr. Marleau who prior to July 2003 was Assistant Portfolio Manager, ING Investment Management, Inc.; Ms. Naylor who between November 2000 and April 2001 was on a Finance Contract with Electrical Safety Authority, between August 2000 and September 2000 was Chief Financial Officer, Ontario Energy Savings Corp., and prior to August 2000 was Chief Financial Officer, Hartford Investment Canada Corp.; Mr. H. Patterson who between January 2001 and February 2004 was Associate with the Investment Advisor, and prior to January 2001 was Business Analyst, Geophysical Applications; Mr. Schendel who between January 2001 and August 2001 was Associate with the Investment Advisor, and prior to January 2001 was Portfolio Manager, Strathy Investments Ltd. and Mr. Smith who between July 2002 and February 2004 was Associate with the Investment Advisor, between September 2000 and May 2002 was a full time student at Columbia Business School, and prior to August 2000 was Assistant Portfolio Manager, Southport Management Group.

ITEM 8: ADDITIONAL INFORMATION

Copies of the Annual Report may be obtained upon request from the Secretary of the Manager, James D. Sinclair, at the offices of the Trust.