

NORTHWATER

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

ANNUAL INFORMATION FORM

For the fiscal period ended December 31, 2008

As at
March 31, 2009

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GENERAL:

The information contained in this Annual Information Form is given as of March 31, 2009 other than financial data which is provided as at December 31, 2008. All dollar amounts are stated in Canadian currency unless otherwise indicated.

NAME, FORMATION AND HISTORY OF 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. RBC Dexia Investor Services Trust, as successor custodian to 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.

Termination of the Trust

The Trust is scheduled to terminate on or about June 30, 2009 and thereupon the net assets of the Trust are to 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. However, as the Manager has announced in a series of press releases commencing in November 2008, the hedge fund industry, like other market participants, has been subject to the exceptional and unprecedented turmoil in the markets due to the ongoing credit crisis that has resulted in losses in the Fund's hedge fund portfolio, particularly for the last four months in 2008. This has resulted in unprecedented illiquidity in the underlying hedge fund portfolio of the Trust. Accordingly, it is anticipated that a portion of the underlying hedge fund portfolio may be subject to restrictions on liquidity that could extend beyond the June 30, 2009 termination date. 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. However, it is anticipated that the liquidity restrictions on certain of the underlying hedge fund positions may extend even beyond September 30, 2009.

In addition, the Manager currently anticipates commencing special cash distributions ("Termination Distributions") to investors effective as of June 30, 2009. Upon the commencement of the payment of Termination Distributions from the Trust, the percentage of a particular illiquid holding in relation to the Trust's assets is likely to exceed the 10%

concentration limits required in order for the Trust to continue to qualify as a unit trust for Canadian income tax purposes. If and when the Trust fails to qualify as a unit trust it will no longer qualify as a mutual fund trust for Canadian income tax purposes and the Trust will no longer be a “qualified investment” for registered accounts, including without limitation, RRIF’s, RRSP’s and RESP’s. The Manager anticipates that the Trust will lose its “qualified investment” status for Canadian income tax purposes on or about June 30, 2009. Investors are advised to speak with their advisors as soon as possible to obtain tax advice regarding the anticipated failure of the Trust to maintain its “qualified investment” status.

INVESTMENT RESTRICTIONS:

The Trust is operated in accordance with certain restrictions and practices contained in securities legislation that are designed in part to ensure that the investments of the Trust are reasonably diversified and to ensure the proper administration of the Trust.

In addition, the activities of the Trust are to be conducted in accordance with various investment restrictions including the following:

- (a) **Investment in Canadian Securities.** The Trust will restrict its investments to units or shares of Canadian listed income trusts or shares of the capital stock of corporations resident in Canada, each of which is a “Canadian security” for the purposes of section 39(6) of the *Income Tax Act* (Canada);
- (b) **Purchasing Securities.** The Trust will not purchase securities other than through normal market facilities unless the purchase price therefore approximates the prevailing market price or is negotiated or established on an arm’s length basis; and
- (c) **Mutual Fund Trust.** Subject to the disclosure described above under the heading *Termination of the Trust*, the Trust will continue to manage its investments and affairs to ensure that it will be a “unit trust” and “mutual fund trust” for the purposes of the *Income Tax Act* (Canada) until the anticipated commencement of Termination Distributions as described above at which time the Trust will likely cease to maintain its “qualified investment” status.

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 (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 then obtains 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 at least AA- from Standard & Poor’s Corporation.

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 (as more fully described in the Trust's prospectus).
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 installment basis where the total purchase price and the amount of all such installments is fixed and set aside at the time the first installment 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.

DESCRIPTION OF THE UNITS OFFERED BY THE TRUST:

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 upon its 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.

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.

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 any 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.

VALUATION OF PORTFOLIO SECURITIES AND CALCULATION OF 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 (for the Fund in consultation and at the discretion of the board of directors), 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 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 and for the Fund in consultation with the board of directors 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 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 OF UNITS:

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

RESPONSIBILITY FOR FUND OPERATIONS:

The Manager

Pursuant to the Declaration of Trust, Northwater Fund Management Inc. (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 Declaration of Trust provides that the Manager may, in its sole discretion, terminate the Trust if the Manager believes that to do so is in the best interests of Unitholders due to a detrimental regulatory or tax change or if the net asset value of the Trust declines to a level where the Manager believes that proper diversification cannot be achieved.

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

Northwater Capital Management Inc. (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, a leader in financial innovation since January 1989, offers customized portfolio solutions to the global investment community by providing stable, diversified alpha and precise, low-cost market exposure.

Utilizing its expertise in constructing market-neutral portfolios that seek to generate consistent returns in both normal and extreme markets, the Investment Advisor delivers a source of alpha that can be tailored to meet an investor's active risk budget. In addition, the firm's established indexing capability allows access to the global equity and fixed income markets to complement an investor's unique asset/liability profile. The Investment Advisor's structuring technology then combines these two components in a portable alpha framework that seeks to achieve an investor's return/risk objectives in an efficient, cost-effective manner.

With over a ten year track record in fund of hedge funds, the Investment Advisor has focused on developing, delivering and continuously improving its market-neutral fund of hedge fund portfolios since launching its first such portfolio in 1994.

The Investment Advisor advises institutional clients in Canada, the United States, the United Kingdom and other parts of Europe, as well as in Australia. The firm has offices in Toronto, New York and Chicago.

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 Investment Advisor will see to effect transactions 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.

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 willful 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

RBC Dexia Investor Services Trust, as successor custodian to 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.

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.
PAUL W. ROBSON, MBA, CFA. Mississauga, Ontario	Director	President and Chief Operating Officer, Northwater Capital Management Inc.
DAVID S. FINCH, CFA. Toronto, Ontario	Managing Director, Chief Investment Officer and Director	Managing Director and Chief Investment Officer, Northwater Capital Management Inc.
DANIEL C.R. MILLS, CFA. Mississauga, Ontario	Managing Director, Deputy Chief Investment Officer and Director	Managing Director and Deputy Chief Investment Officer, Northwater Capital Management Inc.
JONATHAN PIURKO, LL.B Toronto, Ontario	Vice-President, Chief Legal Officer and Secretary	Vice-President, Chief Legal Officer and Secretary, Northwater Capital Management Inc.
EVA N. JEDRZEJEWSKA, CA, C.F.A. Toronto, Ontario	Vice-President	Vice-President and Chief Compliance Officer, Northwater Capital Management Inc.
SHAUNA L. CASSIDY, CFA Toronto, Ontario	Vice-President	Vice-President, Northwater Capital Management Inc.
SCOTT C. HENSHAW, M.EC., MBA, CFA. Toronto, Ontario	Vice-President	Vice-President, Northwater Capital Management Inc.
SUSAN L. NAYLOR, CA Burlington, Ontario	Vice-President, Finance	Vice-President, Finance, Northwater Capital Management Inc.
JIENAN WANG, CFA Toronto, Ontario	Vice-President	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 February 2009, has occupied the offices of Vice President, Managing Director and Chief Operating Officer and Director and is now Managing Director, Chief Investment Officer and Director with the Manager; Mr. Henshaw who, prior to May 2008, was neither an officer nor a director of the Manager; Mr. Mills who, prior to February 2009, has occupied the offices of Vice President, Managing Director, Chief Investment Officer and Director and is now Managing Director, Deputy Chief Investment Officer and Director with

the Manager; Ms. Naylor who, prior to May 2008, was neither an officer nor a director of the Manager; Mr. Piurko who, prior to October 2008, was neither an officer nor a director of the Manager; and Mr. Robson who, prior to October 2008, was neither an officer nor a director of the Manager.

For a complete description of the occupations of these individuals over the past five years, please see the list of Officers and Directors of the Investment Advisor immediately below along with the additional disclosure following the table.

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, MBA Toronto, Ontario	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer
PAUL W. ROBSON, MBA, CFA. Mississauga, Ontario	President, Chief Operating Officer and Director	President and Chief Operating Officer
DAVID S. FINCH, CFA. Toronto, Ontario	Managing Director, Chief Investment Officer and Director	Managing Director and Chief Investment Officer
DANIEL C.R. MILLS, CFA. Mississauga, Ontario	Managing Director, Deputy Chief Investment Officer and Director	Managing Director and Deputy Chief Investment Officer
DENNIS G. COOK, C.M.C., C.H.R.P. Toronto, Ontario	Executive Vice-President	Executive Vice-President
JONATHAN PIURKO, LL.BS Toronto, Ontario	Vice-President, Chief Legal Officer and Secretary	Vice-President, Chief Legal Officer and Secretary
EVA N. JEDRZEJEWSKA, CA, CFA Toronto, Ontario	Vice-President and Chief Compliance Officer	Vice-President and Chief Compliance Officer
TYLER KIM. Toronto, Ontario	Vice-President and Chief Technology Officer	Vice-President and Chief Technology Officer
HEATHER L. BROUGHTON, MBA, CFA. Toronto, Ontario	Vice-President	Vice-President
SHAUNA L. CASSIDY, CFA. Toronto, Ontario	Vice-President	Vice-President
SIMON H. CHAN North York, Ontario	Vice-President	Vice-President

<u>Name and Municipality</u>	<u>Position with the Investment Advisor</u>	<u>Principal Occupation</u>
JOANNA CHRZANOWSKI, CA, MISSISSAUGA, Ontario	Vice-President	Vice-President
KENNETH CONSTABLE, CFA Toronto, Ontario	Vice-President*	Vice-President*
R. ANDREW HARRISON New York, New York	Vice-President	Vice-President
SCOTT C. HENSHAW, M.EC., MBA, CFA. Toronto, Ontario	Vice-President	Vice-President
CRAIG H. HIPPERN, CA, CPA. Mississauga, Ontario	Vice-President	Vice-President
ADRIAN HUSSEY, MBA, CFA Toronto, Ontario	Vice-President	Vice-President
KIMBERLEY A.E. JANSEN, CFA Toronto, Ontario	Vice-President*	Vice-President*
MOHAMED S. KHAKI, A.S.A., CFA Toronto, Ontario	Vice-President	Vice-President
FRANCES KORDYBACK, CA Toronto, Ontario	Vice-President	Vice-President
ALLAN KORTAN, CFA Toronto, Ontario	Vice-President	Vice-President
UMAR MALIK, CFA Toronto, Ontario	Vice-President	Vice-President
IRENE C. MARKUS, LL.B. Toronto, Ontario	Vice-President	Vice-President
SUSAN L. NAYLOR, CA Burlington, Ontario	Vice-President	Vice-President
CARLO PERRI Woodbridge, Ontario	Vice-President	Vice-President
STEPHEN J. REDMOND Unionville, Ontario	Vice-President	Vice-President
IVAN H.C. SIEW Toronto, Ontario	Vice-President*	Vice-President*

NEIL SIMONS, PH.D, MMF Unioville, Ontario	Vice-President	Vice-President
JHENAN J. WANG, M.A., CFA Toronto, Ontario	Vice-President	Vice-President
KAI WANG, MBA, CFA Thornhill, 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. Chan who was Associate between August 2004 and April 2007 and Associate, Trading Officer between April 2007 and July 2008 with the Investment Advisor, and prior to August 2004 was Senior Financial Engineer with Annuity Systems Inc.; Ms. Chrzanowski who between July 2002 and January 2005 was Senior Financial Consultant with The Canada Life Assurance Company, and prior July 2005 was Associate with the Investment Advisor; Mr. Constable who prior to February 2009 was Associate with the Investment Advisor; Mr. Finch who, prior to February 2009, has occupied the offices of Vice President, Managing Director and Chief Operating Officer and Director and is now Managing Director, Chief Investment Officer and Director with the Investment Advisor; Mr. Harrison who prior to February 2006 was Associate with Celtic House Venture Partners; Mr. Henshaw who between October 2003 and February 2004 was Associate with the Investment Advisor; Ms. Jansen who between January 2005 and July 2008 was Associate with the Investment Advisor and was Manager with the Bank of Nova Scotia prior to January 2005; Ms. Jedrzejewska who, prior to November 2008, was Vice President with the Investment Advisor; Mr. Kim who between May 2003 and October 2005 worked with Gapgemini Canada, and with Ernst & Young, LLP from October 2005 to January 2007; Ms. Kordyback who between January 2003 and December 2004 was Managing Director, CCFL Parklea Capital Inc.; Mr. Kortan who was Associate between October 2003 and May 2007 and Associate, Trading Officer between May 2007 and July 2008 with the Investment Advisor; Mr. Malik who was Associate between May 2005 and April 2007 and Associate, Trading Officer between April 2007 and July 2008 with the Investment Advisor and was a full time student prior to May 2005; Ms. Markus who between August 2000 and July 2004 was Vice-President, J.P. Morgan Securities Inc.; Mr. Mills who, prior to February 2009, has occupied the offices of Managing Director, Chief Investment Officer and Director and is now Managing Director, Deputy Chief Investment Officer and Director with the Investment Advisor; Mr. Perri who prior to March 2008 was Vice President with Brookfield Asset Management Inc.; Mr. Piurko who between September 2004 and July 2005 was Associate with the Investment Advisor and between July 2005 and November 2008 was Vice-President with the Investment Advisor and prior to September 2004 was Associate at Blake, Cassels & Graydon LLP; Mr. Redmond who prior to January 2008 was Vice President with Northwater Objects Inc., an affiliate of the Investment Advisor; Mr. Robson who, prior to February 2009, has occupied the offices of Managing Director, President and Director and is now President, Chief Operating Officer and Director with the Investment Advisor; Mr. Siew who prior to January 2008 was Vice President with Northwater Objects Inc., an affiliate of the Investment Advisor; Mr. Simons who prior to 2006 was Senior Manager, Enterprise Market Risk Reporting and Analysis; and Mr. Wang who prior to August 2005 was Associate with the Investment Advisor.

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, corporation, partnership 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.

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

FUND GOVERNANCE:

In accordance with the terms of National Instrument 81-107 Independent Review Committee for Investment Funds, the Trust and the Fund have appointed an independent review committee to review any conflict of interest matters referred to the Independent Review

Committee by the Manager. The independent review committee (“IRC”) was officially appointed as of November 1, 2007 and the members of the IRC are: Jeffrey D. Francoz (Chair), Ann Marshall and Peter Vesely. All members of the IRC are independent of the Manager, the Investment Advisor, the Trust and the Fund.

For the period prior to November 1, 2007, the advisory board appointed (the “Trust Advisory Board”) by the Manager consisted of two members (Jeffrey D. Francoz and Ann Marshall). The Trust Advisory Board provided independent advice to the Manager in connection with its role as manager of the Trust, including with respect to conflicts of interest, potential conflicts of interest and related party transactions identified by the Manager. In addition, the Trust Advisory Board received and reviewed periodic reports about the investment of the Trust’s assets. The Manager reported to the Trust Advisory Board on a quarterly basis, including with respect to compliance with the investment guidelines and restrictions of the Trust.

Upon the formation and inception of the IRC, the primary task assigned to the IRC under National Instrument 81-107 is to review and report on conflict of interest matters as such term is defined in the Instrument. However, the IRC’s mandate also continues to include all of the functions and responsibilities of the previous Trust Advisory Board as well as incorporating all of the requirements of National Instrument 81-107.

Members of the IRC will act honestly and in good faith in the best interests of the Trust and the Unitholders and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

FEES AND OTHER EXPENSES:

There are no arrangements in effect that result, directly or indirectly, in one unitholder of the Trust paying as a percentage of the unitholder’s investment in the Trust a management fee that differs from that payable by another unitholder.

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 paid by the Manager 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.

INCOME TAX CONSIDERATIONS:

This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the *Income Tax Act* (Canada) (the “Tax Act”) is resident in Canada, deals at arm’s length with and is not affiliated with the Trust and holds Units as capital property. Generally, Units will be considered to be capital property to a holder provided that the holder does not hold the Units in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain persons who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the election permitted by subsection 39(4) of the Tax Act.

The Trust currently qualifies as a “mutual fund trust” under the Tax Act. However, as described above under the heading *Termination of the Trust*, it is anticipated that upon the commencement of the payment of Termination Distributions, the Trust will cease to maintain its status as a “qualified investment” for tax purposes. Investors are encouraged to speak to their advisors regarding the implications of the Trust’s failure to maintain its status as a “qualified investment.” Investors are also encouraged to refer to the disclosure under the heading “Canadian Federal Income Tax Considerations” in the Trust’s prospectus for a more complete discussion of tax considerations.

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” in the prospectus would be materially and adversely different in certain respects.

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 material contracts listed above may be reviewed and inspected by shareholders between the hours of 9:00 am – 5:00 pm on business days at the offices of the Manager upon providing the Manager with reasonable advance notice.

LEGAL AND ADMINISTRATIVE PROCEEDINGS:

Neither the Manager, the Investment Advisor or the Trustee of the Trust are aware of any legal or administrative proceedings involving the Trust.

OTHER MATERIAL INFORMATION:**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
2008	Return of Capital	\$1.7500	\$4,221,480
2007	Return of Capital	\$1.7500	\$4,671,932
2006	Return of Capital	\$1.7500	\$5,170,332
2005	Return of Capital	\$1.7500	\$5,615,838
2004	Return of Capital	\$ 0.8750	\$ 2,520,000

For a full discussion of the Trust's distribution policy, please see page 4.

	For the year ended December 31, 2008	For the six month period ended June 30, 2008	For the year ended December 31, 2007	For the six month period ended June 30, 2007	For the year ended December 31, 2006	For the six month period ended June 30, 2006
(All Figures in Canadian Dollars)						
Total income	47,082	15,306	54,231	13,161	24,177	255,154
Net income (loss) from operations	(978,186)	(1,605,970)	(230,442)	2,746,436	6,349,085	1,701,701
Net income (loss) per unit *	(0.40)	(0.65)	(0.09)	1.00	2.14	0.56
Total assets	30,448,781	61,937,090	74,876,353	81,420,945	78,972,007	96,730,898
Bank loan	-	-	-	-	-	900,000
Net assets and unitholders' equity	27,784,342	48,391,748	54,570,876	62,621,877	65,586,531	66,474,199

* based on average number of Units outstanding for the period

	For the year ended <u>December 31, 2005</u>	For the quarter ended <u>September 30, 2005</u>	For the quarter ended <u>June 30, 2005</u>	For the quarter ended <u>March 31, 2005</u>
(All figures in Canadian dollars)				
Total income	12,151	2,076	983	12,743
Net income (loss) from operations	960,212	(396,357)	1,265,393	921,021
Net income (loss) per unit *	0.30	(0.12)	0.39	0.29
Total assets	73,103,101	76,510,473	78,294,489	78,215,290
Bank loan	599,840	-	199,531	-
Net assets and unitholders' equity	70,701,618	74,724,066	76,533,548	76,681,280

* based on average number of Units outstanding for the period

	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
2008	21.15	21.02	19.97	20.08	20.41	19.85	19.69	19.41	16.91	14.25	13.16	12.47
2007	23.34	23.59	23.36	23.51	23.65	23.29	22.97	21.98	21.59	22.05	21.82	21.30
2006	22.85	22.91	22.65	22.76	22.77	22.23	22.53	22.87	22.63	22.93	23.30	23.07
2005	24.30	24.44	23.74	23.80	23.81	23.69	23.75	23.88	23.13	22.77	22.74	22.47
2004							23.42	23.76	23.28	23.54	24.12	23.89

Risk Factors

An investment in Units of the Trust involves certain risks. Investors should consider the risk factors as set out in the prospectus of the Trust before purchasing Units.

EXEMPTIONS AND APPROVALS:

Pursuant to an order dated October 11, 2005 under the securities legislation of each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut (collectively, the "Jurisdictions"), the local securities regulatory authority in each of the Jurisdictions granted an exemption to the Trust from certain provisions of National Instrument 81-106 Investment Fund Continuous Disclosure ("NI 81-106").

Generally, the Trust has received exemptive relief from the following provisions of NI 81-106:

- (a) the requirement in paragraph 3.5(1)1 of NI 81-106 to include in the statement of investment portfolio for the Trust the name of the issuer of each portfolio asset; and
- (b) with respect to the preparation of both management reports of fund performance under Part 4 of NI 81-106 and quarterly portfolio disclosure under Part 6 of NI 81-106, both required to be prepared in accordance with Form 81-106F1 or parts thereof (the Summary of Investment Portfolio), the requirement in Item 5(2)(b), Part B of Form 81-106F1 to disclose the names of the top 25 positions held by the Trust.

The relief requested has been granted subject to various conditions imposed by the regulators in the Jurisdictions. The Trust complies with the interim and annual disclosure requirements imposed on it by the regulators pursuant to the exemptive relief order granted to the Trust.

ADDITIONAL INFORMATION:

The Annual Report, including Management's Discussion and Analysis and the audited financial statements of the Northwater Five-Year Market-Neutral Trust for the year ended December 31, 2008 and the notes thereto (collectively referred to as the "Financial Statements") are hereby incorporated by reference.

Copies of the Annual Report, including the financial statements of the Trust and MD&A, may be obtained upon request from the Secretary of the Manager, Jonathan Piurko, at the offices of the Trust. In addition, you can get a copy of the Trust's financial statements, including a statement of portfolio transactions, at no cost by calling toll-free 1-800-422-1867. The financial statements and other information about the Trust, such as information circulars and material contracts, are also available at www.sedar.com and certain information is available on the Investment Advisor's Internet site at www.northwatercapital.com.