

NORTHWATER

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



BACKGROUND

Northwater Five-Year Market-Neutral Trust (the “Trust”) is a closed-end investment trust established under the laws of the Province of Ontario. Financial statements of the Trust, denominated in Canadian dollars, for the six-month period ended June 30, 2009 are included in this report.

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MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

The Northwater Five-Year Market-Neutral Trust (the “Trust”) is a closed-end fund traded on the Toronto Stock Exchange under the symbol NYF.UN that delivers the return of both a diversified portfolio of market-neutral hedge funds and a fixed-for-floating interest rate swap by way of a forward agreement. As at June 30, 2009, the net asset value of the Trust per unit was \$7.51. For the six-month period ended June 30, 2009, the return of the Trust was 1.57% including distributions. During the same time period, the DEX Universe Bond Index returned 2.79%, the S&P/TSX Composite Index declined by 17.56% and the S&P 500 in U.S. dollar terms, went up by 3.16% which translates to a loss of 2.95% in Canadian dollar terms. The Trust made distributions of \$4.75 per unit during the period.

Having passed the scheduled termination date of the Trust of June 30, 2009 (the “Termination Date”), our focus remains on returning capital as quickly as possible and an orderly liquidation of the assets of the Trust. The investment structure has been simplified with the maturity of the forward agreement and the related exposure to the interest rate swap on June 30, 2009, leaving the Trust directly holding the underlying hedge fund investments.

While the first half of 2009 has shown improvement in both the credit and equity markets as seen by tighter credit spreads and increased market liquidity, this has not translated into business as usual in the hedge fund industry. Many funds continue to restrict the return of capital through on-going restructurings and suspended redemptions and this has impacted our ability to liquidate the portfolio as originally planned when the Trust was launched in 2004. Where liquidity has been available, we have redeemed and distributed the capital to unitholders of the Trust and the orderly wind-up remains the primary objective for the second half of 2009.

Based on current market conditions, we can confirm that due to liquidity constraints in the underlying hedge funds that the Trust will continue to exist and be winding down its operation beyond the Termination Date.

As of June 30, 2009, approximately 90% of the Fund (89% of the Trust) continues to have exposure to the performance of the underlying hedge funds. Based on the most recent information available to us, we anticipate that approximately 76% of the Fund (75% of the Trust) (representing 22 hedge funds) may be subject to restrictions on liquidity that could extend beyond December 31, 2009.



PAUL ROBSON, CFA
President
Northwater Capital Management Inc.



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

August 20, 2009

MANAGEMENT REPORT OF FUND PERFORMANCE

This Management Report of Fund Performance contains financial highlights but does not contain the complete financial statements of Northwater Five-Year Market-Neutral Trust (the "Trust"). A copy of the financial statements of the Trust for the six-month period ended June 30, 2009 is attached to this report for your reference.

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

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

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

Investment Objective and Strategies

Investment Objectives

The market events of the last quarter of 2008 negatively impacted the Trust's ability to meet its original objectives and these events continue to create challenges in the current environment. These market events have also negatively impacted the Trust's ability to liquidate the underlying investments in the portfolio of hedge funds (the "Hedge Fund Portfolio") held by Northwater Five-Year Market Neutral Fund Limited (the "Fund"), a Cayman corporation to which the Trust has exposure.

With the maturity of the forward agreement (and exposure to the interest rate swap) on June 30, 2009, the Trust now directly holds investments in the underlying hedge funds. The current investment objective is the return of capital through the orderly liquidation of the Trust's assets.

Investment Strategies

The Trust had invested the net proceeds of its offering in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio"). The Trust had entered into a forward purchase and sale agreement (the "Forward") with a U.S. bank (the "Counterparty") that had a long term credit rating of AA. The Forward provided the Trust with exposure to the performance of Northwater Five-Year Market-Neutral Fund Limited (the "Fund"), an exempt company formed under the laws of the Cayman Islands and advised by the Investment Advisor, in exchange for the return of the Common Share Portfolio. Pursuant to the Forward, the Common Share Portfolio had been pledged to the Counterparty. The Trust's valuation was not affected by the change in the market value of the Common Share Portfolio as gains or losses were offset by the Forward. The Trust's return was based on its exposure, through the Forward, to the Fund.

On June 30, 2009, the Forward was terminated as were related currency forwards. After June 30, 2009, the Trust will hold shares of the Fund directly.

The target exposure to the Hedge Fund Portfolio is equivalent to 150% of the net asset value of the Trust. The actual exposure as at June 30, 2009 was 99% (December 31, 2008 was 146%).

Through the Forward, the Trust also had exposure to interest rate swaps (the "Swap") entered into by the Fund. In accordance with the terms of the interest rate swap agreement, the Swap terminated and matured on June 30, 2009. The Fund is currently working towards an orderly liquidation of the underlying investments and the Hedge Fund Portfolio.

Risks

Changes to the risk characteristics of the Fund reflect the reduced diversification of the exposure to the underlying hedge fund investments and the liquidity restrictions imposed by many of the hedge fund managers. As well, interest rate risk and currency risk, previously related to the Swap and currency forwards were eliminated with maturity on June 30, 2009.

Diversification across managers was not sufficient to avoid the overwhelming negative impact from the industry wide deleveraging. The volatility in the underlying managers (as expressed by standard deviation) rose to 15.2% versus the 2008 level of 8.4%.

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

Many of the trading strategies employed by hedge funds depend on functional financial markets, including the ability of managers to enter into short positions. Hedge funds have not only suffered losses as a result of the stress felt in the markets, including the difficulty encountered in maintaining short positions, but also because of the liquidity freeze experienced in many markets. Certain of the managers have been unable to sell assets to prevent additional losses or fund investor redemptions. Continuing illiquidity has caused numerous underlying hedge funds held by the Trust to invoke various restrictions on redemptions including, without limitation, restricting redemptions to a limited percentage of the aggregate net asset value of such underlying hedge funds, the temporary suspension of redemptions altogether, or the commencement of a controlled liquidation and wind-up of the underlying hedge funds' business.

As at June 30, 2009, approximately 89% of the Trust will continue to have exposure to underlying hedge fund market movements. Based on the most recent information that the Investment Advisor had available to it, the Investment Advisor anticipates that approximately 75% of the Trust (representing 22 hedge funds) may be subject to restrictions on liquidity that could extend beyond December 31, 2009.

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

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

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

	Amount (USD\$)	% of Hedge Fund Portfolio
Restricted redemptions ⁽¹⁾	585,263	5%
Liquidating	1,383,703	11%
	1,968,966	16%

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

	Amount (USD\$)	% of Hedge Fund Portfolio
Restricted redemptions ⁽¹⁾	6,561,270	52%
Liquidating	4,176,787	32%
	10,738,057	84%

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

The amounts set out in the tables above are subject to change without notice as additional information becomes available to the Investment Advisor from the underlying managers in the Hedge Fund Portfolio.

The detailed risks of investing in the Trust are listed in the Trust's prospectus. A copy of the prospectus of the Trust is available by visiting the SEDAR website at www.sedar.com.

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

Results of Operations

For the six-month period ended June 30, 2009, the Trust posted a return of 1.57% (six-month period ended June 30, 2008: -2.63%), taking into account the distributions made during the period. Distributions during the period totaled \$10,496,934 or \$4.75 interest rate per Unit.

The Trust's exposure through the Forward to the Swap held by the Fund had a positive impact on the performance of the Trust in the six-month period ended June 30, 2009 (six-month ended June 30, 2008: positive contribution). Over the first half of 2009, interest rates declined across the yield curve and contributed to the positive performance in the Swap held by the Fund. The Swap was terminated on June 30, 2009 for a settlement of CAD\$ 258,900.

During the six-month period ended June 30, 2009, the Counterparty redeemed 1,967 participating shares of the Fund for USD\$ 32,979,543 and paid CAD\$ 11,403,311 to the Trust as a result of a reduction in the notional amounts of the Forward and in return for partial settlement of the Common Share Portfolio and the termination of the Forward at June 30, 2009.

The Trust purchased 114,500 units of the Trust under its repurchase and cancellation programs for the six-month period ended June 30, 2009 (six-month period ended June 30, 2008; 126,800 units were repurchased). Over the six-month period ended June 30, 2009, this program contributed 0.78% to the overall return of the Trust (six-month period ended June 30, 2008: 0.40% contribution).

The following table presents the USD return by investment strategy held in the Fund for the six-month period ended June 30, 2009 and 2008:

Strategy	Six-month period ended June 30	
	2009	2008
Activist investments	—	(9.40)%
Asset-backed securities arbitrage	(4.07)%	5.36%
Distressed securities arbitrage	(1.46)%	(2.46)%
Fixed-income arbitrage	(0.02)%	(12.00)%
Mortgage-backed security arbitrage	(1.54)%	(2.06)%
Multi-strategy	1.47%	1.57%
Re-insurance arbitrage	(2.95)%	2.16%
Statistical arbitrage	(16.13)%	6.03%
Structured finance	15.57%	(3.67)%

Summary of Investment Portfolio ⁽¹⁾

The Trust has obtained exposure to the Hedge Fund Portfolio through the Forward. The Hedge Fund Portfolio emphasized sectors of the capital markets that the Investment Advisor believed were relatively inefficient or present opportunities to generate uncorrelated returns.

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

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

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

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

Asset Allocation by Investment Strategy

The following table shows the hedge fund holdings by strategy at the Fund level as at June 30, 2009 and December 31, 2008. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

Strategy	As at June 30, 2009			As at December 31, 2008		
	No. of Hedge Funds	Fair Value (in USD\$)		No. of Hedge Funds	Fair Value (in USD\$)	
Activist investments	–	–	–	1	\$1,774,637	6%
Asset-backed security arbitrage	2	\$1,605,755	13%	3	4,625,196	17%
Distressed securities arbitrage	3	2,528,192	20%	3	3,363,483	12%
Fixed-income arbitrage	1	91,771	1%	3	2,222,721	8%
Mortgage-backed security arbitrage	3	2,638,024	21%	3	3,296,758	12%
Multi-strategy	6	3,472,636	27%	6	5,501,011	20%
Re-insurance arbitrage	1	54,303	–	2	1,236,228	4%
Statistical arbitrage	3	57,559	–	4	3,779,595	14%
Structured finance	3	2,258,783	18%	3	1,954,532	7%
	22	\$12,707,023	100%	28	\$27,754,161	100%

The following table presents the largest individual hedge fund holding for each investment strategy of the Trust as a percentage of the total reported net asset value of the Trust as at June 30, 2009 and December 31, 2008

Strategy	As at June 30, 2009	As at December 31, 2008
Activist investments	–	7.88%
Asset-backed securities arbitrage	10.47%	12.34%
Distressed securities arbitrage	10.70%	9.58%
Fixed-income arbitrage	0.64%	5.43%
Mortgage-backed security arbitrage	11.31%	7.87%
Multi-strategy	7.31%	4.96%
Re-insurance arbitrage	0.38%	4.60%
Statistical arbitrage	0.19%	8.98%
Structured finance	10.43%	5.20%

The following table lists the hedge funds by fair value as at June 30, 2009. The Trust discloses the names of those hedge funds held by the Fund that represent more than 5% of the net assets of the Trust at the end of the period. For hedge funds that represent less than 5% of the Trust's net assets, the Trust has adopted unique fund numbers as identifiers. These numbers are used consistently in reporting by the Trust.

Hedge Fund Investments	Type of Investment	Cost (in USD\$)	Fair Value (in USD\$)	Fair Value as a % of Net Assets
Sorin Offshore Fund, Ltd.*	Participating Shares	\$1,620,000	\$1,614,491	11.31%
Cerberus International Ltd. *	Participating Shares	1,112,918	1,527,600	10.70%
CRC Global Structured Credit Fund, Ltd.*	Participating Shares	1,200,000	1,493,833	10.47%
BDC Offshore Fund Ltd.*	Participating Shares	1,400,000	1,489,295	10.43%
Citadel Kensington Global Strategies Fund Ltd.*	Participating Shares	931,520	1,044,032	7.31%
HBK Offshore Fund Ltd*	Participating Shares	787,285	813,249	5.70%
D.B.Zwirn Special Opportunities Fund, Ltd*	Voting Shares and Capital Balance	1,167,777	769,488	5.39%
Satellite Overseas Fund Ltd*	Participating Shares	1,224,757	736,988	5.16%
Fund 208*	Participating Shares	738,212	618,523	4.33%
Fund 190*	Participating Shares	700,000	604,291	4.23%
Fund 103*	Participating Shares	802,800	419,241	2.94%
Fund 183*	Participating Shares	424,310	415,921	2.91%
Fund 212*	Participating Shares	-	382,070	2.68%
Fund 118*	Participating Shares	298,844	362,601	2.54%
Fund 171*	Participating Shares	104,321	111,917	0.78%
Fund 146*	Participating Shares	143,091	99,847	0.70%
Fund 191*	Participating Shares	339,594	91,771	0.64%
Fund 195*	Participating Shares	49,817	54,303	0.38%
Fund 211*	Participating Shares	33,964	26,646	0.19%
Fund 226*	Participating Shares	49,894	22,841	0.16%
Fund 104*	Participating Shares	39,227	8,071	0.06%
Fund 187*	Participating Shares	700,000	4	–
		\$13,868,329	\$12,707,023	

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

Financial Highlights

The following tables show selected key financial information about the Trust and are intended to assist in understanding the Trust's financial performance for the six-month period ended June 30, 2009 and the years ended December 31, 2008, 2007, 2006 and 2005, and for the period from June 30, 2004 to December 31, 2004. The information included in the below tables is derived from the Trust's financial statements. The net assets per unit presented in the financial statements differ from the net asset value calculated for pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

The Trust's Net Assets per Unit

	For the six-month period ended June 30	For the year ended December 31				For the period from June 30 to December 31
	2009	2008	2007	2006	2005	2004
Net assets, beginning of period	\$11.97	\$21.24	\$23.07	\$22.47	\$23.89	\$23.75
Increase (decrease) from operations:						
Total revenue	0.01	0.02	0.02	0.01	–	0.05
Total expenses	(0.12)	(0.42)	(0.41)	(0.41)	(0.46)	(0.22)
Realized gains (losses) for the period	(7.77)	(0.69)	3.12	1.25	0.52	–
Unrealized gains (losses) for the period	8.07	(7.79)	(2.82)	1.29	0.24	1.52
Total increase (decrease) from operations ⁽¹⁾	0.19	(7.50)	(0.09)	2.14	0.30	1.36
Distributions ⁽²⁾ :	4.75	1.75	1.75	1.75	1.75	0.875
Net Assets, at end of period ⁽³⁾	\$7.51	\$11.97	\$21.24	\$23.07	\$22.47	\$23.89

(1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations are based on the weighted average number of units outstanding over the financial period.

(2) Distributions were paid in cash. for the six month period ended June 30, 2009.

(3) It is not intended that the Trust's Net Assets per Unit table act as a reconciliation of opening and closing net assets per unit.

Ratios and Supplemental Data

	For the six-month period ended June 30	For the year ended December 31				
	2009	2008	2007	2006	2005	2004
Total net assets (000's) ⁽¹⁾	\$16,576	\$27,864	\$54,571	\$65,587	\$70,702	\$77,173
Number of units outstanding ⁽¹⁾	2,207,000	2,321,500	2,568,800	2,843,300	3,146,200	3,230,000
Management expense ratio ⁽²⁾	12.02%	10.96%	8.72%	7.27%	11.75%	18.02%
Management expense ratio before waivers or absorptions	12.02%	10.96%	8.72%	7.27%	11.75%	18.02%
Portfolio turnover rate ⁽³⁾	184.64%	81.63%	9.49%	10.61%	62.33%	0.00%
Trading expense ratio ⁽⁴⁾	–	0.04%	0.02%	0.00%	0.00%	0.02%
Closing market price, end of period	\$5.40	\$9.40	\$19.50	\$20.56	\$20.50	\$26.40

(1) This information is provided as at June 30, 2009 and December 31 of the years shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of month-end average net asset value during the period. Please note that the management expense ratio includes not only the expenses of the Trust and Fund itself but also reflects an estimate of expenses to which the underlying hedge funds were subject. The management expense ratio of the underlying hedge funds held by the Fund plus the expenses of the Fund included in the above ratios for the six-month period ended June 30, 2009 added 9.79% for the year ended December 31, 2008 added 9.79% and for the year ended December 31, 2007 added 5.54% and the year-ended December 31, 2006 added 5.47% (2005 added 9.80% and 2004 added 9.66%) to the expense ratio of the Trust. This annualized expense ratio has been calculated using the total expenses of the underlying hedge funds, invested in by the Fund, per their annual audited financial statements for the periods ended December 31, 2007, 2006, 2005 and 2004 respectively. These statements represent the most recent audited information available. The expenses together with estimates for hedge funds with year-ends other than December 31 have been prorated based on the relative percentage of the hedge fund held by the Fund at the end of the respective period. Performance fees incurred by the underlying hedge funds can vary significantly from period to period based on such factors as the market conditions, fund strategy, manager performance and the timing of redemptions. As a result, the expense ratio of the underlying funds for the prior year may be significantly different than the actual expenses incurred by these underlying hedge funds for the current period.

(3) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net asset value during the period.

Past Performance

General

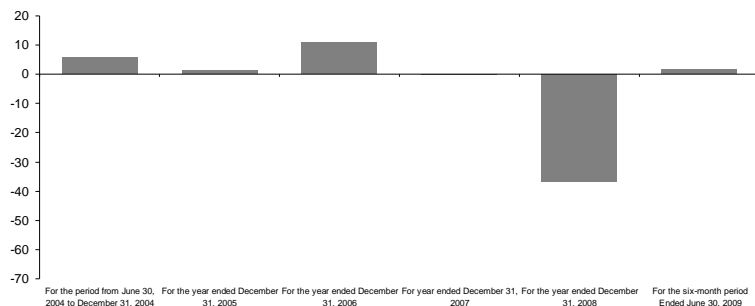
With respect to the following information in the “Past Performance” section of this report, please note the following:

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

Year-by-Year Returns

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

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



Management Fees and Related Party Transactions

The Manager is responsible for the day-to-day administration, portfolio management as well as trustee and unitholder services to the Trust. In exchange for these services, the Manager is entitled to an annual management and trustee fee calculated as 0.15% per annum of the net asset value of the Trust, as of the close of business on each month-end valuation date. The fee is paid monthly in arrears.

The Trust also pays to the Manager a service fee of 0.30% per annum of the net asset value of the Trust, accrued monthly, and calculated based on the net asset value of the Trust on the last Valuation Date of each quarter. The service fee is 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. The fee is accrued monthly and calculated and paid quarterly in arrears. Substantially all of the management fees are applied to provisions of portfolio management and investment advisory services of the Manager.

During the six-month period ended June 30, 2009, the management and trustee fees and the service fee expense were \$19,725 and \$34,456 respectively, and the management and trustee fees and the service fee payable by the Trust as at June 30, 2009 were \$9,100 and \$13,053 respectively. (six-month period ended June 30, 2008, the management and trustee fee and the service fee expense were \$39,803 and \$78,380 respectively).

Other Fees

The Trust pays forward fees of approximately 0.55% per annum of the U.S. notional amount and 0.90% per annum of the Canadian notional amount to the Counterparty of the Forward that may vary based on the value of the Common Share Portfolio, calculated and paid quarterly in arrears. Due to the maturity of the Forward, forward fees are no longer charged past June 30, 2009.

Net Asset Value and Price Per Unit

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

The Trust's net asset value per unit is calculated and reported monthly. During the six-month period ended June 30, 2009, the net asset value of the Trust fluctuated between \$4.82 and \$11.82 per unit after taking into account distributions (year ended December 31, 2008: between \$12.06 per unit and \$21.15 per unit).

The market price for units of the Trust is determined by the actions of buyers and sellers in the market. The daily closing price of the units fluctuated between \$7.51 and \$12.24 during the six-month period ended June 30, 2009 (six-month period ended June 30, 2008: between \$16.75 per unit and \$19.89 per unit).

Distributions

During the six-month period ended June 30, 2009, distributions totaling \$4.75 per unit and \$10,496,934 in aggregate were declared (six-month period ended June 30, 2008: \$0.875 per unit and \$2,164,138 in aggregate). This represents a 19% return on the initial subscription price of \$25.00 per unit consistent with the targeted annual yield for the Trust of 7% in addition to the initial termination distribution.

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

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

The following table presents the distribution history for the six-month period ended June 30, 2009:

Distribution History

<u>Record date</u>	<u>Date distribution paid</u>	<u>Character of distribution for tax purposes</u>	<u>Amount per unit</u>
March 31, 2009	April 15, 2009	To be determined	\$0.4375
June 30, 2009	July 15, 2009	To be determined	\$4.3075

Purchases for Cancellation

Under its declaration of trust, the Trust is required to make purchases of units of up to 2.5% of the outstanding units per quarter if the price at which the units are offered for sale is less than 95.0% of the current net asset value per unit as at the close of business on the preceding valuation date.

In August of 2008, the Trust filed a notice of intention to make normal-course purchases of units with the Toronto Stock Exchange; the Trust indicated an intention to purchase up to 237,847 of the units of the Trust, representing 10% of the public float of the Trust then outstanding during the period from September 11, 2008 to September 10, 2009. In accordance with exchange rules and by-laws, the Trust may not pay more than the most recent market price for the units purchased. Units purchased under the bid are cancelled.

During the six-month period ended June 30, 2009, the Trust purchased 114,500 units for a total cost of \$1,148,043 for cancellation under this program (six-month period ended June 30, 2008: 126,800 units were repurchased for \$2,409,020).

Potential Tax Implication of Wind-Up

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

The Manager confirms that the Trust lost its "qualified investment" status for Canadian income tax purposes on July 29, 2009. When the Trust failed to qualify as a unit trust it was no longer qualified as a mutual fund trust for Canadian income tax purposes and the Trust ceased to be a "qualified investment" for registered accounts, including without limitation, RRIF's, RRSP's and RESP's. Investors are advised to speak with their advisors as soon as possible to obtain tax advice regarding the failure of the Trust to maintain its "qualified investment" status.

MANAGEMENT'S RESPONSIBILITY

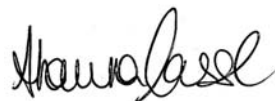
The accompanying financial statements have been prepared by Northwater Fund Management Inc., the Manager of the Trust (the "Manager"), and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and other sections of the annual report.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies that management believes are appropriate for the Trust are described in note 2 to the financial statements.



Paul Robson, CFA
President

August 20, 2009



Shauna Cassidy, CFA
Vice-President

UNAUDITED FINANCIAL STATEMENTS

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

Statements of Net Assets
(unaudited)

	As at June 30, 2009	As at December 31, 2008
Assets		
Cash and short-term investments (cost: 2009 - \$10,214,460; 2008 - 2,100,000)	\$10,213,399	\$2,215,032
Common shares – at fair value (cost: 2009- \$nil; 2008 - \$44,791,796)	–	28,233,749
Hedge Fund Investments – at fair value (cost: 2009 - \$16,294,231; 2008 - \$nil)	16,351,253	–
	<u>26,564,652</u>	<u>30,448,781</u>
Liabilities		
Due to forward counterparty (note 6)	416,250	
Unrealized loss on forward contract (note 6)	–	1,539,916
Audit, legal and custody fees payable	43,948	62,409
Service fees payable (note 7)	13,053	21,334
Management and trustee fees payable (note 7)	9,100	12,227
Independent review committee fees payable	–	12,897
Distribution payable (note 9)	9,506,652	1,015,656
	<u>9,989,003</u>	<u>2,664,439</u>
Net assets	<u>\$16,575,649</u>	<u>\$27,784,342</u>
Net assets and unitholders' equity (note 5)		
Unit capital	52,013,815	\$54,712,580
Contributed surplus	4,616,411	3,065,689
Deficit	(40,054,577)	(29,993,927)
Total	<u>\$16,575,649</u>	<u>\$27,784,342</u>
Number of units outstanding (note 5)	<u>2,207,000</u>	<u>2,321,500</u>
Net assets per unit	<u>\$7.51</u>	<u>\$11.97</u>

Signed on behalf of the Trustee,
Northwater Fund Management Inc.

Per: 

Per: 

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

Statements of Operations
(unaudited)

	For the six-month period ended June 30	
	2009	2008
Investment income		
Interest	\$15,757	\$15,306
	<u>15,757</u>	<u>15,306</u>
Expenses		
Service fees (note 7)	34,456	78,380
Forward financing fees (note 7)	125,871	277,811
Management and trustee fees (note 7)	19,728	39,803
Audit fees	48,381	42,213
Independent review committee fees	–	10,810
Custodian fees	7,947	6,515
Legal fees	–	13,973
Security holder reporting costs	41,957	62,196
Loan interest and standby fees (note 8)	–	13,097
Transaction costs	–	7,886
	<u>278,340</u>	<u>552,684</u>
Net investment loss	<u>(262,583)</u>	<u>(537,378)</u>
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Common shares and short-term investments	(17,039,864)	14,394,970
Forward contract (note 6)	(416,250)	–
Change in unrealized appreciation (depreciation) on:		
Common shares	16,558,043	(22,142,038)
Hedge fund investments	57,022	–
Forward contract (note 6)	1,539,916	6,678,476
	<u>698,867</u>	<u>(1,068,592)</u>
Realized and unrealized gain (loss) on investments for the period	<u>698,867</u>	<u>(1,068,592)</u>
Increase (decrease) in net assets from operations for the period	<u>\$436,284</u>	<u>\$(1,605,970)</u>
Increase (decrease) in net assets from operations per unit for the period *	<u>\$0.19</u>	<u>\$(0.65)</u>

* Based on the average number of units outstanding of 2,247,571 (2008 – 2,486,943) for the period.

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

Statements of Changes in Net Assets
(unaudited)

	For the six-month period ended June 30	
	2009	2008
Net assets – beginning of the period	\$27,784,342	\$54,570,876
Increase (decrease) in net assets from operations for the period	436,284	(1,605,970)
Unit transactions (note 5)		
Units purchased for cancellation	(1,148,043)	(2,409,020)
	<u>27,072,583</u>	<u>50,555,886</u>
Distribution to unitholders (note 9)	<u>(10,496,934)</u>	<u>(2,164,138)</u>
Net assets – end of the period	<u>\$16,575,649</u>	<u>\$48,391,748</u>

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

Statements of Cash Flows
(unaudited)

	For the six-month period ended June 30	
	2009	2008
Cash flows from operating activities		
Increase (decrease) in net assets from operations	\$436,284	\$(1,605,970)
Items not affecting cash:		
Change in unrealized (appreciation) depreciation on common shares and short-term investments	(16,558,043)	22,142,038
Change in unrealized (appreciation) depreciation on forward	(1,539,916)	(6,678,476)
Change in unrealized (appreciation) depreciation on hedge fund investments	(57,022)	—
Realized (gain) loss on common shares and short-term investments	17,039,864	(14,394,970)
Realized (gain) loss on forward	416,250	—
Changes in non-cash working capital:		
Change in payables	(42,766)	(26,184)
Purchase of common shares	(21,412,671)	(30,309,734)
Purchase of hedge fund investments	(16,294,231)	—
Proceeds on sale of common shares	49,164,599	36,860,193
	<u>11,152,348</u>	<u>5,986,897</u>
Cash flows from financing activities		
Repurchase of trust units	(1,148,043)	(2,409,020)
Distribution paid to trust unitholders	(2,005,938)	(2,219,613)
	<u>(3,153,981)</u>	<u>(4,628,633)</u>
Net increase (decrease) in cash and short term investments	<u>7,998,367</u>	<u>1,358,264</u>
Cash and short-term investments at the beginning of the period	<u>2,215,032</u>	<u>1,571,991</u>
Cash and short-term investments at the end of the period	<u>\$10,213,399</u>	<u>\$2,930,255</u>
Supplementary information:		
Interest paid	\$0	\$13,097

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

Statements of Investment Portfolio
(unaudited)

	Credit Rating*	Maturity date	No. of shares /Face value	Cost	Fair value	Fair value as a % of Net Assets
Fund portfolio						
Northwater Five- Year Market Neutral Fund			1,465	\$16,294,231	16,351,253	98.65%
Cash				564,460	564,460	3.41%
Short-term Investments*						
Canada Treasury Bill		23-July 2009	9,650,000	9,650,000	9,648,939	58.21%
Total cash and short-term investments				10,214,460	10,213,399	61.62%
Total investment portfolio					26,564,652	160.27%
Other net assets (liabilities)					(9,989,003)	(60.27)%
Net assets and unitholders' equity					16,575,649	100.00%

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

NORTHWATER FIVE-YEAR MARKET-NEUTRAL TRUST

Notes to Financial Statements

(unaudited)

For the six month period ended June 30, 2009 and 2008

1. Establishment and Operations of the Trust

The Northwater Five-Year Market-Neutral Trust (the "Trust") is a closed-end investment trust established under the laws of the Province of Ontario pursuant to a declaration of trust made as of June 18, 2004. Northwater Fund Management Inc. acts as Trustee (the "Trustee") of the Trust. Northwater Fund Management Inc. (the "Manager") also acts as Manager of the Trust and RBC Dexia Investor Services Trust ("RBC Dexia") acts as Custodian for the Trust. The Trust began operations on June 30, 2004 when it completed its initial public offering. The Northwater Five-Year Market-Neutral Fund Limited (the "Fund") began operations on June 30, 2004. The Trust issued additional units on December 31, 2004 through a secondary offering.

The assets of the Trust, invested in cash, short-term investments and common shares (the "Common Share Portfolio") and a portfolio of market-neutral hedge funds (the "Hedge Fund Portfolio").

The Trust was scheduled to terminate on or about June 30, 2009 (the "Termination Date"). As the Trust obtains exposure to a portfolio of market-neutral hedge funds held by Fund through a forward agreement, the termination of the Trust will also result in the termination of the Fund.

The Fund had commenced the process of winding up its operations to work towards the Trust's scheduled Termination Date however, based on the current market conditions, the Investment Advisor has announced to unitholders in a series of press releases dating back several months that the Fund will continue to operate and work towards an orderly wind down its portfolio beyond the Termination Date.

2. Summary of Significant Accounting Policies

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

The following paragraphs outline the accounting policies of the Trust:

(a) Cash and Short-Term Investments

Cash consists of cash in interest bearing accounts. Short-term investments are valued at the bid price for such instruments on each Valuation Date. Interest income is accrued on a monthly basis.

(b) Investments

Investment transactions are accounted for on a trade date basis. Investments are valued on the last day of each month ("Valuation Date") at closing bid prices.

The common shares listed on a public securities exchange are valued at their bid price on each Valuation Date. Common shares not traded on that date are valued at the average of the closing bid and ask or the latest available sale price. Realized gains and losses are calculated using the average cost. Distribution income is recorded on ex-dividend date or ex-distribution date on a gross basis.

The fair value of the forward contract (the "Forward") is the gain or loss, if any, that would be realized if, on the Valuation Date, the Forward was "closed out". The difference between fair value and cost is shown as an unrealized gain or loss on Forward. The value of the Forward is based on the change in valuation of the Fund, which invests primarily in a diversified portfolio of market-neutral hedge funds, and on the change in value of the Common Share Portfolio less the costs of leverage. The investments in market-neutral hedge funds held by the Fund are valued at fair value on the basis of the definitive net asset values reported by the administrators or the portfolio managers of the funds on the Valuation Date or, if not available, the most recent provisional net asset values based on preliminary returns reported by the administrators or the portfolio managers of such funds. The Manager or Investment Advisor may in its sole discretion, use a different valuation methodology to price the underlying hedge funds, that in the opinion of the Manager or Investment Advisor, is more reflective of fair value.

(c) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the end of the period. Revenues and expenses denominated in foreign currencies are translated using the average exchange rate for the period.

(d) Use of Estimates

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

(e) Transaction Costs

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

3. Financial Instrument Risk

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

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

Market Price Risk

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

The Trust, during the six-month period ended June 30, 2009, primarily invested in a portfolio of Canadian publicly traded common shares and through a Forward with a counterparty agrees to sell the common shares at a price based on the return of the Hedge Fund Portfolio. As such the Trust has no exposure to the market price risk for the Common Share Portfolio held. Following the termination of the Forward, the Trust will no longer hold the Common Share Portfolio.

The Trust is exposed through the Forward to a portfolio of hedge funds. The process of fair valuing hedge fund investments for which no published market exists, is based upon the fair value of the underlying holdings of the hedge fund. These values may differ from values available had a ready market existed for such investments and may differ from the prices at which such investments may be sold.

The Investment Advisor of the Trust attempts to mitigate market price risk by investing in a diversified portfolio of hedge funds whose returns exhibit low correlation to the markets and each other. In addition, the Investment Advisor monitors the investments on a regular basis in order to ensure the decisions to invest in a particular hedge fund strategy continues to be suitable for the Trust's portfolio including performing ongoing qualitative and quantitative assessments and comprehensive investment and operational due diligence. Special attention is paid to organizational changes made by the hedge fund managers and to changes in policy relative to their investment objectives, valuation, hedging strategy, degree of diversification, leverage and costs.

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

Strategy	Potential change in strategy return* (%)	Impact on net assets of the Fund (USD\$)
Asset-backed securities arbitrage	5.12%	82,212
Distressed securities arbitrage	8.98%	226,947
Fixed-income arbitrage	28.39%	26,055
Mortgage-backed security arbitrage	12.54%	330,796
Multi-strategy	15.53%	539,320
Re-insurance arbitrage	4.78%	2,598
Statistical arbitrage	61.07%	35,151
Structured finance	26.66%	602,100

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

Currency Risk

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

As at June 30, 2009, the impact on net assets per 1% change in the Canadian dollar would have been \$162,996. With the maturity of the Forward the currency hedge was removed. The Trust subsequently became exposed to the fluctuation in the US dollar as the Fund is US dollar denominated.

Liquidity Risk

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

The Trust primarily invests in a Common Share Portfolio of publicly traded Canadian securities. As such the investments are considered highly liquid. In addition, the Trust is exposed to hedge fund investments through a forward agreement for which there is no active secondary market. As such the investments of the Fund are considered illiquid. The Fund is subject to redemption restrictions for each of the hedge funds forming part of its portfolio that are generally monthly, quarterly, semi-annually or annually. Notice periods for redemptions range from 30 days notice to 180 days notice. Redemptions may, in some cases, be subject to lock-up periods, gates, redemption suspensions and side pocket restrictions.

To assist the Trust in its ability to meet its financial obligations, a credit facility is available to provide liquidity within certain restrictions. In addition, the hedge fund portfolio is diversified and managed considering the Trust's Termination Date. The credit facility was terminated as of February 17, 2009.

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

The Investment Advisor has been managing the Trust's portfolio taking into account the Trust's Termination Date. As such, the Manager submitted redemption requests to all of the underlying hedge funds in December 31, 2008. No new investments were made in the six-month period ended June 30, 2009.

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

Effective Date of redemption	Amount (USD\$) to be received subsequent to June 30, 2009	% of total Hedge Fund Portfolio held
January 1, 2008	881,405	7%
April 1, 2008	390,141	3%
July 1, 2008	1,572,147	12%
October 1, 2008	362,606	3%
January 1, 2009	6,517,568	51%
June 1, 2009	1,493,833	12%
July 1, 2009	1,489,323	12%
	<u>12,707,023</u>	<u>100%</u>

The following table shows the estimated payout timeline of redemption proceeds from the underlying hedge funds held by the Fund:

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

	Amount (USD\$)	% of Hedge Fund Portfolio
Normal Course	585,263	5%
Restricted redemptions ^(1,2)	1,383,703	11%
	<u>1,968,966</u>	<u>16%</u>

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

	Amount (USD\$)	% of Hedge Fund Portfolio
Restricted redemptions ⁽¹⁾	6,561,270	52%
Liquidating	4,176,787	32%
	<u>10,738,057</u>	<u>84%</u>

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

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

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

The Fund has hedge fund redemption receivables outstanding of USD\$274,065 as at June 30, 2009. The Fund is exposed to liquidity risk as these amounts may not be realized (collected) for an extended period of time. As at June 30, 2009 the hedge fund redemptions receivable aging was as follows:

	< 60 days	61-90 days	91 -120 days	> 120 days	Total
Hedge Fund Redemptions Receivable	USD\$2,596	USD\$18,136	USD\$253,333	USD\$274,065	

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

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

Type	Amount (USD\$)
Audit Holdbacks	104,785
Liquidations	169,280
	274,065

Credit Risk

The Trust invests in debt obligations of both government and corporate issuers and was exposed to hedge fund investments through the Forward. These financial instruments involve the risk that the counterparty cannot or will not fulfill its obligations in respect of such financial instruments.

The Trust also assumes credit risk to its financial counterparties in connection with derivatives, loans and cash. In evaluating credit risk, the Manager will often be dependent upon information provided by the counterparty or a rating agency which may be materially inaccurate. As at June 30, 2009 the credit rating of the counterparty was as follows:

Counterparty to:	Credit Rating *
Cash	AA-
Credit facilities	AA-

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

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

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

In addition, credit risk on hedge fund investments is mitigated through an extensive due diligence process which focuses on monitoring each hedge fund investment in order to ensure the decision to invest in a particular hedge fund strategy continues to be suitable for the Trust's portfolio.

Interest Rate Risk

Interest rate risk is the risk that a change in interest rates will adversely affect the fair value of fixed income securities or cause fluctuations in future cash flows of a financial instrument. The financial instruments which potentially expose the Trust to interest rate risk are short-term fixed income securities, bank loan and exposure to interest rate swap at the Fund level. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security is to changes in interest rates. The effective duration of a security indicates the approximate change in fair value expected for a 1% change in interest rates. The longer the duration, the more sensitive the security is to changes in interest rates. The Trust has minimal sensitivity to change in rates from fixed-income securities since they are usually held to maturity and short-term in nature. The Trust's exposure to interest rate risk arises from the interest rate swap held by the Fund.

On June 30, 2009, the Forward matured and therefore the Trust no longer had direct exposure to interest rate through the Swap.

4. Interest Rate Swap held by Northwater Five-Year Market-Neutral Fund Limited

The Fund has swapped an exposure to a floating money market rate with a U.S. Bank (the “Counterparty”) in return for receiving a fixed rate of 4.45%. The interest rate swap matured on June 30, 2009; therefore, the Fund no longer has direct exposure to interest rates through the Swap.

The Counterparty to the swap had a credit rating of AA-. The credit worthiness of the Counterparty was reviewed prior to entering into the swap and was monitored on a regular basis.

The notional amount of the interest rate swaps was CAD\$nil (December 31, 2008: total CAD\$ 40,000,000 with a maturity date of June 30, 2009).

5. Unitholders’ Equity

The authorized capital of the Trust consists of an unlimited number of non-redeemable units and was derived from the public offering. The capital is managed in accordance with the Trust’s investment objectives and is not subject to any external capital requirements. The Trust is a closed end vehicle and as such redemptions are not permitted. Unitholders may trade their units on the exchange. Units are transferable and represent an equal, undivided interest in the net assets of the Trust. All units are of the same class with equal rights and privileges. Each unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Trust. Fractional units will not be issued.

Under the declaration of trust, the Trust is required to make purchases of units of up to 2.5% of the outstanding units per quarter if the price at which the units offered in the market is less than 95.0% of the net asset value per unit as at the close of business on the preceding Valuation Date. In addition, the Trust may purchase units whenever they are offered for sale at less than their net asset value. In August of 2008, the trust filed a notice of intention to make normal-course purchases of units with the Toronto Stock Exchange. In its filing with the Exchange, the Trust indicated an intention to purchase up to 237,847 of the units of the Trust, representing 10% of the public float of the Trust then outstanding during the period from September 11, 2008 to September 10, 2009. Under a normal course issuer bid and the Trust’s quarterly market support obligation, the Trust purchased 114,500 units for a cost of \$1,148,043 during six month period ended June 30, 2009 (six-month period ended June 30, 2008: 126,800 units were repurchased for a cost of \$4,378,822).

Unitholders’ equity is comprised of unit capital and deficit. The following table shows the transactions for unit capital and deficit during period ended June 30, 2009 and 2008:

Six-month period ended June 30, 2009	Units Outstanding	Unit Capital	Contributed Surplus	Deficit	Unitholders’ Equity
Balance –					
December 31, 2008	2,321,500	\$54,712,580	\$3,065,689	\$(29,993,927)	\$27,784,342
Increase (decrease) in net assets from operations for the period				436,284	436,284
Units cancelled during the period	(114,500)	(2,698,765)	1,550,722	–	(1,148,043)
Distributions	–	–	–	(10,496,934)	(10,496,934)
Balance –					
June 30, 2009	2,207,000	\$52,013,815	\$4,616,411	\$(40,054,577)	\$16,575,649

Six-month period ended June 30, 2008	Units Outstanding	Unit Capital	Contributed Surplus	Deficit	Unitholders’ Equity
Balance –					
December 31, 2007	2,568,800	\$60,540,890	\$1,616,201	\$(7,586,215)	\$54,570,876
Increase (decrease) in net assets from operations for the year	–	–	–	(1,605,970)	(1,605,970)
Units cancelled during the year	(126,800)	(2,988,395)	578,375	–	(2,409,020)
Distributions	–	–	–	(2,164,138)	(2,164,138)
Balance –					
June 30, 2008	2,442,000	\$57,552,495	\$2,195,576	\$(11,356,323)	\$48,391,748

6. Forward Agreement

The Trust had entered into a forward agreement (the “Forward”) with a U.S. Bank (the “Counterparty”) to obtain exposure to a diversified portfolio of market-neutral hedge funds and an interest rate swap. The target exposure to the Fund is equal to 150% of the net asset value of the Trust. The actual exposure as at June 30, 2009 was 99% (December 31, 2008 actual exposure was 146%) calculated as net assets of the Trust divided by the net assets of the Fund. This exposure is achieved through leverage employed through the Forward. The Trust has purchased and pledged to the Counterparty the Common Share Portfolio listed on the Statement of Investment Portfolio. The Trust has agreed to deliver the Common Share Portfolio to the Counterparty, on or about the Termination Date, in exchange for the redemption proceeds of the Fund less the

leverage provided by the Counterparty in order to provide the exposure to the Fund less the related costs of leverage. As a result, the value of the Forward is determined based on the change in the valuation of the Fund and the Common Share Portfolio. The Forward matured on June 30, 2009.

The notional amounts of the Forward as at June 30, 2009 are USD \$nil and CAD \$nil (December 31, 2008: USD \$5,841,765 and CAD\$35,545,959). During the six-month period ended June 30, 2009, the Counterparty redeemed 1,967 participating shares of the Fund for USD\$32,979,543 and paid CAD\$11,403,311 to the Trust as a result of a reduction in the notional amounts of the Forward and in return for partial settlement of the Common Share Portfolio.

The Trust, through its exposure to the interest rate swap in the Fund, had exposure to changes in mid-term interest rates. The interest rate swap had a maturity date of June 30, 2009.

The Forward was terminated in accordance with its terms effective as of June 30, 2009.

The following table presents information regarding the Hedge Fund Portfolio held by the Fund to which the Trust had exposure through the Forward. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

Strategy	As at June 30, 2009			As at December 31, 2008		
	No. of Hedge Funds	Fair Value (in USD\$)		No. of Hedge Funds	Fair Value (in USD\$)	
Activist investments	–	–	–	1	\$1,774,637	6%
Asset-backed security arbitrage	2	\$1,605,755	13%	3	4,625,196	17%
Distressed securities arbitrage	3	2,528,192	20%	3	3,363,483	12%
Fixed-income arbitrage	1	91,771	1%	3	2,222,721	8%
Mortgage-backed security arbitrage	3	2,638,024	21%	3	3,296,758	12%
Multi-strategy	6	3,472,636	27%	6	5,501,011	20%
Re-insurance arbitrage	1	54,303	–	2	1,236,228	4%
Statistical arbitrage	3	57,559	–	4	3,779,595	14%
Structured finance	3	2,258,783	18%	3	1,954,532	7%
	22	12,707,023	100%	28	\$27,754,161	100%

7. Management, Advisory and Other Fees

The Trust retained the Manager under a management agreement dated June 18, 2004. Northwater Capital Management Inc. (the "Investment Advisor"), a Company formed under the laws of Ontario, Canada, acts as the advisor for the Trust. The Investment Advisor is registered in Canada as an advisor in the categories investment counsel and portfolio manager and as a dealer in the category limited market dealer under the *Securities Act (Ontario)*, as amended, and as an advisor in the category commodity trading manager under the *Commodity Futures Act (Ontario)*, as amended. The Investment Advisor is registered as a securities advisor under the *Securities Act (Quebec)*, as amended. The Investment Advisor also has equivalent registrations in the Canadian provinces of New Brunswick, Prince Edward Island, Nova Scotia, Saskatchewan, Alberta and British Columbia under the securities legislation in these provinces. The Investment Advisor is also registered in the United States as an investment advisor under the *U.S. Investment Advisers Act of 1940*, as amended, and as a commodity trading advisor and commodity pool operator under the *U.S. Commodity Exchange Act*, as amended. The Investment Advisor is a member of the U.S. National Futures Association.

The Manager is responsible for the day-to-day administration, portfolio management and unitholder services of the Trust. In exchange for these services, the Manager is entitled to an annual fee of 0.15% of the net asset value of the Trust, calculated on the last Valuation Date of each month. The fee is paid monthly in arrears.

A service fee of 0.30% per annum of the net asset value of the Trust, is payable to the Manager calculated on the last Valuation Date of each quarter. The service fee will be applied by the Manager to pay a service fee to registered dealers for services they provide to unitholders. The fee is accrued monthly and calculated and paid quarterly in arrears.

Forward fees of approximately 0.55% per annum of the U.S. notional amount and 0.90% per annum of the Canadian notional amount are payable to the Counterparty of the Forward, may vary based on the value of the Common Share Portfolio, calculated and paid quarterly in arrears. The leverage costs have been included in the Statement of Operations as part of the value of the forward contract (see note 6).

Due to the maturity of the Forward, Forward fees are no longer charged past June 30, 2009.

8. Bank Loan Facility

The Trust had a revolving loan facility with a U.S. financial institution (the "Bank"). The facility entitled the Trust to borrow funds in Canadian dollars up to an amount not exceeding the lesser of \$6,000,000 or 10% of the net asset value of the Trust for the purposes of funding redemptions of units, purchases of units in the market and payment of expenses. Interest and stand-by fees were payable on a monthly basis. Interest rates were based on bank prime and/or Bankers' Acceptances for Canadian funds. A general security interest in the assets of the Trust was provided in favour of the Bank.

During the six-month period ended June 30, 2009, the bank loan balance was nil (year ended December 31, 2008: between nil and \$1,000,000).

The loan facility was terminated on February 17, 2009.

9. Distributions

The Trust pays quarterly distributions to unitholders of \$0.4375 per unit.

During the six-month period ended June 30, 2009, distributions of \$4.75 per unit and \$10,496,934 in aggregate were declared by the Trust (six-month period ended June 30, 2008: \$0.875 per unit and \$2,164,138 in aggregate).

10. Income Taxes

As at June 30, 2009, the Trust ceased to qualify as a "mutual fund trust" within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"). Investors are advised to speak with their advisors to receive tax advice regarding this loss of status.

As at December 31, 2008, the Trust had \$2,187,511 available in non-capital loss carryforwards (December 31, 2007: \$961,132) with expiry dates commencing in 2025 and no capital loss carryforwards (December 31, 2007: nil).

11. Indemnities

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

NORTHWATER FIVE-YEAR MARKET-MARKET NEUTRAL TRUST

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