

**NORTHWATER**

**Northwater Top 75 Income Trusts <sup>PLUS</sup>**  
**December 31, 2005**  
**Annual Report**





## BACKGROUND

Northwater Top 75 Income Trusts<sup>Plus</sup> (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 period from February 25, 2005 (commencement of operations) to December 31, 2005 are included in this report.

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## MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

The Northwater Top 75 Income Trusts<sup>Plus</sup> (the “Trust”) is a closed-end fund that invests in a diversified, equal-weighted portfolio of generally the 75 largest income trusts listed on the Toronto Stock Exchange. The Trust also targets a 100% leveraged exposure to Northwater’s fund of market-neutral hedge funds. Units of the Trust trade on the Toronto Stock Exchange under the symbol NTP.UN. As at December 31, 2005, the net asset value of the Trust per unit was \$9.77. The net asset value per unit increased by 14.17% from its post offering expense net asset value per unit of \$9.325 at inception on February 25, 2005. During the same time period, the Scotia Capital Universe Bond Index rose by 5.30%, the S&P/TSX Composite Index rose by 15.72% and the S&P 500 rose by 3.05% in US dollar terms, which translates to a loss of -3.40% in Canadian dollar terms as the US dollar weakened throughout the year. The trust made distributions of \$0.80 during the year.

The Trust’s exposure to the Income Trusts portfolio was the key driver to performance during the year. Over the period since the inception of the fund the S&P/TSX Capped Canadian Income Trust Index returned 21.36%. The return difference between the Trust and the broad income trust market is primarily due to the indexes higher weight in energy income trusts. The S&P/TSX Capped Energy Index returned 24.7% since inception of the Trust. The Trust was designed using equal weightings in an effort to reduce the volatility associated with traditional market cap weighted indices.

The Trust’s exposure to Northwater’s portfolio of market-neutral hedge funds generated moderate returns for 2005 despite individual strategies making significant contributions throughout the year. Mortgage-backed security arbitrage, structured finance, asset-backed securities arbitrage and distressed securities funds delivered consistently strong returns throughout the year. Manager skill combined with increased trading opportunities and a healthy credit market proved favorable to these strategies which represent over 40% of the portfolio.

Re-insurance was a negative contributor to the hedge fund portfolio during the year due to losses attributable to hurricanes Katrina, Rita and Wilma. Re-insurance pricing has become favorable in the wake of last year’s hurricane season, and as such we have maintained our allocation to this strategy. Energy relative value, convertible bond arbitrage, and statistical arbitrage also delivered negative returns in 2005.

We continued to reduce our allocation to traditional strategies such as convertible bond arbitrage, merger arbitrage, and fixed-income arbitrage in favor

of multi-strategy funds. Multi-strategy managers were strong contributors due to their depth and breadth of talent, and ability to move capital quickly and opportunistically.

Northwater remains committed to looking for new funds in non-traditional areas of the hedge fund universe and managers with proven track records and hedging skills in both the Activist and Energy Relative value space.

Northwater continues to focus on improving the hedge fund portfolio by refining its stable of managers and adding managers in market-neutral strategies that are expected to deliver strong risk-adjusted returns consistent with the investment objectives.



DANIEL C. R. MILLS, CFA  
Managing Director and  
Chief Investment Officer,  
Northwater Capital Management Inc.



DAVID J. FLETCHER, CFA  
Vice-President,  
Northwater Capital Management Inc.

February 28, 2006

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. A copy of the annual financial statements of the investment fund has been attached to this report for your reference.

Securityholders may also contact us using one of following methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure. You can contact us, and at no cost, by calling toll-free 1-888-429-8774, by writing to us at Northwater Fund Management Inc., Suite 4700, BCE Place, Bay Wellington Tower, 181 Bay street, P.O. Box 794, Toronto, Ontario, M5J 2T3 or by visiting our website at [www.northwatercapital.com](http://www.northwatercapital.com) or by visiting SEDAR at [www.sedar.com](http://www.sedar.com).

### Investment Objective and Strategies

The investment objectives of Northwater Top 75 Income Trusts<sup>Plus</sup> (the "Trust") are:

1. **Monthly Distributions:** to provide Unitholders with monthly cash distributions consisting of the distributions received by the Trust on the income trust portfolio, plus an additional distribution of 3.5% per annum on the original issue price of the Units to be derived from the returns of the market-neutral hedge fund portfolio; and
2. **Low Incremental Risk:** to achieve an enhanced return from the Trust's combined exposure to the income trust portfolio and the market-neutral hedge fund portfolio with little incremental risk above the level of risk for the income trust portfolio alone.

The Trust has invested an amount equal to the net proceeds of the offering in an equally-weighted portfolio of the largest 75 income trusts listed on the Toronto Stock Exchange ranked by market capitalization. The portfolio of income trusts will be rebalanced at least annually, commencing in February 2006, to adjust for changes in the market value of securities, to add any new income trusts that at the time of rebalancing qualify for inclusion and to remove any income trusts that are no longer eligible.

The Trust also has an additional exposure to a market-neutral hedge fund portfolio through a forward purchase and sale agreement (the "Forward") with a Canadian bank (the "Counterparty") that has a long term credit rating of AA-. The Forward provides the Trust with exposure to the performance of Enhancement Fund Limited (the "Fund"), an exempt company formed under the laws of The Cayman Islands and advised by Northwater Capital

Management Inc. (the “Investment Advisor”). In order to obtain this exposure, the Trust has invested a portion of the net proceeds of its offering in a portfolio of common shares of Canadian public companies (“Common Share Portfolio”), which has then been sold under the Forward to the Counterparty. Pursuant to the Forward, the Common Share Portfolio has been pledged to the Counterparty. The Trust’s valuation is not affected by the change in the market value of the Common Share Portfolio as gains or losses are offset by the Forward. The Trust’s return is based on its exposure, through the Forward, to the Fund and through its direct investment, to the value of the income trusts.

The Fund holds a diversified portfolio of market-neutral hedge funds (“Hedge Fund Portfolio”). The target exposure to the Hedge Fund Portfolio is equal to 100% of the net asset value of the Trust. The actual exposure as at December 31, 2005 was 94%. In establishing the Hedge Fund Portfolio “mix,” the Investment Advisor seeks out strategies that have a low correlation with one another, thereby increasing the benefits of diversification and reducing expected volatility. There can be no assurance that the Trust’s performance will exhibit strong risk-adjusted returns.

The Trust has a revolving loan facility with a Canadian financial institution (the “Bank”). The amount of the loan facility allocated to assist the Trust in implementing its investment strategy will not exceed 10% of the total assets of the Trust determined at the time of borrowing. Additional borrowings under the loan facility may be made for working capital purposes, provided that the aggregate outstanding borrowings will not exceed 15% of the total assets of the Trust immediately after any such borrowing. If, at any time, the amount outstanding under the loan facility exceeds 20% of the total assets of the Trust at such time, the Trustee will cause the Trust to sell income trusts and use the proceeds therefrom to reduce indebtedness so that the amount borrowed by the Trust does not exceed 20% of its total assets. In the event of a default by the Trust under the loan facility, the loan facility provides that the Bank’s recourse under the loan facility will be limited solely to the assets of the Trust.

The financial leverage employed by the Trust to make investments as at December 31, 2005 was 9.82%.

## Risks

The risks of investing in the Trust remain as discussed in the Trust’s prospectus. A copy of the prospectus of the Trust is available by visiting Sedar at [www.sedar.com](http://www.sedar.com). The below highlight the key risks of the Trust.

1. no assurance of achieving investment objectives and no guaranteed rate of return

2. general risk of income trust investments
3. fluctuation in net asset value and trading price of the Trust
4. composition of the income trust portfolio
5. leverage
6. interest rate changes and sensitivity of market price of units to interest rates
7. commodity price and currency fluctuations
8. the value of Business Trust and Power and Pipeline Trust Investments
9. the value of Real Estate Investments
10. the market-neutral hedge fund portfolio – underlying hedge fund securities
11. asset class rebalancing and illiquidity of market-neutral hedge fund portfolio
12. multi-class liability risk
13. overall investment risk
14. taxation of the Trust and unitholders
15. reliance on key personnel by Northwater Capital Management Inc., the Investment Advisor of the Trust
16. potential conflicts of interest with respect to the Investment Advisor
17. limited operating history and marketability of units
18. market repurchases
19. loan facility
20. securities lending
21. cross-border income trusts
22. status of the Trust
23. counterparty risk
24. currency hedging
25. competition
26. legal and statutory rights

## Results of Operations

During the period from February 25, 2005 to December 31, 2005, the Trust posted a return of 14.17% taking into account distributions made during the period. Distributions during the period totaled \$2,583,704 or \$0.80 per Unit.

During the period from February 25, 2005 to December 31, 2005, Enhancement Fund Limited (the "Fund"), to which the Trust has exposure through a forward purchase and sale agreement, placed investments with 37 new hedge funds as the Fund became fully invested while the Fund redeemed from 1 hedge fund in the Capital Structure Arbitrage strategy over this period.

The Trust had borrowings in the amount of \$3,049,244 as at December 31, 2005 through a revolving loan facility with a Canadian financial institution. The financial leverage as at December 31, 2005 was 9.82%. The Trust has employed the loan as leverage to enhance its investment returns.

## Related Party Transactions

Northwater Fund Management Inc., the Manager, is responsible for the day-to-day administration, portfolio management and unitholder services to the Trust. In return for these services, the Manager is entitled to an annual fee of 0.25% of the net assets of the Trust, calculated on the last Valuation Date of each month. The fee is paid monthly in arrears.

A service fee of 0.40% per annum of the net assets of the Trust, is payable to the Manager calculated on the last Valuation Date of each quarter. The service fee will be paid by the Manager to registered dealers for services they provide to unitholders. The fee is accrued monthly and calculated and paid quarterly in arrears.

During the period from February 25, 2005 to December 31, 2005, the management fee and service fee expense were \$70,259 and \$109,905 respectively, and the management fee and service fee payable by the Trust as at December 31, 2005 were \$20,052 and \$33,377 respectively.

Enhancement Fund Limited (the "Fund") also pays to the Investment Advisor an advisory fee of 1.00% per annum of the net assets of the Fund calculated and accrued monthly, and paid monthly in arrears. For the period from February 25, 2005 to December 31, 2005, the advisory fee charged was in the amount of U.S. \$190,292 and as at December 31, 2005, the advisory fee payable was U.S. \$62,672.

## Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help understand the Trust's financial performance for the period from February 25, 2005 to December 31, 2005. This information is derived from the Trust's audited annual financial statements.

### The Trust's Net Asset Value (NAV) per Unit

	<u>2005</u>
Net Asset Value, beginning of period . . . . .	\$ 9.325
<b>Increase (decrease) from operations:</b>	
Total revenue . . . . .	0.70
Total expenses . . . . .	(0.16)
Realized gains (losses) for the period . . . . .	0.06
Unrealized gains (losses) for the period . . . . .	0.63
<b>Total increase (decrease) from operations<sup>(1)</sup></b> . . . . .	<b>1.23</b>
<b>Distributions:</b>	
From income (excluding dividends) . . . . .	\$0.23814
From dividends . . . . .	0.02530
From capital gains . . . . .	0.09514
Return of capital . . . . .	0.44142
Total Annual Distributions <sup>(2)</sup> . . . . .	\$0.80000
Net Asset Value at December 31 of year shown . . . . .	\$ 9.77

- (1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) Distributions were paid in cash.
- (3) It is not intended that the Trust's Net Asset Value per Unit table act as a continuity of opening and closing net asset value per unit.

## Ratios and Supplemental Data

	<u>2005</u>
Net assets (000's) <sup>(1)</sup> . . . . .	\$ 31,038
Number of units outstanding <sup>(1)</sup> . . . . .	3,177,200
Management expense ratio <sup>(2)</sup> . . . . .	14.63%
Management expense ratio before waivers or absorptions . . . . .	14.63%
Portfolio turnover rate <sup>(3)</sup> . . . . .	15.23%
Trading expense ratio <sup>(4)</sup> . . . . .	0.33%
Closing market price or pricing NAV, December 31 . . . . .	\$ 8.55

- (1) This information is provided as at December 31 of the year 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 assets during the period. Please note that the management expense ratio includes not only the expenses of the Trust and Fund but also reflects expenses to which the underlying hedge funds were subject. The expense ratio of the underlying hedge funds held by Enhancement Fund Limited (the Fund) plus the expenses of the Fund included in the above ratios for the period ended December 31, 2005 added 5.85% 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, 2004. These statements represent the most recent audited information available. The expenses together with estimates for hedge funds with year-ends other than December 31, 2004 have been prorated based on the relative percentage of the hedge fund held by the Fund at December 31, 2005. 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 and manager performance. As a result, the expense ratios of the underlying funds for the prior year, may be significantly different than the actual expenses incurred by these underlying hedge funds for the current period.

Included in the management expense ratios for the period ended December 31, 2005 are agents' fees and issue costs that have increased the ratio by 5.25% and 1.50%, respectively. These costs are one-time expenses associated with the offering of the Trust to the public.

- (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 assets during the period.

## Management Fees

The Trust paid Northwater Fund Management Inc. a management fee and service fee of \$70,259 and \$109,905 respectively for the year ended December 31, 2005. The management fee is calculated as 0.25% per annum of the net asset value of the Trust, as of the close of business on each month-end valuation date. The service fee is calculated as 0.40% per annum of the net asset value of the Trust, as of the close of business on each quarter-end valuation date. The service fee was paid by Northwater Fund Management Inc. to registered dealers and brokers for units of the Trust held by investors.

## Past Performance

We cannot provide past performance information for the Trust as the Trust commenced operations on February 25, 2005 and has therefore not completed its first full year.

## Summary of Investment Portfolio<sup>(1)</sup>

The following table presents information regarding the income trust portfolio held by the Trust including the asset allocation by trust sector, the number of income trusts by trust sector and the largest individual income trust holding for

each trust sector as a percentage of the total net asset value of the Trust as at December 31, 2005.

Trust Sector	Asset allocation by trust sector As at December 31, 2005			Largest individual income trust holding for each individual trust sector As at December 31, 2005
	No. of Income Trusts	Fair Value	Percentage	Percentage of Net Assets of the Trust
Business trusts . . . . .	25	\$ 9,326,512	30%	1.59%
Energy trusts . . . . .	28	12,069,043	38%	1.63%
Power & pipeline trusts . . . . .	10	3,885,722	12%	1.44%
Real estate investment trusts . . .	14	6,141,088	20%	1.55%
	<u>77</u>	<u>\$31,422,365</u>	<u>100%</u>	

The following table lists the largest 25 income trusts by fair value held by the Trust as at December 31, 2005.

Top 25 Income Trust Investments	Type of Investment	Cost	Fair Value	Percentage of Net Assets
Penn West Energy Trust . . . . .	Trust units	\$415,891	\$505,267	1.63%
Pengrowth Energy Trust – Class B . . . . .	Trust units	417,189	500,565	1.61%
NAL Oil & Gas Trust . . . . .	Trust units	392,142	493,584	1.59%
Newalta Income Fund . . . . .	Trust units	400,615	493,142	1.59%
Enerplus Resources Fund . . . . .	Trust units	405,992	485,982	1.57%
Yellow Pages Income Fund . . . . .	Trust units	411,127	485,007	1.56%
Bonavista Energy Trust . . . . .	Trust units	390,653	483,870	1.56%
Baytex Energy Trust . . . . .	Trust units	400,770	483,210	1.56%
Keyera Facilities Income Fund . . . . .	Trust units	343,552	482,850	1.56%
Summit Real Estate Investment Trust . . .	Trust units	381,816	481,572	1.55%
Riocan Real Estate Investment Trust . . .	Trust units	397,489	480,869	1.55%
Focus Energy Trust . . . . .	Trust units	398,799	478,392	1.54%
Shiningbank Energy Income Fund . . . . .	Trust units	371,239	475,145	1.53%
Harvest Energy Trust . . . . .	Trust units	323,044	474,991	1.53%
Trinidad Energy Services Income Trust . . . . .	Trust units	315,336	471,436	1.52%
CCS Income Trust . . . . .	Trust units	282,691	469,900	1.51%
ARC Energy Trust . . . . .	Trust units	338,561	468,873	1.51%
Primaris Retail Real Estate Investment Trust . . . . .	Trust units	394,294	467,324	1.51%
PrimeWest Energy Trust . . . . .	Trust units	387,293	463,110	1.49%
Progress Energy Trust . . . . .	Trust units	379,413	460,156	1.48%
StarPoint Energy Trust . . . . .	Trust units	348,932	458,212	1.48%
Canadian Real Estate Investment Trust . .	Trust units	386,510	457,359	1.47%
Vermilion Energy Trust . . . . .	Trust units	346,972	455,022	1.47%
Acclaim Energy Trust . . . . .	Trust units	370,918	452,905	1.46%
Legacy Hotels Real Estate Investment Trust . . . . .	Trust units	398,903	452,800	1.46%

The following table presents information regarding the hedge funds to which the Trust has exposure through a forward purchase and sale agreement including the asset allocation by investment strategy, the number of hedge funds by investment strategy and the largest individual hedge fund holding for each investment strategy as a percentage of the total net asset value of the Trust as at December 31, 2005. The multi-strategy funds may invest in multiple investment strategies.

<b>Strategy</b>	<b>Asset allocation by hedge fund strategy As at December 31, 2005</b>			<b>Largest individual hedge fund holding for each individual strategy As at December 31, 2005</b>
	<b>No. of Hedge Funds</b>	<b>Fair Value (in U.S. dollars)</b>	<b>Percentage</b>	<b>Percentage of Net Assets of the Trust</b>
Activist . . . . .	1	\$ 622,116	3%	2.33%
Asset-backed securities arbitrage . . . . .	4	3,220,948	13%	4.15%
Capital structure arbitrage . . . . .	4	2,673,077	11%	5.25%
Convertible bond arbitrage . . . . .	2	1,192,848	5%	3.98%
Distressed securities . . . . .	3	1,935,034	8%	3.94%
Energy relative value . . . . .	2	841,169	4%	1.64%
Fixed-income arbitrage . . . . .	2	1,361,872	6%	3.10%
Merger arbitrage . . . . .	2	1,147,904	5%	2.36%
Mortgage-backed security arbitrage . . . . .	4	2,878,949	12%	3.79%
Multi-strategy . . . . .	5	3,938,428	16%	4.15%
Re-insurance . . . . .	2	1,267,545	5%	2.95%
Structured finance . . . . .	5	2,883,113	12%	2.69%
	<u>36</u>	<u>\$23,963,003</u>	<u>100%</u>	<u>40.34%</u>

The following table lists the largest 25 hedge funds by fair value to which the Trust has exposure through a forward purchase and sale agreement as at December 31, 2005. The Trust will disclose the names of those hedge funds to which it has exposure that represent more than 5% of the net assets of the Trust at period-end. 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 will be used consistently in reporting going forward.

<u>Top 25 Hedge Fund Investments</u>	<u>Type of Investment</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of Net Assets</u>
CQS Capital Structure Arbitrage				
Feeder Fund Limited *	Participating shares	\$1,626,940	\$1,627,695	5.24%
Fund 175 *	Participating shares	1,202,100	1,288,964	4.15%
Fund 169 *	Participating shares	1,176,377	1,288,163	4.15%
Fund 125 *	Participating shares	1,162,100	1,233,551	3.97%
Fund 171 *	Participating shares	1,162,100	1,228,789	3.96%
Fund 101 *	Participating shares	1,167,753	1,221,850	3.94%
Fund 150 *	Participating shares	1,162,100	1,177,221	3.79%
Fund 146 *	Participating shares	929,680	993,624	3.20%
Fund 160 *	Participating shares	929,680	966,243	3.11%
Fund 140 *	Participating shares	929,680	961,683	3.10%
Fund 158 *	Participating shares	1,120,120	917,148	2.95%
Fund 183 *	Participating shares	813,470	862,693	2.78%
Fund 116 *	Participating shares	813,470	835,359	2.69%
Fund 205 *	Participating shares	813,470	833,993	2.69%
Fund 200 *	Participating shares	697,260	734,939	2.37%
Fund 102 *	Participating shares	581,050	731,488	2.36%
Fund 211 *	Participating shares	697,260	722,961	2.33%
Fund 199 *	Participating shares	697,260	712,927	2.30%
Fund 191 *	Participating shares	581,050	620,949	2.00%
Fund 193 *	Participating shares	581,050	618,094	1.99%
Fund 186 *	Participating shares	581,050	614,097	1.98%
Fund 189 *	Participating shares	581,050	612,991	1.97%
Fund 181 *	Participating shares	581,050	602,491	1.94%
Fund 196 *	Participating shares	581,050	599,900	1.93%
Fund 184 *	Participating shares	581,050	596,207	1.92%

\* held by other investment funds managed by Northwater Fund Management Inc.

The Trust also holds 430,703 shares in Nortel Networks Corp. and 17,985 shares in Research in Motion Ltd. as at December 31, 2005. The market values of the Nortel Networks Corp. shares and Research in Motion Ltd. shares as a percentage of the net assets of the Trust are 4.93% and 4.45% as at December 31, 2005, respectively. The Trust does not have economic exposure to these holdings in Nortel Networks Corp. and Research in Motion Ltd. as these shares have been sold forward by the Trust for a price based on the return of a portfolio of hedge funds.

- (1) The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment fund. There are no non-arm's length relationships between the Trust or Northwater Fund Management Inc. and any of the hedge funds for which the Trust has exposure. On a quarterly basis, an updated listing of holdings will be available.

## SUPPLEMENTARY INFORMATION

Northwater Top 75 Income Trusts<sup>Plus</sup> (the “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 of 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 Management Process

The Trust’s investment objectives and strategy are supported by the implementation of an investment management process. The Trust is dependent on the knowledge and expertise of the Investment Advisor to implement the investment management process. The Investment Advisor’s ability to deliver results is dependent upon a team of investment professionals that research, analyze and monitor the investments of the Trust and the Hedge Fund Portfolio. The Investment Advisor conducts all of its investment research in-house and has developed all of its trading, risk management and valuation software systems internally.

The Investment Advisor has developed a proprietary selection process to enable it to advise the Fund with respect to the selection and monitoring of potential hedge fund investments to be made by the Hedge Fund Portfolio. The proprietary selection process is an integral part of the Investment Advisor’s strategy for generating value over time and consists of:

1. The development of a multi-faceted set of investment beliefs, which serve as a framework for identifying appropriate market-neutral strategies and the managers that employ those strategies. These investment beliefs have and continue to evolve with the Investment Advisor’s experience in market-neutral hedge fund investing and in managing complex derivative strategies.
2. The use of an established operational infrastructure necessary for managing complex market-neutral and derivative strategies. The Investment Advisor

has built a team of investment professionals and developed robust portfolio and risk management systems and tools essential to managing a sophisticated fund of market-neutral hedge funds.

3. A progressive global search for market-neutral strategies consistent with the Investment Advisor's investment beliefs and the Hedge Fund Portfolio's investment criteria of market-neutrality and strong risk-adjusted returns. The Investment Advisor's search focuses on managers who have demonstrated expertise in consistently implementing these strategies.
4. A comprehensive quantitative and qualitative assessment of hedge fund managers who employ market-neutral strategies that adhere to the Investment Advisor's investment beliefs and the objectives of the Hedge Fund Portfolio.
5. The use of specific quantitative procedures, including screens that attempt to identify consistency and adaptability, market-neutrality, and portfolio fit, which are integral to the Investment Advisor's investment process. Various portfolio construction techniques are used, including mathematical optimization, statistical process control and factor analysis.
6. An ongoing qualitative assessment of existing and prospective hedge fund managers, including hedge fund manager reviews involving on-site interviews, monthly portfolio reviews and various industry references. The goal of this process is to fully understand the hedge fund manager's investment strategy and risk management processes. The Investment Advisor also seeks to ascertain the strength of a hedge fund manager's competitive advantage, its investment team and its business plan.
7. The construction of a diversified model portfolio across 14 market-neutral strategies. This is a dynamic process.
8. A comprehensive due diligence process that typically must be completed before the Investment Advisor recommends an investment. This process includes on-site interviews conducted by investment professionals from the Investment Advisor, an all-inclusive strategy and operational due diligence report, a legal review of the offering documentation, an analysis of the hedge fund's financial statements, an assessment of the fees charged by the hedge fund's manager and an examination of any administrative or other costs associated with making the investment. Rigorous monitoring and due diligence continues once a hedge fund is added to the Hedge Fund Portfolio. This process includes regular discussions with the hedge fund manager, multiple on-site interviews each year, continual quantitative and qualitative assessments and monthly review of the hedge fund's role within the Investment Advisor's model portfolio.

The Investment Advisor manages and advises client accounts which hold hedge fund investments in addition to the Trust and the Hedge Fund Portfolio. Client accounts with similar investment objectives are generally managed in a similar manner. Hedge fund investment allocation decisions are subject to client guidelines and restrictions. Limited hedge fund investment opportunities will be allocated to client accounts in a manner that the Investment Advisor determines is equitable to clients in the circumstances.

The investment processes and systems used to select, execute and monitor the income trust investments held by the Trust have been developed and used by the Investment Advisor for over 16 years in managing hedge fund investments and index funds for its institutional clients. The Investment Advisor has investment processes and systems designed to:

1. select the largest 75 income trusts by market capitalization listed on the Toronto Stock Exchange;
2. execute the purchase of the income trusts and properly account for the trades;
3. monitor and record distributions declared by the Trust's income trust investments;
4. monitor and record corporate actions (stock splits, spin-offs, mergers, etc.) declared by the Trust's income trust investments; and
5. review on an annual basis the largest 75 income trusts on the Toronto Stock Exchange and to re-balance the portfolio through the execution and recording of trade transactions.

The Investment Advisor does not manage and advise any client accounts in addition to the Trust which hold income trust investments.

### Investment Portfolio and Activity

The Trust generally holds directly a broadly diversified portfolio of the largest 75 income trusts listed on the Toronto Stock Exchange ranked by market capitalization. A complete list of income trusts held by the Trust as at December 31, 2005 is set out in the Statement of Investment Portfolio. As at December 31, 2005, the Trust holds 77 income trusts due to corporate actions undertaken by two of its holdings. Pursuant to the Trust's policy of rebalancing on an annual basis, commencing in February 2006, the Trust will rebalance the income trust portfolio annually so that, at the time of each rebalancing, the income trusts in the portfolio are equally-weighted and generally reflective of the largest 75 income trusts.

The Trust has obtained exposure to a portfolio of market-neutral hedge funds (previously referred to as the Hedge Fund Portfolio) through the Forward. The Hedge Fund Portfolio emphasizes sectors of the capital markets that the Investment Advisor believes are relatively inefficient or present opportunities to generate uncorrelated returns. The Investment Advisor believes that such sectors offer arbitrage, relative value or absolute return opportunities and should reward insightful investment analysis.

The Hedge Fund Portfolio is invested in hedge funds that pursue non-traditional investment strategies and is, therefore, subject to the special risks of investing in these strategies. For this reason, the Investment Advisor seeks to diversify the Hedge Fund Portfolio across 14 broad investment strategies. The hedge funds that the Trust has exposure to have been established in offshore jurisdictions and prepare annual audited financial statements, in accordance with US or International generally accepted accounting principles (GAAP).

During the period from February 25 to December 31, 2005, as the Hedge Fund Portfolio was invested, investments were placed with 37 hedge funds as the Fund became fully invested while the Fund redeemed from 1 hedge fund over this period.

As at December 31, 2005, the Hedge Fund Portfolio included investments in 36 hedge funds with 32 managers engaged in 14 market-neutral or hedged investment strategies. The Investment Advisor believes that this wide array of hedge fund investments has created broad diversification through which the Fund seeks to achieve its risk/return objectives and market neutrality.

### Asset Allocation by Trust Sector and Hedge Fund Investment Strategy

The following table presents information regarding the income trust portfolio held by the Trust.

#### Income Trust Portfolio Exposure

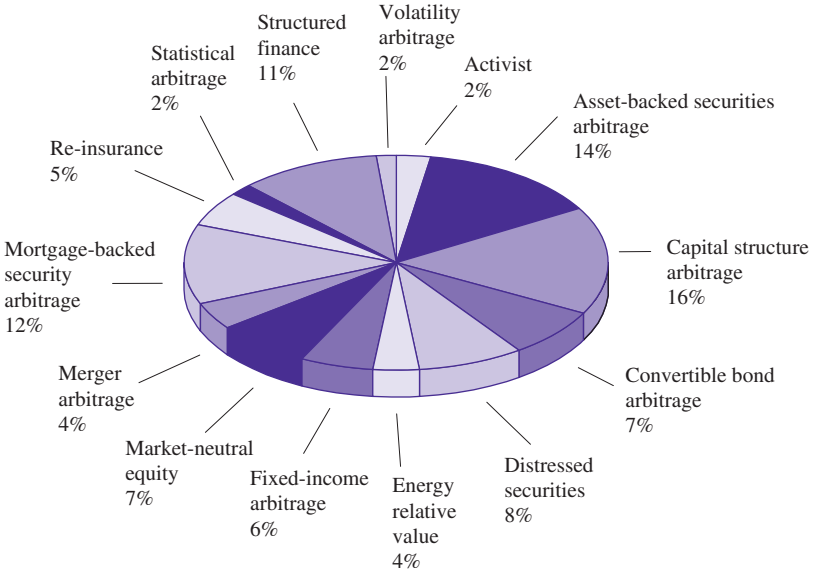
<u>Trust Sector</u>	<u>As at December 31, 2005</u>		
	<u>No. of Income Trusts</u>	<u>Fair Value</u>	
Business trusts .....	25	\$ 9,326,512	30%
Energy trusts .....	28	12,069,043	38%
Power & pipeline trusts .....	10	3,885,722	12%
Real estate investment trusts .....	14	6,141,088	20%
	<u>77</u>	<u>\$31,422,365</u>	<u>100%</u>

The following table presents information regarding the Hedge Fund Portfolio held by the Fund to which the Trust has exposure through the Forward.

**Hedge Fund Portfolio Exposure**

<b>Strategy</b>	<b>As at December 31, 2005</b>		
	<b>No. of Hedge Funds</b>	<b>Fair Value (in U.S. dollars)</b>	
Activist . . . . .	1	\$ 622,116	3%
Asset-backed securities arbitrage . . . . .	4	3,220,948	13%
Capital structure arbitrage . . . . .	4	2,673,077	11%
Convertible bond arbitrage . . . . .	2	1,192,848	5%
Distressed securities . . . . .	3	1,935,034	8%
Energy relative value . . . . .	2	841,169	4%
Fixed-income arbitrage . . . . .	2	1,361,872	6%
Merger arbitrage . . . . .	2	1,147,904	5%
Mortgage-backed security arbitrage . . . . .	4	2,878,949	12%
Multi-strategy . . . . .	5	3,938,428	16%
Re-insurance . . . . .	2	1,267,545	5%
Structured finance . . . . .	5	2,883,113	12%
	<u>36</u>	<u>\$23,963,003</u>	<u>100%</u>

The chart below illustrates the hedge fund holdings by strategy of the Fund as at December 31, 2005. The Fund's multi-strategy hedge funds have been allocated to the various hedge fund strategies to reflect their exposure to their constituent strategies. Strategy weights are dynamic and may change from period to period.



The following table presents the largest individual income trust holding for each trust sector of the Trust as a percentage of the total net asset value of the Trust as at December 31, 2005.

<u>Strategy</u>	<u>As at December 31, 2005</u>
Business trusts .....	1.59%
Energy trusts .....	1.61%
Power & pipeline trusts .....	1.44%
Real estate investment trusts .....	1.55%

The following table presents the largest individual hedge fund holding for each investment strategy of the Fund as a percentage of the total net asset value of the Fund as at December 31, 2005.

<u>Strategy</u>	<u>As at December 31, 2005</u>
Activist .....	2.47%
Asset-backed securities arbitrage .....	4.40%
Capital structure arbitrage .....	5.56%
Convertible bond arbitrage .....	4.21%
Distressed securities .....	4.17%
Energy relative value .....	1.74%
Fixed-income arbitrage .....	3.28%
Merger arbitrage .....	2.50%
Mortgage-backed security arbitrage .....	4.02%
Multi-strategy .....	4.40%
Re-insurance .....	3.13%
Structured finance .....	2.85%

**Risk Characteristics**

The following tables present information for the three-month period and for the period from February 25, 2005 to December 31, 2005 regarding elements of the risk profile of both the Trust and the Trust's exposure to the Hedge Fund Portfolio held by the Fund, which the Manager believes to be relevant.

<u>Trust Statistics</u>	<u>For the period from inception to December 31, 2005</u>
# of positive monthly returns .....	8
# of negative monthly returns .....	3
% of negative months .....	27.3%
Average size of negative months .....	-5.04%
Worst monthly return .....	-9.94%

<u>Single Hedge Fund Statistics of the Fund</u>	<u>For the three-month period ended December 31, 2005</u>	<u>For the period from February 25, 2005 to December 31, 2005</u>
# of hedge funds with positive returns <sup>(1)</sup> .....	31	30
# of hedge funds with negative returns <sup>(1)</sup> .....	5	6
Average annual hedge fund standard deviation <sup>(2)</sup> .....	3.68%	3.68%
Average correlation between hedge funds <sup>(3)</sup> .....	0.14	0.14

- (1) Measured for hedge funds in the Hedge Fund Portfolio of the Fund as at December 31, 2005.
- (2) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio of the Fund as at December 31, 2005, excludes hedge funds with less than 24 months of historical return.
- (3) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio of the Fund as at December 31, 2005, excludes hedge funds with less than 24 months of historical returns.

## Review of Financial Results

### Performance

During the period from February 25 to December 31, 2005, the Trust posted a return of 14.17%, taking into account the distributions made during the period.

During the period from February 25 to December 31, 2005, three of four of the Trust's income trust sectors posted positive returns, not considering distributions received from the income trusts, with the energy sector posting the strongest results. The S&P/TSX Capped Income Trust Index posted a return inclusive of reinvested distributions of 21.36% during this period. During the period from February 25 to December 31, 2005, overall hedge fund returns were moderate. Specifically, the Fund's merger arbitrage and asset-backed securities arbitrage strategies managers posted the strongest results while the re-insurance and energy relative value managers produced the weakest results.

The Trust was required to make purchases of 72,800 units under its repurchase and cancellation program as these units of the Trust for the period from February 25 to December 31, 2005 were offered for sale at less than 95.0% of the net asset value. As a result, over the period from February 25 to December 31, 2005, this program contributed 0.17% to the overall return of the Trust.

The following table presents the total realized and unrealized gains and losses by income trust sector for the period from February 25 to December 31, 2005.

<u>Trust Sector</u>	<u>For the period from February 25, 2005 to December 31, 2005</u>
Business trusts .....	\$ 57,033
Energy trusts .....	\$2,157,559
Power & pipeline trusts .....	\$ (176,253)
Real estate investment trusts .....	\$ 590,379

The following table presents the return by investment strategy of the Hedge Fund Portfolio held by the Fund for the period from February 25 to December 31, 2005.

<u>Strategy</u>	<u>For the period from February 25, 2005 to December 31, 2005</u>
Activist .....	3.69%
Asset-backed securities arbitrage .....	7.91%
Capital structure arbitrage .....	0.72%
Convertible bond arbitrage .....	-3.17%
Distressed securities .....	2.65%
Energy relative value .....	-6.19%
Fixed-income arbitrage .....	4.76%
Merger arbitrage .....	14.79%
Mortgage-backed security arbitrage .....	4.57%
Multi-strategy .....	5.92%
Re-insurance .....	-13.45%
Structured finance .....	4.15%

### Net Asset Value and Price Per Unit

The value of both the income trust portfolio and the Hedge Fund Portfolio is affected by factors beyond the control of the Investment Advisor, the Manager or the Trust.

Income trust investments that are listed on a public securities exchange are valued at their closing sale price. The process of valuing income trust investments for which no published market price exists is based upon the average of the closing bid and ask or the latest available sale price.

The process of valuing hedge fund investments for which no published market price exists is based upon the definitive or provisional value of the hedge funds supplied by the administrators or managers of such underlying hedge funds. These values are net of the management fees and expenses to which the underlying hedge funds are subject.

The Trust's net asset value per unit is calculated and reported monthly. During the period from February 25, 2005 to December 31, 2005, the net asset value of the Trust fluctuated between \$8.68 per unit and \$9.90 per unit after taking into account distributions.

The market price for units of the Trust is determined by the actions of buyers and sellers in the market. The daily closing price of the units fluctuated between \$8.68 and \$9.90 during the period from February 25, 2005 to December 31, 2005.

## Distributions

During the period from February 25, 2005 to December 31, 2005, distributions totaling \$0.80 per unit and \$2,583,704 in aggregate were declared. This represents an 8.0% return on the initial subscription price of \$10.00 per unit consistent with the targeted annual yield for the Trust of 9.5%.

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 recent change in the foreign property rule for pension funds and other tax deferred retirement plans will have no impact on the character of taxable distributions made by the Trust.

The character of the monthly distributions for tax purposes has been determined at the end of the year in accordance with the trust agreement 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.

### 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, 2005	April 15, 2005	Return of capital	\$0.04414
		Other income	\$0.02382
		Dividends	\$0.00253
		Realized gain	\$0.00951
			\$0.08000
April 30, 2005	May 15, 2005	Return of capital	\$0.04414
		Other income	\$0.02382
		Dividends	\$0.00253
		Realized gain	\$0.00951
			\$0.08000
May 31, 2005	June 15, 2005	Return of capital	\$0.04414
		Other income	\$0.02382
		Dividends	\$0.00253
		Realized gain	\$0.00951
			\$0.08000
June 30, 2005	July 15, 2005	Return of capital	\$0.04414
		Other income	\$0.02382
		Dividends	\$0.00253
		Realized gain	\$0.00951
			\$0.08000

<u>Record date</u>	<u>Date distribution paid</u>	<u>Character of distribution for tax purposes</u>	<u>Amount per unit</u>
July 31, 2005	August 15, 2005	Return of capital Other income Dividends Realized gain	\$0.04414 \$0.02382 \$0.00253 <u>\$0.00951</u> \$0.08000
August 31, 2005	September 15, 2005	Return of capital Other income Dividends Realized gain	\$0.04414 \$0.02382 \$0.00253 <u>\$0.00951</u> \$0.08000
September 30, 2005	October 15, 2005	Return of capital Other income Dividends Realized gain	\$0.04414 \$0.02382 \$0.00253 <u>\$0.00951</u> \$0.08000
October 31, 2005	November 15, 2005	Return of capital Other income Dividends Realized gain	\$0.04414 \$0.02382 \$0.00253 <u>\$0.00951</u> \$0.08000
November 30, 2005	December 15, 2005	Return of capital Other income Dividends Realized gain	\$0.04414 \$0.02382 \$0.00253 <u>\$0.00951</u> \$0.08000
December 31, 2005	January 13, 2006	Return of capital Other income Dividends Realized gain	\$0.04414 \$0.02382 \$0.00253 <u>\$0.00951</u> \$0.08000

## Fees

Management fees of 0.25% per annum of the net asset value of the Trust are calculated and paid monthly in arrears by the Trust to the Manager.

The Trust pays to the Manager a service fee of 0.40% per annum of the net assets of the Trust, accrued monthly, and calculated on the last Valuation Date of each quarter. The service fee is 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. The fee is accrued monthly and calculated and paid quarterly in arrears.

The Trust pays to the Counterparty of the Forward a financing fee of approximately 0.60% per annum of the book value of the Fund plus a fee that may vary based on the market value of the Common Share Portfolio, calculated and paid monthly in arrears.

The Fund also pays to the Investment Advisor an advisory fee of 1.00% per annum of the net assets of the Fund calculated and accrued monthly, and paid monthly in arrears.

### Purchases for Cancellation

Under its declaration of trust, the Trust is required to make purchases of units of up to 1.25% 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.

On July 5, 2005, the Trust filed a notice of intention to make normal-course purchases of its units with the Toronto Stock Exchange (the “Exchange”). In its filing with the Exchange, the Trust indicated an intention to purchase up to 325,000 of the units of the Trust during the period from July 7, 2005 to July 6, 2006, representing 10% of the public float of the Trust then outstanding. 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 period from February 25, 2005 to December 31, 2005, the Trust purchased 72,800 units for cancellation under these programs.

Units may also be redeemed by the unitholders annually each year on June 30 commencing in 2006 provided that notice of such redemption is provided to the Manager at least 45 days prior to June 30 of such year. Units will be redeemed only on June 30 of each year (the “Redemption Date”), subject to the Trust’s right to suspend redemptions in certain circumstances. Unitholders whose units are redeemed will be entitled to receive a redemption price per unit equal to the net asset value per unit on the Redemption Date and payable on or before the 30th business day following the relevant Redemption Date (the “Redemption Payment Date”). Any unpaid distribution payable to unitholders of record on or before the Redemption Date in respect of units tendered for redemption will also be paid on the Redemption Payment Date. Notwithstanding the foregoing, the Trust shall not be required to redeem on any Redemption Date units exceeding 15% of the number of outstanding units as of such Redemption Date. If units submitted for redemption on any Redemption Date exceed 15% of the number of outstanding units as of such Redemption Date and the Trust does not elect to redeem all units submitted for redemption, the units shall be redeemed on a pro rata basis.

## REPORT TO UNITHOLDERS FROM THE ADVISORY BOARD

The advisory board (the “Advisory Board”) to the Trust is pleased to report on its activities for the period ended December 31, 2005.

The Advisory Board’s role is to provide independent advice to the Manager in connection with its responsibilities as trustee and manager of the Trust. This role is expressed in the Advisory Board’s Mandate:

- To monitor, consider and provide impartial judgment on all potential and perceived conflicts of interest referred to the Advisory Board by the Manager;
- To monitor, consider and provide impartial judgment with respect to any related party transactions referred to the Advisory Board by the Manager;
- To receive and review periodic reports provided to the Advisory Board by the Manager about: (i) the operation and performance of the Trust generally, (ii) compliance with the Investment Guidelines of the Trust, and (iii) compliance with the material contracts of the Trust; and
- If appropriate, to review and advise upon any other matter required by the declaration of trust dated February 15, 2005 (the “Declaration of Trust”) and by applicable securities laws, regulations and rules.

The members of the Advisory Board are Jeffrey D. Francoz and Ann Marshall. All of the members of the Advisory Board are non-related and independent of management.

During the period ended December 31, 2005, the members of the Advisory Board held three meetings. Mr. Francoz and Ms. Marshall attended all of the meetings held by the Advisory Board.

Issues discussed during the period ended December 31, 2005 included the initial offering of the Trust on February 15, 2005, a review of the mandate of the Advisory Board, a review of the reporting requirements related to the introduction of National Instrument 81-106, review of periodic reports on the performance and the composition of the investment portfolio of the Trust, compliance with Investment Guidelines, and the presentation of certain information in the quarterly and annual reports.

The Advisory Board reports that management of the Manager has been open and cooperative, permitting the members to review such documents and speak to such members of management of the Manager as deemed necessary by the Advisory Board in order to properly execute their responsibilities as set out in the Advisory Board Mandate.

The Advisory Board discharges its duties by reviewing periodic reports prepared by the Manager, reviewing and responding to any potential and perceived conflicts of interest referred to the Advisory Board by the Manager and holding periodic meetings to discuss the Manager’s activities as trustee and manager of the Trust.

The purpose and function of the Advisory Board continues to evolve over time in response to changing market conditions, regulations and legislation.

A handwritten signature in blue ink, appearing to read "Jeffrey D. Francoz". The signature is stylized with large loops and a prominent initial "J".

Jeffrey D. Francoz

A handwritten signature in blue ink, appearing to read "Ann Marshall". The signature is written in a cursive style with a large initial "A".

Ann Marshall

## MANAGEMENT'S RESPONSIBILITY

The accompanying financial statements have been prepared by Northwater Fund Management Inc., the Manager of the Trust ("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.

PricewaterhouseCoopers LLP are the external auditors of the Trust. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out on page 29.

Handwritten signatures in blue ink. The first signature reads "Benita Warmbold" and the second reads "Eve N. Jedrzejska".

BENITA M. WARBOLD, CA  
Managing Director and  
Chief Financial Officer,  
Northwater Fund Management Inc.

EVE N. JEDRZEJSKA, CA, CFA  
Vice-President,  
Northwater Fund Management Inc.

March 10, 2006

## AUDITORS' REPORT TO THE UNITHOLDERS OF NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

We have audited the statements of net assets and investment portfolio of Northwater Top 75 Income Trusts<sup>PLUS</sup> (the Trust) as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the period from February 25, 2005 (commencement of operations) to December 31, 2005. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and the results of its operations, the changes in its net assets and its cash flows for the period from February 25, 2005 (commencement of operations) to December 31, 2005 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Toronto, Ontario  
March 31, 2006

NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

## Statement of Net Assets

	<b>As at December 31, 2005</b>
<b>Assets</b>	
Cash .....	\$ 127,163
Income trusts – at fair value (note 3) (cost: \$29,017,144) .....	31,422,365
Common shares – at fair value (note 3) (cost: \$3,030,487) .....	2,909,344
Distribution receivable .....	232,904
	<u>34,691,776</u>
<b>Liabilities</b>	
Audit, legal and custody fees payable .....	36,387
Service fees payable (note 6) .....	33,377
Unrealized loss on forward contract (note 5) .....	258,885
Management fees payable (note 6) .....	20,052
Distribution payable (note 8) .....	254,176
Loan payable (note 7) .....	3,049,244
Settlement payable on currency futures (note 9) .....	1,116
	<u>3,653,237</u>
<b>Net assets</b> .....	<u>\$31,038,539</u>
<b>Net assets and unitholders' equity (note 4)</b>	
Unit capital .....	\$29,627,390
Retained earnings .....	<u>1,411,149</u>
Total .....	<u>\$31,038,539</u>
<b>Number of units outstanding (note 4)</b> .....	<u>3,177,200</u>
<b>Net asset value per unit</b> .....	<u>\$ 9.77</u>

Signed on behalf of the Trustee,

Northwater Fund Management Inc.

Per: Per: 

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

NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

## Statement of Operations

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Investment income</b>	
Distributions .....	\$2,268,637
Interest .....	2,371
	<u>2,271,008</u>
<b>Expenses</b>	
Service fee (note 6) .....	109,905
Forward fee (note 6) .....	147,124
Management fee (note 6) .....	70,259
Audit fee .....	29,425
Advisory board fee .....	6,649
Custodian fee .....	4,016
Legal fee .....	13,002
Security holder reporting costs .....	38,125
Interest .....	77,345
Administrative fees .....	8,456
Other fees .....	8,432
	<u>512,738</u>
<b>Net investment income</b> .....	<u>1,758,270</u>
<b>Realized and unrealized gain (loss) on investments</b>	
Net realized gain (loss) on:	
Income trusts .....	223,497
Currency futures .....	(29,495)
Change in unrealized appreciation (depreciation) on:	
Common shares .....	(121,143)
Income trusts .....	2,405,221
Forward contract .....	(258,885)
Currency futures .....	(1,116)
	<u>2,218,079</u>
<b>Realized and unrealized gain (loss) on investments for the period</b> .....	<u>2,218,079</u>
<b>Increase in net assets from operations for the period</b> .....	<u>\$3,976,349</u>
<b>Increase in net assets from operations per unit for the period*</b> .....	<u>\$ 1.23</u>

\* Based on the average number of units of 3,229,620 outstanding for the period.

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

NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

## Statement of Changes in Net Assets

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Net assets – beginning of the period</b> .....	\$ —
<b>Increase in net assets from operations for the period</b> .....	<u>3,976,349</u>
<b>Unit transactions (note 4)</b>	
Units issued, net of agents' fees .....	30,793,750
Offering costs deducted .....	(487,500)
Net asset value of units repurchased and canceled .....	<u>(660,356)</u>
	<u>29,645,894</u>
 <b>Distribution to unitholders (note 8)</b>	
Return of capital .....	1,425,609
From net realized gains .....	307,279
From other income .....	769,100
Dividends .....	<u>81,716</u>
	<u>(2,583,704)</u>
 <b>Net assets – end of the period</b> .....	<u><u>\$31,038,539</u></u>

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

NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

## Statement of Cash Flows

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Cash flows from operating activities</b>	
Increase in net assets from operations .....	\$ 3,976,349
Items not affecting cash:	
Change in unrealized depreciation on common shares .....	121,143
Change in unrealized depreciation on forward contract .....	258,885
Change in unrealized depreciation (appreciation) on income trusts .....	(2,405,221)
Change in unrealized depreciation on currency futures .....	1,116
Realized gain on income trusts .....	(223,497)
Changes in non-cash working capital:	
Change in payables .....	89,816
Change in receivables .....	(232,904)
Purchases of common shares .....	(3,030,487)
Purchases of income trusts .....	(33,871,327)
Proceeds on sale of income trusts .....	5,077,680
	<u>(30,238,447)</u>
<b>Cash flows from financing activities</b>	
Issuance of units .....	30,793,750
Repurchase of units .....	(660,356)
Advance on loan .....	3,049,244
Distributions paid .....	(2,329,528)
Payment of offering costs .....	(487,500)
	<u>30,365,610</u>
Net increase in cash and short-term investments .....	<u>127,163</u>
Cash and short-term investments at the beginning of the period .....	<u>—</u>
<b>Cash and short-term investments at the end of the period .....</b>	<b><u>\$ 127,163</u></b>
Supplementary information:	
Interest paid .....	\$ 73,117

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

NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

Statement of Investment Portfolio  
As at December 31, 2005

	No. of Shares / Units	Cost	Fair/ Market Value	Percentage of Investment Portfolio
<b>Common share portfolio</b>				
Nortel Networks Corp <sup>(1)</sup> .....	430,703	\$ 1,515,205	1,528,996	
Research In Motion Ltd <sup>(1)</sup> .....	17,985	1,515,282	1,380,348	
		3,030,487	2,909,344	8.51 %
<b>Income trust portfolio</b>				
Acclaim Energy Trust .....	23,900	370,918	452,905	
Advantage Energy Income Fund .....	20,000	420,246	448,600	
Algonquin Power Income Fund .....	40,500	419,926	423,225	
AltaGas Income Trust .....	15,900	396,231	444,405	
AltaGas Utility Group Inc. ....	1,139	8,770	10,650	
ARC Energy Trust .....	17,700	338,561	468,873	
Baytex Energy Trust .....	27,300	400,770	483,210	
Bell Nordiq Income Fund .....	23,500	390,807	418,300	
BFI Canada Income Fund .....	13,600	359,177	382,024	
Boardwalk Real Estate Investment Trust ...	21,300	411,204	451,347	
Bonavista Energy Trust .....	12,700	390,653	483,870	
Boralex Power Income Fund .....	34,100	375,013	341,682	
Brick Group Income Fund .....	28,600	410,780	266,266	
Calloway Real Estate Investment Trust ....	18,700	361,647	443,938	
Calpine Power Income Fund .....	36,200	420,654	290,686	
Canadian Apartment Properties Real Estate Investment Trust .....	27,129	409,383	438,133	
Canadian Oil Sands Trust .....	3,400	278,134	428,400	
Canadian Real Estate Investment Trust ....	20,300	386,510	457,359	
CCS Income Trust .....	12,700	282,691	469,900	
Chartwell Seniors Housing Real Estate Investment Trust .....	27,600	404,405	441,600	
CML Healthcare Income Fund .....	30,900	422,063	444,960	
Cominar Real Estate Investment Trust ....	20,900	387,813	402,743	
Connors Bros. Income Fund .....	20,900	403,609	224,466	
Consumers' Waterheater Income Fund (The) .....	26,000	410,010	406,900	
Crescent Point Energy Trust .....	20,800	413,671	430,144	
Davis + Henderson Income Fund .....	18,100	403,346	419,739	
Energy Savings Income Fund .....	23,000	390,561	436,770	
Enerplus Resources Fund .....	8,700	405,992	485,982	
Enterra Energy Trust .....	14,200	348,587	272,072	
EPCOR Power LP .....	11,400	403,967	401,850	
Focus Energy Trust .....	18,600	398,799	478,392	
Fording Canadian Coal Trust .....	9,300	341,297	374,046	
Fort Chicago Energy Partners L.P. ....	33,800	405,565	405,262	

	No. of Shares / Units	Cost	Fair/ Market Value	Percentage of Investment Portfolio
Freehold Royalty Trust . . . . .	23,000	416,076	432,630	
Gateway Casinos Income Fund . . . . .	17,700	390,967	282,492	
Gaz Metro Limited Partnership . . . . .	18,100	410,082	354,217	
Great Lakes Hydro Income Fund . . . . .	19,700	394,156	357,555	
H&R Real Estate Investment Trust . . . . .	20,700	401,987	430,560	
Harvest Energy Trust . . . . .	12,772	323,044	474,991	
InnVest Real Estate Investment Trust . . . . .	33,600	413,919	421,344	
Inter Pipeline Fund . . . . .	42,700	400,062	429,135	
Keyera Facilities Income Fund . . . . .	22,200	343,552	482,850	
Labrador Iron Ore Royalty Income Fund . . . . .	14,700	398,524	393,372	
Legacy Hotels Real Estate Investment Trust . . . . .	56,600	398,903	452,800	
Morguard Real Estate Investment Trust . . . . .	38,100	398,826	419,100	
NAL Oil & Gas Trust . . . . .	27,300	392,142	493,584	
Newalta Income Fund . . . . .	16,900	400,615	493,142	
Noranda Income Fund . . . . .	31,500	410,124	376,425	
North West Company Fund . . . . .	12,200	385,665	439,200	
Northland Power Income Fund . . . . .	29,500	422,813	439,845	
Osprey Media Income Fund . . . . .	45,700	390,017	287,910	
Paramount Energy Trust . . . . .	19,300	336,862	427,881	
Pembina Pipeline Income Fund . . . . .	28,100	396,489	448,195	
Pengrowth Energy Trust – Class B Trust Unit . . . . .	22,100	417,189	500,565	
Penn West Energy Trust . . . . .	13,300	415,891	505,267	
Petrofund Energy Trust . . . . .	19,500	355,562	399,555	
Peyto Energy Trust . . . . .	14,800	393,594	375,772	
Primaris Retail Real Estate Investment Trust . . . . .	28,600	394,294	467,324	
PrimeWest Energy Trust . . . . .	12,900	387,293	463,110	
Progress Energy Trust . . . . .	26,800	379,413	460,156	
Provident Energy Trust . . . . .	29,800	369,123	373,990	
Retirement Residences Real Estate Investment Trust . . . . .	40,274	410,006	352,398	
Riocan Real Estate Investment Trust . . . . .	21,100	397,489	480,869	
RockyView Energy Inc . . . . .	5,316	28,269	31,896	
Shiningbank Energy Income Fund . . . . .	16,300	371,239	475,145	
StarPoint Energy Trust . . . . .	20,097	348,932	458,212	
Summit Real Estate Investment Trust . . . . .	19,600	381,816	481,572	
Superior Plus Income Fund . . . . .	12,500	393,208	293,750	
TimberWest Forest Corp. . . . .	25,300	403,111	389,620	
TransAlta Power L.P. . . . .	40,400	415,136	395,920	
TransForce Income Fund . . . . .	23,952	408,485	408,621	
Trinidad Energy Services Income Trust . . . . .	29,800	315,336	471,436	
UE Waterheater Income Fund . . . . .	28,100	378,412	387,780	
Vermilion Energy Trust . . . . .	15,300	346,972	455,022	
Viking Energy Royalty Trust . . . . .	46,100	336,175	424,120	

	<b>No. of Shares / Units</b>	<b>Cost</b>	<b>Fair/ Market Value</b>	<b>Percentage of Investment Portfolio</b>
Westshore Terminals Income Fund . . . . .	26,700	362,485	319,332	
Yellow Pages Income Fund . . . . .	29,755	411,127	485,007	
		<u>29,017,144</u>	<u>31,422,365</u>	<u>91.88 %</u>
Settlement payable on currency futures contracts (note 9 and schedule 1) . . . . .		—	(1,116)	(0.01)%
Unrealized loss on forward contract (note 5) . . . . .		—	(258,885)	(0.75)%
<b>Total investments</b> . . . . .		<u>32,047,631</u>	<u>34,071,708</u>	<u>99.63 %</u>
<b>Cash</b> . . . . .		<u>127,163</u>	<u>127,163</u>	<u>0.37 %</u>
<b>Total investment portfolio</b> . . . . .		<u>\$32,174,794</u>	<u>34,198,871</u>	<u>100.00 %</u>
<b>Net liabilities</b> . . . . .			<u>(3,160,332)</u>	
<b>Net assets and unitholders' equity</b> . . . . .			<u>\$31,038,539</u>	

(1) Securities pledged as part of the forward agreement to the counterparty (note 5).

### Schedule 1 – Currency futures contracts:

	<b>Closing price</b>	<b>Notional contract value</b>	<b>Settlement payable on futures contracts</b>
6 March 2006			
Canadian Dollar Futures Contracts . . . . .	<u>US \$86.20</u>	<u>US \$517,200</u> <u>CDN \$601,038</u>	<u>CDN \$1,116</u>

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

## NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

Notes to Financial Statements

For the period from February 25, 2005 to December 31, 2005

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### 1. Establishment and Operations of the Trust

The Northwater Top 75 Income Trusts<sup>Plus</sup> (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 February 15, 2005. Northwater Fund Management Inc. acts as Trustee. The Royal Trust Company (“Royal Trust”) acts as Custodian. The Trust began operations on February 25, 2005. The Trust’s units are listed on the Toronto Stock Exchange under the symbol NTP.UN. The Trust will terminate on or about December 31, 2011 (the “Termination Date”), and the net assets will be distributed pro rata to the unitholders unless an alternative later termination date is approved by a two-thirds majority vote of the unitholders at a meeting called for this purpose.

The assets of the Trust, invested in cash, short-term investments, currency futures contracts, income trusts and common shares (“Common Share Portfolio”) are combined with a forward contract to provide unitholders with returns of a diversified portfolio of income trusts plus the return of a diversified portfolio of market-neutral hedge funds.

### 2. Summary of Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and are denominated in Canadian dollars. No comparative amounts have been provided as the Trust commenced operations on February 25, 2005.

#### (a) Investments

Investment transactions are accounted for on a trade date basis. Investments are valued on the last day of each month (“Valuation Date”).

Cash and short-term investments consist of cash in interest bearing accounts at Royal Trust and short-term investments with maturity of less than 90 days when purchased. Short-term investments are valued at the bid price for such instruments on each Valuation Date. Interest income is accrued on a monthly basis.

The income trusts and common shares listed on a public securities exchange are valued at their closing sale price on each Valuation Date.

Income trusts and 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 an ex-dividend date or ex-distribution date on a gross basis.

The value of the forward contract is the gain or loss, if any, that would be realized if, on the Valuation Date, the forward contract was “closed out”. The difference between fair value and cost is shown as an unrealized gain or loss on investments. The value of the forward contract is based on the change in valuation of Enhancement Fund Limited, which invests 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 Enhancement Fund Limited are valued on the basis of the definitive net asset values reported by the administrators or the portfolio managers of such funds on the Valuation Date or, if not available, the most recent provisional net asset values based on preliminary returns reported by the administrators or the portfolio managers of such funds.

#### (b) Currency Hedging

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

Upon entering into a futures contract, the Trust is required to deposit an “initial margin” with a broker based on a certain amount per contract. Subsequent payments representing variation margin are made or received each day depending on the daily fluctuation in the value of the contract. These daily changes are recorded as gains or losses in the Statement of Operations. The settlement due on futures contracts represents the daily variation margin owing or due to the Trust on the Valuation Date.

Futures contracts are valued at their settlement price, as published by the appropriate clearing house of the exchange, on each Valuation Date. In the absence of reported bid and offer quotations, the Manager may, from time to time, determine a value that more accurately reflects the fair value based on the current market value of the underlying interest. The notional values of the futures contracts are not recorded as assets in the Statement of Net Assets.

(c) Use of Estimates

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

3. Investment in Income Trusts and Common Shares

The following table summarizes investment transactions in income trusts during the period:

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Income trusts at cost – beginning of the period</b> . . . . .	\$ —
Cost of income trusts purchased . . . . .	33,871,327
Cost of income trusts sold . . . . .	<u>(4,854,183)</u>
<b>Income trusts at cost – end of the period</b> . . . . .	29,017,144
Unrealized appreciation on income trusts . . . . .	<u>2,405,221</u>
<b>Market value of income trusts – end of the period</b> . . . . .	<u>\$31,422,365</u>
Proceeds of income trusts . . . . .	\$ 5,077,680
Cost of income trusts sold . . . . .	<u>(4,854,183)</u>
<b>Net realized gain on income trusts</b> . . . . .	<u>\$ 223,497</u>

The following table summarizes investment transactions in common shares during the period:

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Common shares at cost – beginning of the period</b> . . . . .	\$ —
Cost of common shares purchased . . . . .	3,030,487
Cost of common shares sold . . . . .	<u>—</u>
<b>Common shares at cost – end of the period</b> . . . . .	3,030,487
Unrealized depreciation on common shares . . . . .	<u>(121,143)</u>
<b>Market value of common shares – end of the period</b> . . . . .	<u>\$2,909,344</u>
Proceeds of common shares sold . . . . .	\$ —
Cost of common shares sold . . . . .	<u>—</u>
<b>Net realized gain on common shares</b> . . . . .	<u>\$ —</u>

#### 4. Units Issued and Outstanding

The authorized capital of the Trust consists of an unlimited number of non-redeemable units. 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.

The Trust, through its initial public offering in February 2005, realized gross proceeds of \$32,500,000 based on the issuance of 3,250,000 units. Agents' fees of \$1,706,250 and issue costs of \$487,500 were incurred in connection with the offering.

Under the declaration of trust, the Trust is required to make purchases of units of up to 1.25% 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. During the period from February 25, 2005 to December 31, 2005, the Trust purchased for cancellation 72,800 units under the Trust's quarterly market support obligation.

The following unit transactions took place during the period:

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Balance of units outstanding – beginning of the period</b> .....	—
Units issued during the period .....	3,250,000
Units cancelled during the period .....	<u>(72,800)</u>
<b>Balance of units outstanding – end of the period</b> ....	<u>3,177,200</u>

Unitholders' equity is comprised of unit capital and retained earnings. The following transactions for unit capital and retained earnings/(deficit) took place during the period the period:

	<b>For the period from February 25, 2005 to December 31, 2005</b>
<b>Unit capital – beginning of the period</b> .....	\$ —
Gross proceeds from offering (net of agents' fees) .....	30,793,750
Stated value of units repurchased .....	(678,860)
Offering costs .....	<u>(487,500)</u>
<b>Unit capital – end of the period</b> .....	<u>\$29,627,390</u>

**For the period from  
February 25, 2005  
to December 31, 2005**

<b>Retained earnings – beginning of the period</b> .....	\$ —
Increase in net assets from operations for the period .....	3,976,349
Stated value in excess of cost of units repurchased .....	18,504
Distribution to unitholders .....	<u>(2,583,704)</u>
<b>Retained earnings – end of the period</b> .....	<u>\$ 1,411,149</u>

**5. Forward Contract**

The Trust entered into a forward agreement (“Forward”) with a Canadian Bank on March 31, 2005 (the ‘Counterparty’) to obtain exposure to a diversified portfolio of market-neutral hedge funds (the ‘Hedge Fund Portfolio’) held in Enhancement Fund Limited (the ‘Fund’), a Cayman Islands exempt company. The U.S. dollar exposure to the Hedge Fund Portfolio is largely hedged through the Forward. The target exposure to the Hedge Fund Portfolio is equal to 100% of the net asset value of the Trust. The actual exposure as at December 31, 2005 was 94%. The Trust has 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 and related costs of leverage. As a result, the value of the Forward is determined based on the change in valuation of the Fund and the Common Share Portfolio less the costs of leverage. The Trust’s net asset value is not affected by the changes in the market value of the Common Share Portfolio as any decrease (increase) in the value of the Common Share Portfolio will be offset by a corresponding increase (decrease) in the value of the Forward.

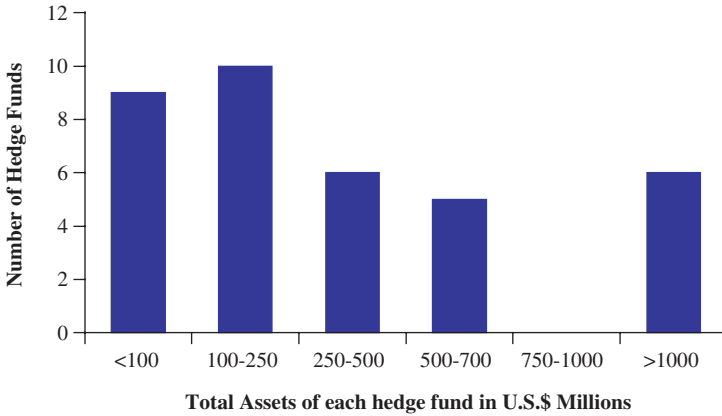
The notional amounts of the Forward as at December 31, 2005 are in the amount of U.S. \$24,900,000 and Canadian \$3,030,500. Hence the difference in these amounts reflect the leverage provided by the Counterparty.

As at December 31, 2005, the Trust had exposure, through the Forward, to hedge funds in the following strategies held by the Fund.

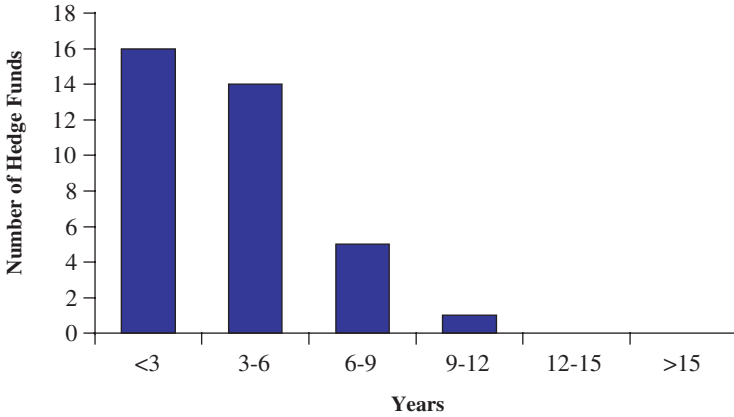
<u>Strategy</u>	<u>Percentage exposure</u>
Activist .....	2.50%
Asset-backed securities arbitrage .....	12.94%
Capital structure arbitrage .....	10.74%
Convertible bond arbitrage .....	4.79%
Distressed securities .....	7.77%
Energy relative value .....	3.38%
Fixed-income arbitrage .....	5.47%
Merger arbitrage .....	4.61%
Mortgage-backed security arbitrage .....	11.57%
Multi-strategy .....	15.82%
Re-insurance .....	5.09%
Structured finance .....	11.59%

As at December 31, 2005, the Fund's portfolio consisted of 96.27% hedge fund investments and 3.73% of cash and short-term investment holdings.

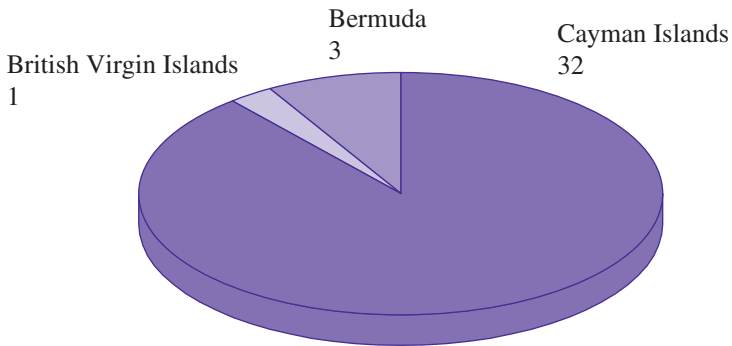
The following table shows the hedge funds held by the Fund as at December 31, 2005 categorized by the December 31, 2005 size of each hedge fund.



The following table shows the hedge funds of the Fund as at December 31, 2005 categorized by the years since inception of each hedge fund.



The following chart illustrates the hedge fund holdings of the Fund by jurisdiction of organization as at December 31, 2005.



The creditworthiness of the Counterparty was reviewed prior to the transaction and is monitored on a regular basis pursuant to the credit standards established by the Manager. As at December 31, 2005 the credit rating of the counterparty was AA-. The Trust is exposed to monies to be received from the Counterparty at the maturity of the Forward. The Forward agreement provides for the Trust’s ability to terminate the Forward if the credit rating of the Counterparty goes below a certain threshold.

## 6. Management, Advisory and Other Fees

The Trust retained Northwater Fund Management Inc. (the “Manager”) under a management agreement dated February 15, 2005. 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 “NFA”).

The Manager is responsible for the day-to-day administration, portfolio management and unitholder services of the Trust. In return for these services, the Manager is entitled to an annual fee of 0.25% of the net assets of the Trust, calculated on the last Valuation Date of each month. The fee is paid monthly in arrears.

A service fee of 0.40% per annum of the net assets 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.

A forward fee of approximately 0.60% per annum of the market value of Enhancement Fund Limited, is payable to the Counterparty of the Forward, plus the leverage costs that may vary based on the market value of the Common Share Portfolio, calculated and paid monthly in arrears. The leverage costs have been included in the Statement of Operations as part of the value of the forward contract (see note 5).

The Fund pays to the Investment Advisor an advisory fee of 1.00% per annum of the net assets of the Fund calculated and accrued monthly, and

paid monthly in arrears. For the period from February 25, 2005 to December 31, 2005, the advisory fee charged totaled U.S.\$190,292.

## 7. Bank Loan

The Trust has a revolving loan facility with a Canadian financial institution (the “Bank”). The amount of the loan facility allocated to assist the Trust in implementing its investment strategy will not exceed 10% of the total assets of the Trust determined at the time of borrowing. Additional borrowings under the loan facility may be made for working capital purposes, provided that the aggregate outstanding borrowings would not exceed 15% of the total assets of the Trust immediately after any such borrowing. If, at any time, the amount outstanding under the loan facility exceeds 20% of the total assets of the Trust at such time, the Trustee will cause the Trust to sell income trusts and use the proceeds therefrom to reduce indebtedness so that the amount borrowed by the Trust does not exceed 20% of its total assets. In the event of a default by the Trust under the loan facility, the loan facility will provide that the Bank’s recourse under the loan facility will be limited solely to the assets of the Trust.

During the period from February 25, 2005 to December 31, 2005, the bank loan balance varied between \$2,800,000 and \$3,050,000.

## 8. Distributions

The Trust pays monthly distributions to unitholders targeted to return an annual yield of 9.5% of the original price of the Units. To achieve this targeted distribution, the monthly distribution to unitholders is comprised of distributions received by the Trust on the income trust portfolio plus an additional distribution of 3.5% per annum on the original price of the Units to be derived from the returns of Enhancement Fund Limited.

During the period from February 25, 2005 to December 31, 2005, distributions totaling \$0.80 per unit and \$2,583,704 in aggregate were declared by the Trust.

## 9. Futures Contracts

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

During the period from February 25, 2005 to December 31, 2005, total commissions and other transaction costs paid or payable to dealers by the Trust was in the amount of \$84,580.

## 10. Income Taxes

As at December 31, 2005, the Trust qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada) (the “Tax Act”). In determining its income for tax purposes, the Trust intends to treat gains or losses on the disposition of securities in the Common Share Portfolio under the Forward as capital gains and losses. As all of the net taxable income of the Trust, including net realized gains from its investment, will be paid or payable to unitholders in each calendar year, no income tax will be payable by the Trust under the present provisions of the Tax Act. Such income is taxable in the hands of the unitholder. Occasionally, more income may be distributed than is earned by the Trust for tax purposes. This excess distribution is called a “return of capital” and is not taxable to the unitholder but reduces the adjusted cost base of the unit for tax purposes. Net taxable income may differ from net income for accounting purposes.

As at December 31, 2005, the Trust has no non-capital loss carryforwards and no capital loss carryforwards.

## 11. Indemnities

The Trust enters into various agreements that contain indemnity provisions, whereupon payment by the Trust may become due upon the occurrence of certain events including the following indemnities:

- 1) in priority to all and any rights of the Manager or of the unitholders, an indemnity to the trustee and each of its directors, officers, employees and agents, other than the Manager, in respect of any liability and all costs, charges and expenses sustained or incurred in respect of any action, suit or proceeding that is proposed or commenced and all other expenses, costs or charges, sustained or incurred in respect of the administration or termination of the Trust including any taxes, penalties and interest in respect of unpaid taxes and all other liabilities and charges of any nature whatsoever;
- 2) an indemnity to the transfer agent against any and all actions and suits against any and all losses, damages, costs, charges, counsel fees, payments, expenses and liabilities arising directly or indirectly out of its agency relationship to the Trust;

- 3) an indemnity to the Counterparty against any costs, claims, expenses, liabilities, demands, damages, losses, actions or proceedings of any kind arising as a result of the Counterparty holding the Common Share Portfolio;
- 4) an indemnity to the custodian, its affiliates, subsidiaries and agents, and their directors, officers and employees against all legal fees, judgments and amounts paid in settlement, actually and reasonably incurred arising in connection with custodial or sub-custodial services provided except to the extent incurred as a result of breach of the standard of care;
- 5) an indemnity to the trustee, a manager, an affiliate of the trustee or manager or a unitholder, against all liabilities and expenses reasonably incurred in connection with any action, suit or proceeding to which any such person may be made a party by reason of being or having been an indemnified party;
- 6) an indemnity to the Trust's auditors with respect to any fraudulent acts or omissions by the Trust, or misrepresentations made or willful defaults caused by the Trust resulting in claims against the Trust's auditors and in connection with third party claims made against the Trust's auditors relating to the services provided to the Trust by its auditors except as such claims may have resulted from the intentional neglect, misconduct or fraudulent behaviour of the Trust's auditors; and
- 7) an indemnity to the Bank and its officers, directors, employees and agents against any reasonable costs, charges and expenses incurred or any claim or losses suffered arising out of (i) the preparation, execution and delivery of preservation of rights, refinancing, renegotiation or restructuring of the loan documents and any related amendment, waiver or consent (ii) any advice of counsel as to the rights and duties of the Bank with respect to the administration of the credit facility (iii) a default of the Trust under any loan document and (iv) any proceedings brought against the Bank due to its entering into any of the loan documents and performing its obligations.

There have been no payments made under these indemnities. The Trust estimates the current liability at zero. The indemnities entered into by the Trust can extend for an unlimited period of time. We are unable to estimate the maximum potential liability for these indemnities, as the agreements do not specify a maximum amount and the amounts that may be required to be paid are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

## NORTHWATER CAPITAL MANAGEMENT INC.

Northwater, 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 generate consistent returns in both normal and extreme markets, Northwater delivers a reliable 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. Northwater's proven structuring technology then combines these two components in a portable alpha framework that achieves an investor's return/risk objectives in an efficient, cost-effective manner.

With over a ten year track record in fund of hedge funds, Northwater has steadily grown assets under management to approximately CDN \$10.9 billion total, including CDN \$4.5 billion invested in hedge funds as at December 31, 2005. Northwater has focused on developing, delivering and continuously improving its market-neutral fund of hedge fund portfolios since launching its first such portfolio in 1994.

Northwater advises institutional clients in Canada, the United States, the United Kingdom and the rest of Europe. The firm has offices in Toronto and New York.

Northwater Market-Neutral Trust which was launched in 1997 and is also advised by Northwater was the first publicly-listed investment vehicle of its kind in Canada to invest in a diversified portfolio of market-neutral hedge funds. Northwater also advises Northwater Five-Year Market-Neutral Trust and Northwater Top 75 Income Trusts<sup>Plus</sup>, two additional publicly-listed vehicles.

## NORTHWATER TOP 75 INCOME TRUSTS<sup>PLUS</sup>

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

## INVESTMENT MANAGER

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

## INVESTMENT ADVISOR OF ENHANCEMENT FUND LIMITED

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Suite 4700, BCE Place  
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E-mail: [mpt@northwatercapital.com](mailto:mpt@northwatercapital.com)

## LEGAL ADVISORS

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