NORTHWATER

Northwater Top 75 Income Trusts PLUS
December 31, 2006
Annual Report

BACKGROUND

Northwater Top 75 Income Trusts[Plus] (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 year ended December 31, 2006 are included in this report.

CONTENTS

MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

The Northwater Top 75 Income Trusts^{Plus} (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 a fund of market-neutral hedge funds advised by Northwater Capital Management Inc. ("Northwater"). Units of the Trust trade on the Toronto Stock Exchange under the symbol NTP.UN. As at December 31, 2006, the net asset value of the Trust per unit was $8.85. For the year ended December 31, 2006, the return of the Trust was 0.20%. During the same time period, the S&P/TSX Capped Income Trust Index fell by 2.84%, the Scotia Capital Universe Bond Index increased by 4.06%, the S&P/TSX Composite Index rose by 17.26% and the S&P 500 in US dollar terms, rose by 15.79% which translates to a gain of 16.08% in Canadian dollar terms as the US dollar strengthened during the period. The Trust made distributions of $0.96 per unit during the period.

Concerns regarding central bank tightening were high in the first half of 2006 in response to inflation expectations and strong economic growth. These concerns culminated in a sharp sell off in most asset classes in May and June, with acute selling occurring in emerging markets and Japan. Concomitantly, as asset prices fell, volatility increased substantially. In the second half of the year as inflation expectations and growth moderated, central banks adopted a neutral stance. As market participants gained more clarity on central bank near term actions, uncertainty was removed from the market. This caused volatility to fall sharply while asset prices rallied into the final quarter of the year.

The Trust's exposure to the Income Trusts portfolio had a negative impact on the performance of the Trust during 2006 as the broad income trust market decreased by 2.84% driven largely by the introduction of more restrictive tax treatment of income trusts.

The portfolio of market-neutral hedge funds managed by Northwater, to which the Trust has exposure, performed well for the year. Higher realized volatility in asset prices enlarged the opportunity set for many hedge fund strategies in the first half of the year, while declines in risk premia increased opportunities in the second half of the year. Nearly all of the strategies in the portfolio were strong contributors to the success of the portfolio in 2006. An increased allocation to statistical arbitrage and distressed securities managers in early 2006 benefited the portfolio as the strategies were strong contributors of performance. The convertible bond arbitrage strategy was removed from the portfolio after a period of disappointing performance. The Trust continues to be exposed to this strategy through its investments in multi-strategy hedge funds. Northwater will continue to monitor this strategy to determine if there is a profitable approach that would fit within the portfolio. The strongest performing strategy for the portfolio in 2006 was activist investing, a strategy that was added to the portfolio in late 2005.

Credit spreads tightened in many asset-backed securities while market fundamentals have deteriorated, particularly for mortgage credit. The portfolio has dealt with this situation by reducing the strategy weight after five years of excellent results. The portfolio is being tactically positioned to take advantage of trading oriented strategies such as statistical arbitrage and fixed income arbitrage which reflect our outlook for volatility for the future.

Northwater continues to actively manage the composition of the Trust's hedge fund portfolio. During the year ending December 31, 2006, eleven funds were removed for both declining strategy returns and ineffective implementation, while seven new funds were added to strategies widely represented across the portfolio. Northwater remains focused on improving the 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.

DAVID S. FINCH, CFA
Vice President,
Northwater Capital Management Inc.

DANIEL S. LAWEE, CFA
Vice-President,
Northwater Capital Management Inc.

March 16, 2007

MANAGEMENT REPORT OF FUND PERFORMANCE

This Management Report of Fund Performance contains financial highlights but does not contain the complete financial statements of Northwater Top 75 Income Trusts^Plus (the "Trust"). A copy of the financial statements of the Trust for the year ended December 31, 2006 is attached to this report for your reference.

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

Northwater Top 75 Income Trusts ^Plus (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 to 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 indicated.

Investment Objectives and Strategies

Investment Objectives

The investment objectives of 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.

Investment Strategies

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 is rebalanced at least annually, 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 for inclusion in the Trust's portfolio.

The Trust also has exposure to a portfolio of market-neutral hedge funds through a forward purchase and sale agreement (the "Forward") it has entered into 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 the Fund. 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 Enhancement Fund Limited (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, 2006 was 112%. 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.

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 Fund. 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 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 17 years in managing index funds and hedge fund investments 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 declared by the Trust's income trust investments; and
5. identify, on an annual basis, the largest 75 income trusts on the Toronto Stock Exchange by market capitalization and 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 that hold income trust investments.

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 evolved 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 that hold hedge fund investments in addition to 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 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 from there 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, 2006 was 11.40% (December 31, 2005: 9.82%).

Risks

The following tables present information for the year ended December 31, 2006 and for the period from inception, 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.

Trust Statistics	**For the period from inception to December 31, 2006**	**For the period from inception to December 31, 2005**
# of positive monthly returns	14	8
# of negative monthly returns	9	3
% of negative months	39.1%	27.3%
Average size of negative months	-3.47%	-5.04%
Lowest monthly return	-9.86%	-9.86%

Single Hedge Fund Statistics of the Fund	For the year ended December 31, 2006	For the period from February 25, 2005 to December 31, 2005
# of hedge funds with positive returns(1)	32	30
# of hedge funds with negative returns(1)	0	6
Average annual hedge fund standard deviation(2)	3.60%	3.68%
Average correlation between hedge funds(2)	0.11	0.14

(1) Measured for hedge funds in the Hedge Fund Portfolio as at December 31, 2006 and December 31, 2005 respectively.

(2) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio as at December 31, 2006 and December 31, 2005 respectively, excludes hedge funds with less than 24 months of historical return.

No changes materially affecting the overall risk of investing in the Fund were made in the year ended December 31, 2006. 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 the SEDAR website at www.sedar.com.

Results of Operations

For the year ended December 31, 2006, the Trust posted a return of 0.20% taking into account distributions made during the period. Distributions during the period totaled $2,729,924 or $0.96 per Unit.

During the year ended to December 31, 2006, three of four of the Trust's income trust sectors posted negative returns, not considering distributions received from the income trusts, with the energy trusts sector posting the weakest results. The S&P Capped Income Trust index posted a return inclusive of reinvested distributions of -2.84% during this period.

For the year ended to December 31, 2006, the Fund's return was 9.60% (USD return). The activist strategy contributed most positively to hedge fund returns while the capital structure arbitrage and convertible bond arbitrage strategies were the weakest performers.

The Trust had borrowings in the amount of $2,576,252 as at December 31, 2006 through a revolving loan facility with a Canadian financial institution. The financial leverage as at December 31, 2006 was 11.40%. The Trust has employed the loan as leverage to enhance its investment returns.

The Trust purchased 158,700 Units under its repurchase and cancellation programs at a cost of $1,434,376 resulting in a contribution of 0.38% to the overall return of the Trust.

Units may be redeemed 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. Notwithstanding the foregoing, the Trust is not required to redeem Units exceeding 15% of the number of outstanding Units as of each June 30 redemption date (the "Redemption Date"). 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.

On June 30, 2006, 766,791 Units were submitted for redemption. Since the number of Units submitted for redemption exceeded 15% of the number of outstanding Units as of the Redemption Date, the Units were redeemed on a pro rata basis. A total of 463,410 Units were redeemed at the June 30, 2006 net asset value per Unit of $9.6166 for $4,456,428 cash paid on July 26, 2006.

Summary of Investment Portfolio[1]

Income Trusts

The Trust 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, 2006 is set out in the Statement of Investment Portfolio. As at December 31, 2006, the Trust held 75 income trusts. Pursuant to the Trust's policy of rebalancing on an annual basis, the Trust will rebalance the income trust portfolio at least annually. The Trust rebalances the income trust portfolio 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 following table presents the total realized and unrealized gains and losses by income trust sector for the year ended December 31, 2006 and for the period from February 25, 2005 to December 31, 2005.

Trust Sector	For the year ended December 31, 2006	For the period from February 25, 2005 to December 31, 2005
Business trusts	$(1,348,392)	$ 57,033
Energy trusts	$(2,191,084)	$2,157,559
Power & pipeline trusts	$ (127,421)	$ (176,253)
Real estate investment trusts	$ 821,185	$ 590,379

Asset Allocation by Trust Sector

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

Income Trust Portfolio Exposure

Trust Sector	As at December 31, 2006 No. of Income Trusts	Fair Value		As at December 31, 2005 No. of Income Trusts	Fair Value	
Business trusts	26	$ 7,218,190	33%	25	$ 9,326,512	30%
Energy trusts	28	7,067,295	33%	28	12,069,043	38%
Power & pipeline trusts	9	2,862,699	13%	10	3,885,722	12%
Real estate investment trusts	12	4,514,205	21%	14	6,141,088	20%
	75	$21,662,389	100%	77	$31,422,365	100%

The following table presents 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, 2006 and December 31, 2005.

Trust Sector	As at December 31, 2006	As at December 31, 2005
Business trusts	1.63%	1.59%
Energy trusts	1.60%	1.63%
Power & pipeline trusts	1.77%	1.44%
Real estate investment trusts	2.39%	1.55%

The following table lists the largest 25 income trusts by fair value held by the Trust as at December 31, 2006.

Top 25 Income Trust Investments	Type of Investment	Cost	Fair Value	Percentage of Net Assets
Boardwalk Real Estate Investment Trust	Trust units	$252,900	$540,899	2.39%
Calpine Power Income Fund	Trust units	358,586	399,408	1.77%
Cominar Real Estate Investment Trust	Trust units	327,043	396,000	1.75%
Canadian Apartment Properties REIT	Trust units	317,333	390,719	1.73%
InnVest Real Estate Investment Trust	Trust units	341,404	382,260	1.69%
Calloway Real Estate Investment Trust	Trust units	266,884	380,880	1.69%
H&R Real Estate Investment Trust	Trust units	306,830	380,622	1.68%
Legacy Hotels Real Estate Investment Trust	Trust units	281,910	379,200	1.68%
Canadian Real Estate Investment Trust	Trust units	228,479	377,640	1.67%
TimberWest Forest Corp.	Trust units	381,113	367,708	1.63%
Vermilion Energy Trust	Trust units	233,583	360,500	1.60%
Provident Energy Trust	Trust units	340,742	353,100	1.56%
Baytex Energy Trust	Trust units	231,948	352,024	1.56%
Great Lakes Hydro Income Fund	Trust units	357,967	345,600	1.53%
Riocan Real Estate Investment Trust	Trust units	256,201	342,040	1.51%
Primaris Retail Real Estate Investment Trust	Trust units	248,157	339,840	1.50%
Newalta Income Fund	Trust units	278,696	329,355	1.46%
CML Healthcare Income Fund	Trust units	320,986	327,825	1.45%
Canadian Oil Sands Trust	Trust units	164,427	327,731	1.45%
Fort Chicago Energy Partners L.P.	Trust units	342,109	326,895	1.45%
UE Waterheater Income Fund	Trust units	312,917	326,888	1.45%
Pembina Pipeline Income Fund	Trust units	287,843	322,932	1.43%
CCS Income Trust	Trust units	189,202	320,875	1.42%
Algonquin Power Income Fund	Trust units	334,904	320,739	1.42%
Westshore Terminals Income Fund	Trust units	360,307	319,509	1.41%

Hedge Funds

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 to which the Trust has exposure 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, the Fund placed investments with seven hedge funds (consisting of four distressed securities funds, two statistical arbitrage funds and one energy relative value fund) and redeemed from eleven hedge funds (consisting of three capital structure arbitrage funds, two convertible bond arbitrage funds, two distressed securities funds and one fund in each of the merger arbitrage, multi-strategy, asset-backed securities and energy relative value strategies (period from February 25 to December 31, 2005: the Fund placed investments with 37 new hedge funds and redeemed from one hedge fund as the Fund became fully invested). During the period, the convertible bond arbitrage strategy was removed from the portfolio after a period of disappointing performance. The Fund continues to be exposed to this strategy through its investments in multi-strategy hedge funds.

The following table presents the USD return by investment strategy of the Hedge Fund Portfolio held by the Fund for the period from February 25, 2005 to December 31, 2005 and for the year ended December 31, 2006.

Strategy	**For the year ended December 31, 2006**	**For the period from February 25, 2005 to December 31, 2005**
Activist	24.77%	3.69%
Asset-backed securities arbitrage	12.47%	7.91%
Capital structure arbitrage	6.59%	0.72%
Convertible bond arbitrage	7.81%*	-3.17%
Distressed securities	16.77%	2.65%
Energy relative value	11.68%	-6.19%
Fixed-income arbitrage	8.98%	4.76%
Merger arbitrage	14.08%	14.79%
Mortgage-backed security arbitrage	10.04%	4.57%
Multi-strategy	12.16%	5.92%
Re-insurance	9.67%	-13.45%
Structured finance	11.71%	4.15%
Statistical arbitrage	13.45%	—

* Represents the return for the period January 1, 2006 to September 30, 2006

As at December 31, 2006, the Hedge Fund Portfolio included investments in 32 hedge funds with 31 managers engaged in 12 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 Hedge Fund Investment Strategy

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

Hedge Fund Portfolio Exposure

	As at December 31, 2006			As at December 31, 2005		
Strategy	No. of Hedge Funds	Fair Value (in U.S. Dollars)		No. of Hedge Funds	Fair Value (in U.S. dollars)	
Activist investments	1	$ 776,206	4%	1	$ 622,116	3%
Asset-backed securities arbitrage	3	2,644,901	13%	4	3,220,948	13%
Capital structure arbitrage	1	383,551	2%	4	2,673,077	11%
Convertible bond arbitrage	—	—	—	2	1,192,848	5%
Distressed securities	5	3,258,875	15%	3	1,935,034	8%
Energy relative value	2	715,775	3%	2	841,169	4%
Fixed-income arbitrage	2	1,484,116	7%	2	1,361,872	6%
Merger arbitrage	1	591,458	3%	2	1,147,904	5%
Mortgage-backed security arbitrage	4	3,167,892	15%	4	2,878,949	12%
Multi-strategy	4	2,518,163	12%	5	3,938,428	16%
Re-insurance	2	1,390,180	7%	2	1,267,545	5%
Structured finance	5	3,220,665	15%	5	2,883,113	12%
Statistical arbitrage	2	904,590	4%	—	—	—
	32	$21,056,372	100%	36	$23,963,003	100%

The following charts illustrate the hedge fund holdings by strategy of the Fund as at December 31, 2006 and 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 hedge fund holding for each investment strategy of the Fund as a percentage of the total net asset value of the Trust as at December 31, 2006 and December 31, 2005.

Strategy	As at December 31, 2006	As at December 31, 2005
Activist	4.00%	2.33%
Asset-backed securities arbitrage	6.58%	4.15%
Capital structure arbitrage	1.98%	5.25%
Convertible bond arbitrage	—	3.98%
Distressed securities	6.71%	3.94%
Energy relative value	2.39%	1.64%
Fixed-income arbitrage	4.65%	3.10%
Merger arbitrage	3.05%	2.36%
Mortgage-backed security arbitrage	5.69%	3.79%
Multi-strategy	4.90%	4.15%
Re-insurance	4.41%	2.95%
Structured finance	4.11%	2.69%
Statistical arbitrage	2.51%	—

The following table lists the largest 25 hedge funds by fair value to which the Trust has exposure through the Forward as at December 31, 2006. 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 are used consistently in its reporting by the Trust.

Top 25 Investments	Type of Investment	Cost (in U.S.$)	Fair Value (in U.S.$)	Percentage of Net Assets
Satellite Overseas Fund VII Ltd.*	Participating shares	$1,004,865	$1,300,642	6.71%
CRC Global Structured Credit Fund Ltd.*	Participating shares	1,012,286	1,276,873	6.58%
New Ellington Overseas Fund Ltd.*	Participating shares	1,000,000	1,104,163	5.69%
Fund 146*	Participating shares	800,000	950,955	4.90%
Fund 160*	Participating shares	800,000	924,476	4.77%
Fund 140*	Participating shares	800,000	902,637	4.65%
Fund 183*	Participating shares	700,000	857,045	4.65%
Fund 131*	Participating shares	963,876	855,737	4.42%
Fund 205*	Participating shares	700,000	797,877	4.41%
Fund 209*	Participating shares	600,000	776,206	4.11%
Fund 200*	Participating shares	600,000	726,424	4.00%
Fund 199*	Participating shares	600,000	702,091	3.75%
Fund 171*	Participating shares	557,607	641,603	3.62%
Fund 181*	Participating shares	500,000	591,458	3.31%
Fund 186*	Participating shares	500,000	585,922	3.05%
Fund 191*	Participating shares	500,000	581,478	3.02%
Fund 189*	Participating shares	500,000	578,760	3.00%
Fund 196*	Participating shares	500,000	575,701	2.98%
Fund 190*	Participating shares	500,000	560,491	2.97%
Fund 210*	Participating shares	500,000	559,071	2.89%
Fund 217*	Participating shares	500,000	541,231	2.88%
Fund 195*	Participating shares	498,749	534,442	2.79%
Fund 208*	Participating shares	500,000	515,568	2.76%
Fund 213*	Participating shares	400,000	487,093	2.66%
Fund 214*	Participating shares	400,000	465,075	2.51%

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

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

The Trust also holds 36,818 shares in Nortel Networks Corp. and 15,375 shares in Research in Motion Ltd. as at December 31, 2006. 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 5.10% and 10.14% as at

December 31, 2006, 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 the Fund.

Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the period from February 25 to December 31, 2005 and for the year ended December 31, 2006. This information is derived from the Trust's audited annual financial statements.

The Trust's Net Asset Value (NAV) per Unit(3)

	For the year ended December 31, 2006	February 25, 2005 to December 31, 2005
Net Asset Value, beginning of period	$ 9.77	$ 9.325
Increase (decrease) from operations:		
Total revenue	0.87	0.70
Total expenses	(0.23)	(0.16)
Realized gains (losses) for the period	0.32	0.07
Unrealized gains (losses) for the period	(0.90)	1.74
Total increase (decrease) from operations(1)	0.06	1.23
Distributions:		
From income (excluding dividends)	$0.24650	$0.23814
From dividends	0.02972	0.02530
From capital gains	0.45015	0.09514
Return of capital	0.23363	0.44142
Total distributions in the period(2)	$0.96000	$0.80000
Net Asset Value at end of period	$ 8.85	$ 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

	For the year ended December 31, 2006	February 25, 2005 to December 31, 2005
Net assets (000's)(1)	$ 22,600	$ 31,038
Number of units outstanding(1)	2,555,090	3,177,200
Management expense ratio(2)	7.15%	14.63%
Management expense ratio before waivers or absorptions	7.15%	14.63%
Portfolio turnover rate(3)	28.12%	15.23%
Trading expense ratio(4)	0.13%	0.33%
Closing market price or pricing NAV, end of period	$ 7.91	$ 8.55

(1) This information is provided as at December 31, 2006 and 2005.

(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 an estimate of expenses to which the underlying hedge funds were subject. The expense ratio of the underlying hedge funds held by the Fund plus the expenses of the Fund included in the above ratios for the period ended December 31, 2006 added 4.76% to the expense ratio of the Trust (December 31,2005: 5.85%). 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, 2005 and December 31, 2004, respectively. The expenses together with estimates for hedge funds with year-ends other than December 31 have been prorated based on the relative percentage of the hedge fund held by the Fund at the end of the respective period. Performance fees incurred by the underlying hedge funds can vary significantly from period to period based on such factors as the market conditions, fund strategy 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 the Fund.

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

Past Performance

General

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

(a) the performance information shown assumes that all distributions made by the Trust in the periods shown were reinvested in additional securities of the Trust;

(b) the performance information does not take into account sales, redemptions or other optional charges that would have reduced returns or performance; and

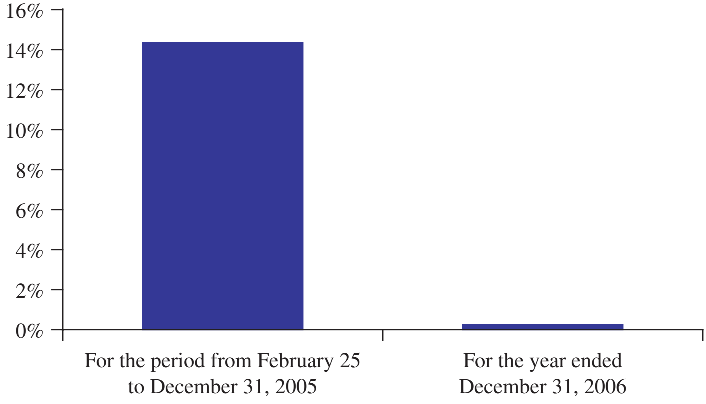
(c) how the Trust has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

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

(a) the bar chart shows the investment fund's annual performance for each of the years shown, and illustrates how the investment fund's performance has changed from year to year; and

(b) the bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



Annual Compound Returns

This chart compares the historical annual compound returns of the Trust over the periods indicated relative to various market indices.

	Since inception*	Past year
Northwater Top 75 Income Trusts[Plus]	7.64%	0.20%
S&P/TSX Capped Income Trust Index	9.35%	-2.84%
S&P/TSX Composite Index	19.06%	17.26%
S&P 500 Index	10.99%	15.79%
Scotia Capital Universe Bond Index	5.09%	4.06%

* inception date of the Fund is February 25, 2005.

The S&P/TSX Capped Income Trust Index is a broad index of Canadian income trusts.

The S&P/TSX Composite Index is a broad index of Canadian common shares.

The S&P 500 Index is an index of US large capitalization common shares.

The Scotia Capital Universe Bond Index is a broad index of Canadian federal government, provincial government and corporate fixed income securities.

Management Fees and Related Party Transactions

The Manager is responsible for the day-to-day administration, portfolio management and unitholder services of the Trust. In exchange for these services, the Manager is entitled to an annual fee of 0.25% of the net assets of the Trust, calculated based on the net asset value of the Trust as of the close of business on each month-end valuation date. The fee is paid monthly in arrears.

A service fee of 0.40% per annum of the net asset value of the Trust, is payable to the Manager calculated as of the close of business on each quarter-end valuation date. The service fee was paid by the Manager to registered dealers and brokers 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 service fee is accrued monthly and calculated and paid quarterly in arrears.

During the year ended December 31, 2006, the management fee and service fee expense were $77,751 and $110,761 respectively, and the management fee and service fee payable by the Trust as at December 31, 2006 were $15,365 and $24,181 respectively.

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 year ended December 31, 2006, the advisory fee charged was in the amount of $275,267 (U.S. $243,588) and as at December 31, 2006, the advisory fee payable was $43,901 (U.S. $37,667).

Other Fees

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.

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, the Trust, or the Fund.

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 net asset 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 year ended December 31, 2006, the net asset value of the Trust fluctuated between $8.75 per unit and $10.21 per unit (February 25 to December 31, 2005: low of $8.68 and a high of $9.28), 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. During the year ended December 31, 2006, the daily closing price of the units fluctuated between $7.36 and $9.50 (the period from February 25, 2005 to December 31, 2005: low of $8.68 and a high of $9.90).

Distributions

During the year ended December 31, 2006, the Trust made distributions totaling $0.96 per unit ($2,729,924 was distributed in aggregate) compared to $0.80 per unit ($2,583,704 in aggregate) during the period from February 25, 2005 to December 31, 2005.

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 has had 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

Record date	Payment date	Character of distribution for tax purposes	Amount per unit
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
July 31, 2005	August 15, 2005	Return of capital	$0.04414
		Other income	$0.02382
		Dividends	$0.00253
		Realized gain	$0.00951
			$0.08000

Record date	Payment date	Character of distribution for tax purposes	Amount per unit
August 31, 2005	September 15, 2005	Return of capital	$0.04414
		Other income	$0.02382
		Dividends	$0.00253
		Realized gain	$0.00951
			$0.08000
September 30, 2005	October 15, 2005	Return of capital	$0.04414
		Other income	$0.02382
		Dividends	$0.00253
		Realized gain	$0.00951
			$0.08000
October 31, 2005	November 15, 2005	Return of capital	$0.04414
		Other income	$0.02382
		Dividends	$0.00253
		Realized gain	$0.00951
			$0.08000
November 30, 2005	December 15, 2005	Return of capital	$0.04414
		Other income	$0.02382
		Dividends	$0.00253
		Realized gain	$0.00951
			$0.08000
December 31, 2005	January 13, 2006	Return of capital	$0.04414
		Other income	$0.02382
		Dividends	$0.00253
		Realized gain	$0.00951
			$0.08000
January 31, 2006	February 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
February 28, 2006	March 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
March 31, 2006	April 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000

Record date	Payment date	Character of distribution for tax purposes	Amount per unit
April 30, 2006	May 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
May 31, 2006	June 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
June 30, 2006	July 14, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
July 31, 2006	August 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
August 31, 2006	September 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
September 30, 2006	October 13, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
October 31, 2006	November 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000
November 30, 2006	December 15, 2006	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000

Record date	Payment date	Character of distribution for tax purposes	Amount per unit
December 31, 2006	January 15, 2007	Return of capital	$0.01947
		Other income	$0.02054
		Dividends	$0.00248
		Realized gain	$0.03751
			$0.08000

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 August 21, 2006, 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 258,536 of the units of the Trust during the period from August 30, 2006 to August 29, 2007, 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 year ended December 31, 2006, the Trust purchased 158,700 units (period from February 25, 2005 to December 31, 2005: 72,800 units) for cancellation under these programs at a cost of $1,434,376.

Redemptions

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.

As of June 30, 2006, 766,791 Units were submitted for redemption. Since the number of Units submitted for redemption exceeded 15% of the number of outstanding Units as of the Redemption Date, the Units were redeemed on a pro rata basis. A total of 463,410 Units were redeemed at the June 30, 2006 net asset value per Unit of $9.6166 for $4,456,428 cash paid on July 26, 2006.

NORTHWATER TOP 75 INCOME TRUSTS PLUS ADVISORY BOARD REPORT

The advisory board (the "Advisory Board") to the Trust is pleased to report on its activities for the period ended December 31, 2006.

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 judgement on all potential and perceived conflicts of interest referred to the Advisory Board by the Manager;
- To monitor, consider and provide impartial judgement 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, 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, 2006, the members of the Advisory Board held four meetings. Mr. Francoz and Ms. Marshall attended all of the meetings held by the Advisory Board.

During the period ended December 31, 2006, the Advisory Board reviewed the reporting to unitholders as required by National Instrument 81-106, periodic reports on the performance and the composition of the investment portfolio of the Trust, compliance with Investment Guidelines, the presentation of certain information in the quarterly and annual reports, National Instrument 81-107 concerning Independent Review Committees for investment funds that is to become effective in 2007, and the impact of the changes to the regulations affecting the income trust market on the sustainability of the Trust.

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.

Jeffrey D. Francoz

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 30.

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

SHAUNA CASSIDY, CFA
Vice-President

Northwater Fund
Management Inc.

March 16, 2007

AUDITORS' REPORT TO THE UNITHOLDERS OF NORTHWATER TOP 75 INCOME TRUSTS$^{\text{PLUS}}$

We have audited the statement of investment portfolio of Northwater Top 75 Income Trusts$^{\text{Plus}}$ (the Trust) as at December 31, 2006, the statements of net assets as at December 31, 2006 and 2005 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2006 and the period from February 25, 2005, date of 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 audits.

We conducted our audits 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, 2006 and the results of its operations, the changes in its net assets and its cash flows for the year ended December 31, 2006 and for the period from February 25, 2005, date of commencement of operations, to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
March 16, 2007

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Net Assets

	As at December 31, 2006	As at December 31, 2005
Assets		
Cash and short-term investments	$ 135,404	$ 127,163
Income trusts – at fair value (note 3) (cost: 2006: $22,998,484; 2005: $29,017,144)	21,662,389	31,422,365
Common shares – at fair value (cost: 2006: $2,590,524; 2005:$3,030,487)	3,442,542	2,909,344
Distribution receivable	196,837	232,904
Unrealized gain on forward contract (note 6)	11,647	
	25,448,819	34,691,776
Liabilities		
Audit, legal and custody fees payable	26,604	36,387
Service fees payable (note 4)	24,181	33,377
Management and advisory fees payable (note 4)	15,365	20,052
Settlement payable on currency futures (note 5)	1,981	1,116
Unrealized loss on forward contract (note 6)	—	258,885
Distribution payable (note 7)	204,407	254,176
Loan payable (note 8)	2,576,252	3,049,244
	2,848,790	3,653,237
Net assets	22,600,029	31,038,539
Net assets and unitholders' equity (note 9)		
Unit capital	23,826,214	29,627,390
Retained earnings (deficit)	(1,226,185)	1,411,149
Net assets	$22,600,029	$31,038,539
Number of units outstanding (note 9)	2,555,090	3,177,200
Net asset value per unit	$ 8.85	$ 9.77

Signed on behalf of the Trustee,

Per: Benita Warmbold

Per:

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

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Operations

	For the year ended December 31, 2006	For the period from February 25 to December 31, 2005
Investment income		
Distributions	$ 2,424,941	$2,268,637
Interest income	21,325	2,371
	2,446,266	2,271,008
Expenses		
Service fees (note 4)	110,761	109,905
Management fees (note 4)	77,751	70,259
Audit fees	51,534	29,425
Advisory board fees	10,149	6,649
Custodian fees	6,613	4,016
Legal fees	2,220	13,002
Security holder reporting costs	84,751	38,125
Administrative fees	10,599	8,456
Forward financing fees (note 4)	172,432	147,124
Loan interest	129,716	77,345
Other expenses	1,842	8,432
	658,368	512,738
Net investment income	1,787,898	1,758,270
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Income trusts	895,604	223,497
Common shares	14,465	—
Currency futures (note 6)	(17,261)	(29,495)
Change in unrealized appreciation (depreciation) on:		
Income trusts	(3,741,316)	2,405,221
Common shares	973,161	(121,143)
Forward contract	270,532	(258,885)
Currency futures (note 6)	(865)	(1,116)
Realized and unrealized gain (loss) on investments for the period	(1,605,680)	2,218,079
Increase in net assets from operations for the period	$ 182,218	$3,976,349
Increase in net assets from operations per unit for the period*	$ 0.06	$ 1.23

* Based on the average number of units outstanding for the period.

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

NORTHWATER TOP 75 INCOME TRUSTS^PLUS

Statements of Changes In Net Assets

	For the year ended December 31, 2006	For the period from February 25 to December 31, 2005
Net assets – beginning of the period	$31,038,539	$ —
Increase in net assets from operations for the period	182,218	3,976,349
Unit transactions (note 9)		
Net asset value of units repurchased and cancelled	(1,434,376)	(660,356)
Net asset value of units redeemed	(4,456,428)	—
Units issued, net of agents' fees	—	30,793,750
Offering costs deducted	—	(487,500)
	(5,890,804)	29,645,894
Distribution to unitholders (note 7)		
Return of capital	664,373	1,425,609
From net realized gains	1,280,071	307,279
From other income	700,958	769,100
Dividends	84,522	81,716
	(2,729,924)	(2,583,704)
Net assets – end of the period	$22,600,029	$31,038,539

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

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Cash Flows

	For the year ended December 31, 2006	For the period from February 25 to December 31, 2005
Cash flows from operating activities		
Increase in net assets from operations	$ 182,218	$ 3,976,349
Items not affecting cash:		
Change in unrealized depreciation (appreciation) on income trusts	3,741,316	(2,405,221)
Change in unrealized depreciation (appreciation) on common shares	(973,161)	121,143
Change in unrealized depreciation (appreciation) on forward contract	(270,532)	258,885
Change in unrealized depreciation (appreciation) on currency futures	865	1,116
Realized loss (gain) on income trusts	(895,604)	(223,497)
Realized loss (gain) on common shares	(14,465)	—
Changes in non-cash working capital:		
Change in payables	(23,666)	89,816
Change in receivables	36,067	(232,904)
Purchase of income trusts	(8,184,812)	(33,871,327)
Purchase of common shares	—	(3,030,487)
Proceeds on sale of income trusts	15,099,076	5,077,680
Proceeds on sale of common shares	454,428	—
	9,151,730	(30,238,447)
Cash flows from financing activities		
Advance on (repayment of) loan	(472,992)	3,049,244
Repurchase of trust units	(1,434,376)	(660,356)
Redemption of trust units	(4,456,428)	—
Distributions paid to trust unitholders	(2,779,693)	(2,329,528)
Issuance of trust units	—	30,793,750
Payment of offering costs	—	(487,500)
	(9,143,489)	30,365,610
Net increase (decrease) in cash and short-term investments	8,241	127,163
Cash and short-term investments at the beginning of the period	127,163	—
Cash and short-term investments at the end of the period	$ 135,404	$ 127,163
Supplementary information:		
Interest paid	$ 143,708	$ 73,117

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

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statement of Investment Portfolio

As at December 31, 2006

	No. of Shares / Units	Cost	Fair Value	Percentage of Total Investments
Income trust portfolio				
Advantage Energy Income Fund	14,900	$313,083	$185,207	0.73%
Algonquin Power Income Fund	32,300	334,904	320,739	1.27%
AltaGas Income Trust	11,600	289,074	303,920	1.20%
ARC Energy Trust	12,700	242,922	283,210	1.12%
Baytex Energy Trust	15,800	231,948	352,024	1.39%
Bell Aliant Regional Communications Income Fund	10,300	288,297	277,688	1.10%
Bell Nordiq Income Fund	18,400	325,553	274,344	1.09%
BFI Canada Income Fund	11,700	310,850	314,730	1.25%
Boardwalk Real Estate Investment Trust	13,100	252,900	540,899	2.14%
Bonavista Energy Trust	9,300	286,068	261,795	1.04%
Calloway Real Estate Investment Trust	13,800	266,884	380,880	1.51%
Calpine Power Income Fund	31,800	358,586	399,408	1.58%
Canadian Apartment Properties REIT	21,029	317,333	390,719	1.55%
Canadian Oil Sands Trust	10,050	164,427	327,731	1.30%
Canadian Real Estate Investment Trust	12,000	228,479	377,640	1.50%
Canetic Resources Trust	12,712	308,266	208,985	0.83%
CCS Income Trust	8,500	189,202	320,875	1.27%
Chartwell Seniors Housing REIT	22,800	334,450	317,832	1.26%
CI Financial Income Fund	11,400	285,570	304,608	1.21%
Cinram International Income	11,700	300,789	268,515	1.06%
CML Healthcare Income Fund	23,500	320,986	327,825	1.30%
Cominar Real Estate Investment Trust	17,600	327,043	396,000	1.57%
Consumers' Waterheater Income Fund (The)	21,900	345,362	293,898	1.16%
Crescent Point Energy Trust	15,900	316,220	279,840	1.11%
Davis + Henderson Income Fund	15,900	354,254	245,814	0.97%
Daylight Energy Trust	17,601	291,193	179,706	0.71%
Energy Savings Income Fund	18,800	319,398	252,860	1.00%
Enerplus Resources Fund	5,800	270,662	293,944	1.16%
Enterra Energy Trust	16,100	382,395	148,925	0.59%
Epcor Power LP	10,000	354,280	267,500	1.06%
Fairborne Energy Trust	22,300	342,209	233,035	0.92%
Focus Energy Trust	14,800	317,324	269,064	1.07%
Fording Canadian Coal Trust	7,500	275,239	180,375	0.71%
Fort Chicago Energy Partners L.P.	28,500	342,109	326,895	1.30%
Freehold Royalty Trust	17,000	307,534	251,770	1.00%
Gaz Metro Limited Partnership	17,100	380,602	266,418	1.06%
GMP Capital Trust	12,600	258,187	274,680	1.09%
Great Lakes Hydro Income Fund	18,000	357,967	345,600	1.37%
H&R Real Estate Investment Trust	15,800	306,830	380,622	1.51%
Harvest Energy Trust	9,497	292,950	249,106	0.99%
InnVest Real Estate Investment Trust	27,700	341,404	382,260	1.51%
Inter Pipeline Fund	33,100	310,118	299,224	1.19%
Keyera Facilities Income Fund	15,200	235,225	252,928	1.00%
Labrador Iron Ore Royalty Income Fund	10,900	295,464	270,320	1.07%
Legacy Hotels Real Estate Investment Trust	40,000	281,910	379,200	1.50%

	No. of Shares / Units	Cost	Fair Value	Percentage of Total Investments
Livingston International Income Fund	13,200	336,776	274,824	1.09%
Mullen Group Income Fund	10,600	347,422	198,114	0.78%
NAL Oil & Gas Trust	16,600	240,688	204,346	0.81%
Newalta Income Fund	11,700	278,696	329,355	1.30%
Northland Power Income Fund	22,600	323,918	295,382	1.17%
Paramount Energy Trust	17,200	304,611	213,280	0.84%
Pembina Pipeline Income Fund	20,400	287,843	322,932	1.28%
Pengrowth Energy Trust – Class B Trust Unit	14,375	446,751	286,638	1.14%
Penn West Energy Trust	8,400	262,668	298,788	1.18%
Peyto Energy Trust	13,200	346,675	233,640	0.93%
Precision Drilling Trust	9,300	329,525	251,100	0.99%
Primaris Retail Real Estate Investment Trust	18,000	248,157	339,840	1.35%
PrimeWest Energy Trust	9,600	288,218	206,400	0.82%
Progress Energy Trust	20,900	295,885	262,713	1.04%
Provident Energy Trust	27,500	340,742	353,100	1.40%
Retirement Residences Real Estate Investment Trust	34,574	351,940	286,273	1.13%
Riocan Real Estate Investment Trust	13,600	256,201	342,040	1.36%
Shiningbank Energy Income Fund	13,200	300,636	169,620	0.67%
Sunrise Senior Living Real Estate Investment Trust	26,600	329,308	283,556	1.12%
Superior Plus Income Fund	15,100	426,580	161,721	0.64%
Teranet Income Fund	31,100	305,374	276,479	1.10%
TimberWest Forest Corp.	24,400	381,113	367,708	1.46%
TransAlta Power L.P.	38,300	387,588	286,101	1.13%
TransForce Income Fund	17,620	295,910	237,694	0.94%
Trilogy Energy Trust	16,000	328,480	182,400	0.72%
Trinidad Energy Services Income Trust	19,000	201,053	262,200	1.04%
UE Waterheater Income Fund	23,200	312,918	326,888	1.30%
Vermilion Energy Trust	10,300	233,583	360,500	1.43%
Westshore Terminals Income Fund	27,100	360,307	319,509	1.27%
Yellow Pages Income Fund	20,955	292,469	269,691	1.07%
		$22,998,484	$21,662,389	85.82%
Common share portfolio				
Nortel Networks Corp (1)	36,818	1,295,134	1,151,667	4.56%
Research In Motion Ltd (1)	15,375	1,295,390	2,290,875	9.08%
		2,590,524	3,442,542	13.64%
Cash		135,404	135,404	0.54%
Total investments		$25,724,412	$25,240,335	100.00%
Liabilities over other assets			(2,640,306)	
Net assets and unitholder' equity			$22,600,029	

(1) Securities pledged as part of the forward agreement to the counterparty (note 6).

Schedule 1 – Currency futures contracts:

	Closing Price	Notional contract Value	Settlement payable on futures contracts
March 2007			
5 Canadian Dollar Futures Contracts	$86.02 USD	$430,100 USD	
		$501,282 CAD	($1,981) CAD

* Standard & Poor's Rating Service

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

NORTHWATER TOP 75 INCOME TRUSTS^PLUS

Notes to Financial Statements
For the year ended December 31, 2006 with comparative figures for the period from February 25 to December 31, 2005

1. Establishment and Operations of the Trust

The Northwater Top 75 Income Trusts^Plus (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 of the Trust and the RBC Dexia Investor Services Trust ("RBC Dexia") acts as Custodian for the Trust. 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 (the "Forward") 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. Comparative amounts are for the period from February 25, 2005 to December 31, 2005.

Effective February 23, 2007 the Accounting Standards Board amended AcG-15, Consolidation of Variable Interest Entities and AcG-18, Investment Companies to exclude investment companies from the requirement to consolidate variable interest entities. The Amendment is effective for fiscal periods ending on or after September 30, 2007 with earlier adoption encouraged.

The Trust has early adopted this amendment and the December 31, 2006 financial statements have been prepared in accordance with the revised standard. As a result the accounts of Enhancement Fund Limited, have not been included in these financial statements. The Trust does not have an ownership interest in the Fund and continues to be exposed to the majority of the economic risk and benefits of the Fund through the Forward.

(a) Investments

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

Cash and short-term investments consist of cash in interest bearing accounts 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 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) Foreign Currency Translation

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

(c) 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 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.

(d) 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.

(e) Comparative Figures

Certain 2005 comparative figures have been reclassified to conform to the 2006 financial statement presentation.

3. Investment in Income Trusts and Common Shares

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

	For the year ended December 31, 2006	For the period from February 25 2005 to December 31, 2005
Income trusts at cost – beginning of the year	$ 29,017,144	$ —
Cost of income trusts purchased	8,184,812	33,871,327
Cost of income trusts sold	(14,203,472)	(4,854,183)
Income trusts at cost – end of the year	22,998,484	29,017,144
Unrealized appreciation (depreciation) on income trusts	(1,336,095)	2,405,221
Market value of income trusts – end of the year	$ 21,662,389	$31,422,365
Proceeds of income trusts sold	$ 15,099,076	$ 5,077,680
Cost of income trusts sold	(14,203,472)	(4,854,183)
Net realized gain on income trusts	$ 895,604	$ 223,497

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

	For the year ended December 31, 2006	For the period from February 25, 2005 to December 31, 2005
Common shares at cost – beginning of the year	$3,030,487	$ —
Cost of common shares purchased	—	3,030,487
Cost of common shares sold	(439,963)	—
Common shares at cost – end of the year	2,590,524	3,030,487
Unrealized depreciation on common shares	852,018	(121,143)
Market value of common shares – end of the year	$3,442,542	$2,909,344
Proceeds of common shares sold	$ 454,428	$ —
Cost of common shares sold	439,963	—
Net realized gain on common shares	$ 14,465	$ —

During the year ended December 31, 2006 the Trust paid commissions of $23,734 (2005: $8,264).

4. 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 Manager is responsible for the day-to-day administration, portfolio management and unitholder services of the Trust. In exchange for these services, the Manager is entitled to an annual fee of 0.25% 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 service fee is accrued monthly and calculated and paid quarterly in arrears.

A forward financing fee of approximately 0.60% per annum of the market value of Enhancement Fund Limited (the "Fund"), is payable to the Counterparty of the Forward, 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 (see note 6).

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 year ended December 31, 2006, the advisory fee charged amounted to U.S.$243,588 (For the period from February 25, 2005 to December 31, 2005: U.S.$190,292).

5. 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. For the year ended December 31, 2006, five open futures contracts existed (2005: six open future contracts existed).

During the year ended December 31, 2006, total commissions and other transaction costs paid or payable to dealers by the Trust was in the amount of $162 (February 25, 2005 to December 31, 2005: $187).

6. Forward Agreement

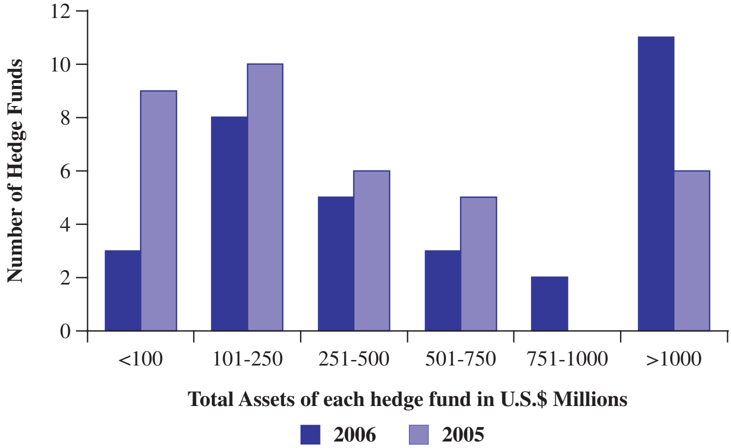
The Trust has entered into a forward agreement ("Forward") with a U.S. Bank on March 31, 2005 (the "Counterparty") to obtain exposure to a diversified portfolio of market-neutral hedge funds (the "Hedge Fund Portfolio") held in the Enhancement Fund Limited (the "Fund"), a Cayman Islands exempt company. 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, 2006 was 112.43%. 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, 2006 are in the amount of U.S.$19,485,536 and Canadian $2,590,595 (December 31, 2005: U.S.$24,900,000 and Canadian $3,030,500). During the year ended December 31, 2006, the Counterparty redeemed 525.7017 participating shares of the Fund for $6,298,280 (U.S.$5,600,000) and paid $545,428 to the Trust as a result of a reduction in the notional amounts of the Forward, and in return for partial settlement of the common share portfolio.

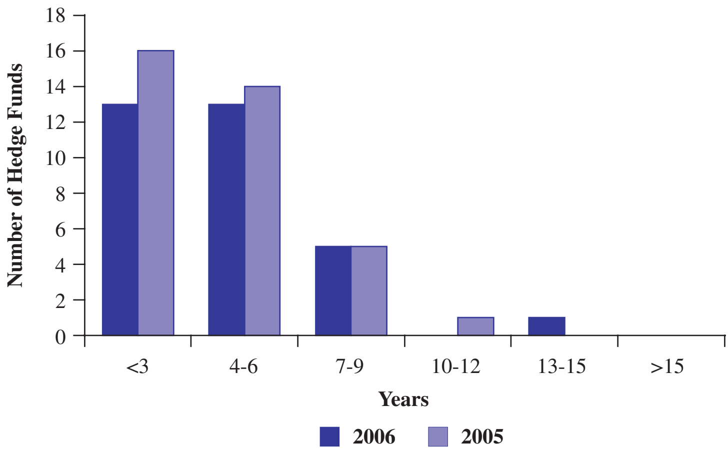
The creditworthiness of the Counterparty was reviewed prior to the transaction and is monitored on a regular basis pursuant to the credit standards established by the Manager. As at December 31, 2006 the credit rating of the counterparty was AA-. The Trust is exposed to monies to be received from the 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.

The Trust has exposure through the Forward to a diversified portfolio of market-neutral hedge funds owned by the Fund. The market-neutral hedge funds included in the Fund's portfolio are organized and domiciled in non-U.S. jurisdictions consisting primarily of Bermuda, Cayman Islands, and the British Virgin Islands. These market-neutral hedge funds are managed by portfolio managers (independent of the Manager and the Investment Advisor) who are compensated for their services by the respective market-neutral hedge funds they manage. Such compensation consists of an asset-based advisory fee, generally ranging from 1% to 2% annually, and a performance-based incentive fee, generally ranging from 10% to 20% of net profits earned above a high-water mark. Compensation paid to the independent portfolio managers of the market-neutral hedge funds is not separately computed and disclosed by the Fund but rather is reflected in the valuation of each market-neutral hedge fund. Redemption provisions for the market-neutral hedge funds will vary from monthly to annually with notice provisions ranging generally from 30 days' notice to 180 days' notice and may be subject to lock-up provisions.

The following table shows the number of hedge funds held by the Fund as at December 31, 2006 and 2005 categorized by the size of each hedge fund.



The following table shows the number of hedge funds held by the Fund as at December 31, 2006 and 2005 categorized by the years since inception of each hedge fund.



The following chart illustrates the number of hedge fund holdings of the Fund by jurisdiction of organization as at December 31, 2006 and 2005.

7. 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 year ended December 31, 2006, the Trust made distributions totaling $0.96 per unit ($2,729,924 was distributed in aggregate) (February 25, 2005 to December 31, 2005: $0.80 per unit; $2,583,704 in aggregate).

8. 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 year ended December 31, 2006, the bank loan balance fluctuated between $2,591,000 and $3,050,000 (February 25, 2005 to December 31, 2005: between $2,800,000 and $3,050,000)

The average variable rate of interest paid on the loan for the year was 4.06%.

9. Unitholders' Equity

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. Fractional units will not be issued.

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. Under a normal course issuer bid and the Trust's quarterly market support obligation, the Trust purchased 158,700 units for cancellation during the year ended December 31, 2006 (year ended December 31, 2005: 72,800 units were purchased for cancellation) at a cost of $1,434,376.

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.

As of June 30, 2006, 766,791 Units were submitted for redemption. Since the number of Units submitted for redemption exceeded 15% of the number of outstanding Units as of the Redemption Date, the Units were redeemed on a pro rata basis. A total of 463,410 Units were redeemed at the June 30, 2006 net asset value per Unit of $9.6166 for $4,456,428 cash paid on July 26, 2006.

Unitholders' equity is comprised of unit capital and retained earnings. The following table shows the transactions for unit capital and retained earnings (deficit) during the relevant periods:

For Year ended December 31, 2006	Units Outstanding	Unit Capital	Retained Earnings (Deficit)	Unitholders' Equity
Balance – December 31, 2005	3,177,200	$29,627,390	$ 1,411,149	$31,038,539
Increase (decrease) in net assets from operations for the year	—	—	182,218	182,218
Units issued during the period	—	—	—	—
Units cancelled during the period	(158,700)	(1,479,878)	45,502*	(1,434,376)
Units redeemed during the period	(463,410)	(4,321,298)	(135,130)	(4,456,428)
Distributions			(2,729,924)	(2,729,924)
Balance – December 31, 2006	2,555,090	$23,826,214	$(1,226,185)	$22,600,029

For the period from February 25 to December 31, 2005	Units Outstanding	Unit Capital	Retained Earnings (Deficit)	Unitholders' Equity
Balance – February 25, 2005	—	$ —	$ —	$ —
Increase (decrease) in net assets from operations for the year	—	—	3,976,349	3,976,349
Units issued during the offering at gross proceeds (net of agents' fees)	3,250,000	30,793,750	—	30,793,750
Offering costs		(487,500)	—	(487,500)
Units cancelled during the period	(72,800)	(678,860)	18,504*	(660,356)
Distributions			(2,583,704)	(2,583,704)
Balance – December 31, 2005	3,177,200	$29,627,390	$ 1,411,149	$31,038,539

* represents the stated value in excess of the cost of units repurchased

10. Income Taxes

As at December 31, 2006, 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, 2006, 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.

Historically, no payments have been required to be 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. The Trust is 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 Capital Management Inc., a leader in financial innovation since January 1989, offers customized portfolio solutions to the global investment community through the firm's Portfolio Platform™, a proprietary platform that incorporates the flexibility and scalability necessary to meet a variety of investor needs.

The firm's established indexing capability allows investors to access global equity and fixed income markets on a cost-effective basis. In addition, utilizing its expertise in constructing market-neutral fund of hedge fund portfolios that seek to generate consistent returns in both normal and extreme markets, Northwater seeks to deliver a reliable source of alpha, or excess return. Northwater's structuring technology combines these two components in a portable alpha framework that seeks to achieve an investor's return/risk objectives in an efficient, cost-effective manner.

With more than ten years of experience in fund of hedge funds, Northwater has steadily grown assets under management to approximately CDN $10.6 billion in total, including CDN $5.1 billion invested in hedge funds as at December 31, 2006. 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, New York and Chicago.

Northwater also acts as an advisor to the following two closed-ended funds listed on the TSX, in addition to Northwater Top 75 Income Trusts^Plus:

- Northwater Market-Neutral Trust, the first publicly-listed investment vehicle of its kind in Canada to invest in a diversified portfolio of market-neutral hedge funds, which was launched in 1997; and
- Northwater Five-Year Market-Neutral Trust, launched in 2004

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