NORTHWATER

Northwater Top 75 Income Trusts PLUS
December 31, 2007
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, 2007 are included in this report.

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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, 2007, the net asset value of the Trust per unit was $8.34. For the year ended December 31, 2007, the return of the Trust was 5.06% including distributions. During the same time period, the S&P/TSX Capped Income Trust Index rose by 6.61%, the DEX Universe Bond Index returned 3.68%, the S&P/TSX Composite Index rose by 9.83% and the S&P 500 in U.S. dollar terms, rose by 5.49% which translates to a loss of 10.53% in Canadian dollar terms as the U.S. dollar weakened during the period. The Trust made distributions of $0.96 per unit during the period.

The deterioration in the U.S. sub-prime housing market was the dominant theme in the capital markets in 2007. Downgrades in securities with sub-prime exposure caused a chain reaction of events that affected several hedge fund strategies from merger arbitrage to credit relative value to statistical arbitrage, as markets generally became very illiquid. Most major banks took substantive write-downs in their holdings that had sub-prime exposure, resulting in downward pressure in the equity markets. In an attempt to restore investor confidence, the Federal Open Market Committee, which had held the Feds Fund rate at 5.25% during the first half of 2007, made three cuts to the rate totalling a full percentage point in the second half of the year. However, credit concerns trumped the injection of liquidity by the Fed, and by the end of the year equity markets gave up a good part of the gains they had made in the first half of the year.

The Trust's exposure to the Income Trusts portfolio had a positive impact on the performance of the Trust during 2007 as the broad income trust market increased by 6.61%.

The portfolio of market-neutral hedge funds managed by Northwater Fund Management Inc. (the "Manager") to which the Trust has exposure, experienced positive returns over the year but contributed a slightly negatively to the return of the Trust as the return on the hedge fund portfolio was less than the financing cost incurred to gain exposure to the hedge fund portfolio. Asset-backed securities managers in aggregate were the largest positive contributors to the fund as specific managers were able to take advantage of the dislocation in the structured credit markets. Other positive contributions came from Distressed Securities, Re-insurance and Multi-strategy managers. The largest negative contributions came from the Statistical Arbitrage strategy, with most of these losses coming in August. The losses from the Merger Arbitrage strategy were manager specific and as a result all of our exposure going forward will come from our Multi-strategy managers. We expect that when the technical forces driving many of the current market extremes are normalized, the portfolio will be well positioned to capitalize on the opportunities.

Northwater continues to actively manage the composition of the Trust's hedge fund portfolio. During the year ended December 31, 2007, seven funds were removed for declining strategy returns and ineffective implementation of their investment strategy, while four new funds were added. The Manager 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.

Daniel C.R. Mills, CFA
Managing Director and
Chief Investment Officer
Northwater Capital Management Inc.

David S. Finch, CFA
Managing Director
Northwater Capital Management Inc.

March 14, 2008

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, 2007 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 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.

Adoption of New Accounting Standards

On April 1, 2005, the Canadian Institute of Chartered Accountants issued Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook – Accounting, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006.

In addition, Section 14.2 of National Instrument 81-106, issued by the Canadian Securities Administrators in 2005, requires the net asset value of an investment fund to be calculated in accordance with Canadian generally accepted accounting principles ("GAAP"). The adoption of Section 3855 results in the use of different valuation techniques for certain investments.

The adoption of Section 3855 has resulted in a change in the method used to value the income trusts and common shares held by the Trust. The income trusts and common shares are valued at the bid price on the valuation date in the Trust's financial statements which prior to the implementation of Section 3855 were valued at the closing price on the valuation date.

With respect to the implementation of Section 3855, the Canadian securities regulatory authorities have granted relief to investment funds from complying on an interim basis with Section 3855 for the purposes of calculating and reporting the purchase and redemption net asset value or the "Reported NAV" of an investment fund for up to a one year period ending September 30, 2008. This relief is to permit further review of the suitability of this new pronouncement for the purpose of calculating the Reported NAV. Depending on the outcome of this review by the Canadian Securities authorities, the method by which the net assets is calculated as governed by Section 3855 may result in a change to the Reported NAV of an investment fund.

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Reported NAV and the net assets calculated in accordance with Section 3855 (the "GAAP NAV") of the investment fund is required in the notes to the financial statements.

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 Enhancement Fund Limited (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 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 assets of the Trust. The actual exposure as at December 31, 2007 was 92%. In establishing the Hedge Fund Portfolio "mix," the Investment Advisor to the Fund 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.

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 18 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 accounts that hold hedge fund investments in addition to the Hedge Fund Portfolio. Accounts with similar investment objectives are generally managed in a similar manner. Hedge fund investment allocation decisions are subject to account guidelines and restrictions. Limited hedge fund investment opportunities will be allocated to accounts in a manner that the Investment Advisor determines is equitable to accounts 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, 2007 was 15.17% (December 31, 2006: 11.40%).

Risks

The following tables present information for the year ended December 31, 2007 and for the year ended December 31, 2006 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, 2007	For the period from inception to December 31, 2006
# of positive monthly returns	22	14
# of negative monthly returns	13	9
% of negative months	37.1%	39.1%
Average size of negative months	(3.54)%	(3.47)%
Worst monthly return	(9.86)%	(9.86)%

Single Hedge Fund Statistics of the Fund	Year ended December 31, 2007	Year ended December 31, 2006
# of hedge funds with positive returns[1, 2]	17	32
# of hedge funds with negative returns[1, 2]	7	0
Average annual hedge fund standard deviation[2]	6.92%	3.60%
Average correlation between hedge funds[2]	0.27	0.11

(1) Measured for hedge funds in the Hedge Fund Portfolio as at December 31, 2007 and December 31, 2006 respectively.

(2) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio as at December 31, 2007 and December 31, 2006 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 during the year ended December 31, 2007. 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, 2007, the Trust posted a return of 5.06% taking into account distributions made during the period. Distributions during the year totaled $2,202,204 or $0.96 per Unit.

During the year ended December 31, 2007, two of the Trust's income trust sectors posted positive 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 6.61% during this period.

For the year ended December 31, 2007, the Fund's return was 5.46% (USD return). The distressed securities strategy contributed most positively to hedge fund returns while the merger arbitrage was the weakest performer.

The Trust had borrowings in the amount of $2,574,032 as at December 31, 2007 through a revolving loan facility with a Canadian financial institution. The financial leverage as at December, 2007 was 15.17%. The Trust has employed the loan as leverage to enhance its investment returns.

The Trust purchased 140,200 Units under its repurchase and cancellation programs at a cost of $1,167,939 resulting in a contribution of 0.50% 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 reported net asset value per Unit on the Redemption Date and payable on or before the 30th Business Day following the relevant Redemption Date.

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, 2007 is set out in the Statement of Investment Portfolio. As at December 31, 2007, the Trust held 74 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, 2007 and December 31, 2006

Trust Sector	Year ended December 31, 2007	Year ended December 31, 2006
Business trusts	$ 731,010	$(1,348,392)
Energy trusts	$(653,421)	$(2,191,084)
Power & pipeline trusts	$ 35,671	$ (127,421)
Real estate investment trusts	$ (91,557)	$ 821,185

Asset Allocation by Trust Sector

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

Income Trust Portfolio Exposure

	As at December 31, 2007			As at December 31, 2006		
Trust Sector	No. of Income Trusts	Fair Value		No. of Income Trusts	Fair Value	
Business trusts	28	$ 6,049,264	38%	26	$ 7,218,190	33%
Energy trusts	25	5,236,511	33%	28	7,067,295	33%
Power & pipeline trusts	7	1,675,362	10%	9	2,862,699	13%
Real estate investment trusts	14	3,040,812	19%	12	4,514,205	21%
	74	$16,001,949	100%	75	$21,662,389	100%

The following table presents the largest individual income trust holding for each trust sector as a percentage of the total net assets of the Trust as at December 31, 2007 and December 31, 2006.

Trust Sector	As at December 31, 2007	As at December 31, 2006
Business trusts	1.55%	1.63%
Energy trusts	1.62%	1.60%
Power & pipeline trusts	1.51%	1.77%
Real estate investment trusts	1.44%	2.39%

The following table lists the largest 25 income trusts by fair value held by the Trust as at December 31, 2007.

Top 25 Income Trust Investments	Type of Investment	Cost	Fair Value	Fair Value as a % of Net Assets
Keyera Facilities Income Fund Units	Trust Units	216,632	274,803	1.62%
Crescent Point Energy Trust Units	Trust Units	218,768	271,590	1.60%
GMP Capital Trust Units	Trust Units	219,254	263,220	1.55%
CML Healthcare Income Fund	Trust Units	207,617	260,224	1.53%
Westshore Terminals Income Fund	Trust Units	236,659	257,388	1.52%
Canadian Oil Sands Trust	Trust Units	108,800	257,156	1.52%
CI Financial Income Fund	Trust Units	230,460	257,048	1.52%
Energy Savings Income Fund	Trust Units	248,765	256,410	1.51%
Pembina Pipeline Income Fund Units	Trust Units	206,005	255,354	1.51%
Yellow Pages Income Fund Units	Trust Units	251,991	250,782	1.48%
North West Company Fund	Trust Units	197,056	250,560	1.48%
Freehold Royalty Trust	Trust Units	277,586	246,006	1.45%
Calloway Real Estate Investment Trust	Trust Units	195,328	244,723	1.44%
Davis + Henderson Income Fund	Trust Units	245,149	244,647	1.44%
Vermillion Energy Trust	Trust Units	160,013	241,826	1.43%
Algonquin Power Income Fund	Trust Units	298,614	241,632	1.42%
Great Lakes Hydro Income Fund	Trust Units	238,645	240,120	1.42%
Canadian Real Estate Investment Trust	Trust Units	158,031	239,704	1.41%
Focus Energy Trust	Trust Units	300,563	239,096	1.41%
Gaz Metro Limited Partnership	Trust Units	327,184	238,728	1.41%
Labrador Iron Ore Royalty Income Fund	Trust Units	135,534	236,450	1.39%
Inter Pipeline Fund	Trust Units	233,291	236,052	1.39%
BFI Canada Income Fund	Trust Units	233,802	234,080	1.38%
Fort Chicago Energy Partners L.P.	Trust Units	259,282	233,928	1.38%
PrimeWest Energy Trust	Trust Units	259,702	232,960	1.37%

Hedge Fund Forward

The Trust has obtained exposure to 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 up to 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 U.S. or International generally accepted accounting principles (GAAP).

During the year, the Fund placed investments with six new hedge funds (consisting of three multi-strategy funds, two statistical arbitrage funds and one fixed income arbitrage fund). The Fund redeemed from eight hedge funds during the period (consisting of three structured finance funds, two energy relative value funds and one fund in each of multi-strategy, capital structure arbitrage and distressed securities arbitrage), (year ended December 31, 2006: the Fund placed investments with seven hedge funds and redeemed from eleven hedge funds).

The following table presents the USD return by investment strategy of the Hedge Fund Portfolio held by the Fund for the year ended December 31, 2007 and December 31, 2006.

Strategy	The year ended December 31, 2007	The year ended December 31, 2006
Activist investments	6.08%	24.77%
Asset-backed securities arbitrage	18.56%	12.47%
Capital structure arbitrage	—	6.59%
Convertible bond arbitrage	—	7.81%*
Distressed securities arbitrage	20.48%	16.77%
Energy relative value	—	11.68%
Fixed-income arbitrage	5.02%	8.98%
Merger arbitrage	(22.68)%	14.08%
Mortgage-backed security arbitrage	(1.98)%	10.04%
Multi-strategy	10.64%	12.16%
Re-insurance arbitrage	15.16%	9.67%
Statistical arbitrage	(11.52)%	13.45%
Structured finance	4.99%	11.71%

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

As at December 31, 2007, the Hedge Fund Portfolio included investments in 30 hedge funds with 28 managers engaged in 10 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, 2007			As at December 31, 2006		
Strategy	No. of Hedge Funds	Fair Value (in U.S. Dollars)		No. of Hedge Funds	Fair Value (in U.S. dollars)	
Activist investments	1	$ 823,361	5%	1	$ 776,206	4%
Asset-backed securities arbitrage	3	2,393,950	13%	3	2,644,901	13%
Capital structure arbitrage	—	—	—	1	383,551	2%
Distressed securities arbitrage	4	2,214,191	12%	5	3,258,875	15%
Energy relative value	—	—	—	2	715,775	3%
Fixed-income arbitrage	3	1,138,400	6%	2	1,484,116	7%
Merger arbitrage	1	213,907	1%	1	591,458	3%
Mortgage-backed security arbitrage	4	2,727,271	15%	4	3,167,892	15%
Multi-strategy	6	3,918,539	22%	4	2,518,163	12%
Re-insurance arbitrage	2	1,199,750	7%	2	1,390,180	7%
Structured finance	2	1,456,923	8%	5	3,220,665	15%
Statistical arbitrage	4	2,024,325	11%	2	904,590	4%
	30	$18,110,617	100%	32	$21,056,372	100%

The following charts illustrate the hedge fund holdings by strategy of the Fund as at December 31, 2007 and December 31, 2006. 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 assets of the Trust as at December 31, 2007 and December 31, 2006.

Strategy	As at December 31, 2007	As at December 31, 2006
Activist investments	4.85%	4.00%
Asset-backed securities arbitrage	7.06%	6.58%
Capital structure arbitrage	—	1.98%
Distressed securities arbitrage	3.88%	6.71%
Energy relative value	—	2.39%
Fixed-income arbitrage	2.61%	4.65%
Merger arbitrage	1.26%	3.05%
Mortgage-backed security arbitrage	6.07%	5.69%
Multi-strategy	6.29%	4.90%
Re-insurance arbitrage	5.28%	4.41%
Structured finance	4.99%	4.11%
Statistical arbitrage	5.11%	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, 2007. 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.$)	Fair Value (in U.S.$)	Fair value as a % of Net Assets of the Trust
Mariner-Tricadia Credit Strategies, Ltd.*	Participating Shares	$ 600,000	$1,198,463	7.00%
D.E. Shaw Composite International Fund*	Participating Shares	1,000,000	1,067,947	6.24%
New Ellington Overseas Ltd.*	Participating Shares	1,000,000	1,030,968	6.02%
Palmetto Fund Ltd.*	Participating Shares	782,365	891,777	5.21%
Oxam Fund Ltd.*	Participating Shares	800,000	868,674	5.07%
Fund 205*	Participating Shares	700,000	848,437	4.95%
Fund 209*	Participating Shares	600,000	823,361	4.81%
Fund 169*	Participating Shares	549,164	774,809	4.52%
Fund 189*	Participating Shares	500,000	739,521	4.32%
Fund 101*	Participating Shares	481,078	659,575	3.85%
Fund 130*	Participating Shares	600,000	625,320	3.65%
Fund 196*	Participating Shares	500,000	608,486	3.55%
Fund 146*	Participating Shares	482,170	605,764	3.54%
Fund 121*	Participating Shares	600,000	587,273	3.43%
Fund 190*	Participating Shares	500,000	572,918	3.35%
Fund 208*	Participating Shares	500,000	567,186	3.31%
Fund 183*	Participating Shares	402,752	521,883	3.05%
Fund 116*	Participating Shares	354,159	510,352	2.98%
Fund 214*	Participating Shares	400,000	501,488	2.93%
Fund 204*	Participating Shares	400,000	485,942	2.84%
Fund 140*	Participating Shares	373,192	444,160	2.59%
Fund 171*	Participating Shares	492,540	420,679	2.46%
Fund 222*	Participating Shares	400,000	412,398	2.41%
Fund 216*	Participating Shares	400,000	405,880	2.37%
Fund 160*	Participating Shares	461,310	383,865	2.24%

* 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 31,298 shares in Nortel Networks Corp. and 39,195 shares in Research in Motion Ltd. as at December 31, 2007. 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 2.76% and 26.00% as at December 31, 2007, 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 assist in understanding the Trust's financial performance for the period from February 25, 2005 to December 31, 2005 and the years ended December 31, 2007 and 2006.

The Trust's Net Assets per Unit

	For year ended December 31, 2007	For year ended December 31, 2006	February 25, to December 31, 2005
Net Assets, beginning of period	$ 8.85	$ 9.77	$ 9.325
Opening adjustment from closing traded prices to bid market prices (note 2)		—	
Increase (decrease) from operations:			
Total revenue	0.77	0.87	0.70
Total expenses	(0.28)	(0.23)	(0.16)
Realized gains for the period	0.46	0.32	0.07
Unrealized gains (losses) for the period	(0.33)	(0.90)	1.74
Total increase from operations(1)	0.62	0.06	1.23
Distributions:			
From income (excluding dividends)	0.2552	$0.24650	$0.23814
From dividends	—	0.02972	0.02530
From capital gains	0.4712	0.45015	0.09514
Return of capital	0.2336	0.23363	0.44142
Total Distributions in the period(2)	0.9600	$0.96000	0.80000
Net Assets, at end of period(3)	$ 8.31	$ 8.85	$ 9.77

(1) Net assets 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. For the year ended December 31, 2007 the nature of the distributions will be determined at the end of the year.

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

Ratios and Supplemental Data

	For the year ended December 31, 2007	For the year ended December 31, 2006	February 25, 2005 to December 31, 2005
Net Assets (000's)[1]	$ 17,030	$ 22,600	$ 31,038
Number of units outstanding[1]	2,041,136	2,555,090	3,177,200
Management expense ratio[2]	9.05%	7.15%	14.63%
Management expense ratio before waivers or absorptions	9.05%	7.15%	14.63%
Portfolio turnover rate[3]	21.26%	28.12%	15.23%
Trading expense ratio[4]	0.12%	0.13%	0.33%
Closing market price end of period	$ 6.99	$ 7.91	$ 8.55

(1) This information is provided as at December 31, 2007 and December 31, 2006.

(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 year ended December 31, 2007 added 4.33% and the year 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, 2007, 2006, 2005 and 2004, respectively. These statements represent the most recent audited information available. The expenses together with estimates for hedge funds with year-ends other than December 31 have been prorated based on the relative percentage of the hedge fund held by the Fund at the end of the respective period. Performance fees incurred by the underlying hedge funds can vary significantly from period to period based on such factors as the market conditions, fund strategy 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 asset value during the period.

Past Performance

General

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

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

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

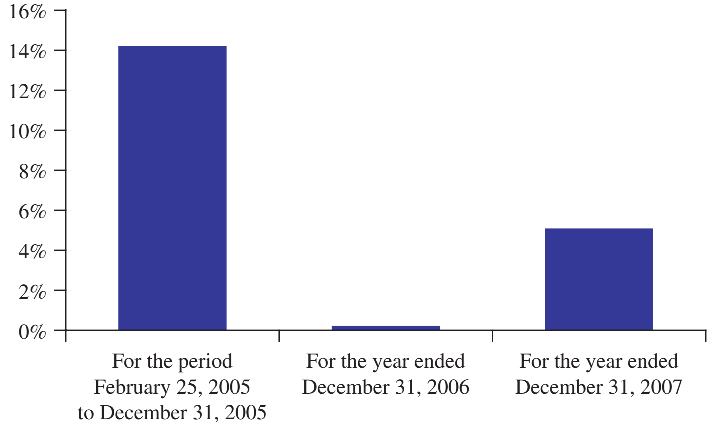
(c) how the Trust has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

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

(a) the bar chart shows the Trust's performance for each of the periods shown, and illustrates how the Trust's performance has changed from period to period; and

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



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]	6.73%	5.06%
S&P/TSX Capped Income Trust Index	8.38%	6.61%
S&P/TSX Composite Index	15.73%	9.83%
S&P 500 Index	9.02%	5.49%
Scotia Capital Universe Bond Index	4.59%	3.68%

* inception date of the Trust 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 reported net assets 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 reported 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, 2007, the management fee and service fee expense were $55,375 and $87,712 respectively, and the management fee and service fee payable by the Trust as at December 31, 2007 was $11,664 and $18,506 respectively.

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 Assets 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 bid price.

The Trust's reported net asset value per unit is calculated and reported monthly. During the year ended December 31, 2007, the reported net asset value of the Trust fluctuated between $8.31 per unit and $9.85 per unit (year ended December 31, 2006: low of $8.75 and a high of $10.21), 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, 2007, the daily closing price of the units fluctuated between $6.40 and $9.25 (the year ended December 31, 2006: low of $7.36 and a high of $9.50).

Distributions

During the year ended December 31, 2007, the Trust made distributions totaling $0.96 per unit $2,202,204 was distributed in aggregate) compared to $0.96 per unit ($2,729,924 in aggregate) during the year ended December 31, 2006.

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	Date distribution Paid	Character of distribution for tax purposes	Amount per unit
January 31, 2007	February 15, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
February 28, 2007	March 15, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
March 31, 2007	April 13, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
April 30, 2007	May 15, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
May 30, 2007	June 15, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
June 30, 2007	July 13, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
July 31, 2007	August 15, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
August 31, 2007	September 14, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
September 30, 2007	October 15, 2005	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000

Record date	Date distribution Paid	Character of distribution for tax purposes	Amount per unit
October 31, 2007	November 15, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
November 31, 2007	December 14, 2007	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	0.08000
December 31, 2007	January 15, 2008	Return of capital	0.01947
		Other income	0.02126
		Capital gain	0.03927
		Total	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 reported net asset value per unit as at the close of business on the preceding valuation date.

On August 24, 2007, 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 209,154 of the units of the Trust during the period from August 30, 2007 to August 29, 2008, 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, 2007, the Trust purchased 140,200 units for cancellation under this program at a cost of $1,167,939. (for the year-ended December 31, 2006: 158,700 units)

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 reported 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, 2007, 900,902 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 373,754 Units were redeemed at the June 30, 2007 reported net asset value per Unit of $9.6132 for $3,592,972 cash paid on July 26, 2007.

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}
– and –
ENHANCEMENT FUND LIMITED
INDEPENDENT REVIEW COMMITTEE REPORT

Dear Investor:

Effective November 1, 2007, the advisory board (the “Advisory Board”) of each of Northwater Top 75 Income Trusts^{PLUS} (the “Trust”) and Enhancement Fund Limited (the “Fund”) was designated as the independent review committee of the Trust and the Fund (the “IRC”) pursuant to the provisions of *National Instrument 81-107, Independent Review Committee for Investment Funds*.

This report is the IRC’s first annual report under the requirements of National Instrument 81-107. However, the Advisory Board has reported annually to unitholders since May 31, 2005.

Our role as required by securities regulators is to review investment fund conflict of interest matters identified and referred to us by Northwater Fund Management Inc., in its capacity as manager of the Trust and Northwater Capital Management Inc. as investment advisor to the Fund (together, the “Manager”) and to give our approval or recommendation with respect to such matters. The focus of our review of such conflict of interest matters is whether or not the Manager’s proposed action achieves a fair and reasonable result for the Trust and the underlying Fund.

At least once per year, we will also review the Manager’s policies and procedures relating to conflict of interest matters and will assess the adequacy and effectiveness of such policies and procedures in respect of the Trust and the Fund.

In addition to the regulatory requirements for independent fund governance, we are also retaining our role as an advisory board and as such assisting the Manager on other issues relating to the management and operation of the Trust and the Fund.

We look forward to continuing our open and effective relationship with the Manager for the benefit of the Trust and the Fund.

Regards,

Jeffrey D. Francoz
Chair of the Independent Review Committee

Members of the Independent Review Committee		Length of Service on Advisory Board / IRC
Name	**Residence**	**First Appointed[1]**
Jeffrey D. Francoz . . . . Chair of the IRC	Toronto, Ontario	May 31, 2005[2]
Ann Marshall	Toronto, Ontario	May 31, 2005[2]
Peter Vesely	Toronto, Ontario	November 1, 2007

* There were no changes in the composition of the IRC during the period.

* Ann Marshall also serves as an independent review committee member for iShares funds managed by Barclays Global Investors Canada Limited. Jeffrey Francoz and Peter Vesely do not currently serve as independent review committee members for other investment funds other than those managed by the Manager.

(1) Each member of the IRC listed has been a member of the independent review committee since its inception on November 1, 2007.

(2) Since the inception of the original Advisory Board of the Trust.

Holdings of Securities

(a) The Trust and the Fund

As at December 31, 2007, the percentage of units of the Trust beneficially owned, directly or indirectly, in aggregate, by all members of the IRC did not exceed 10%. The shares of the underlying Fund are held exclusively by the swap counterparty and no shares of the Fund have been offered to the public.

(b) The Manager

As at December 31, 2007, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of the Manager.

(c) Service Providers

As at December 31, 2007, no member of the IRC committee beneficially owned, directly or indirectly, any class or series of voting or equity securities of a company that provides services to the Trust or the Manager that could reasonably result in an actual or perceived loss of independence of the member.

The Advisory Board and, as of November 1, 2007, the IRC is pleased to report on its activities for the period ended December 31, 2007.

All of the members of the IRC are non-related and independent of management as were the members of the Advisory Board.

General

During the period ended December 31, 2007, the members of the Advisory Board, and subsequently the IRC (upon inception of the IRC on November 1, 2007), held four meetings. Mr. Francoz and Ms. Marshall attended all of the meetings held by the Advisory Board and the IRC during the period. Mr. Vesely attended all of the meetings held by the IRC during the period following his appointment as a member of the IRC.

During the period ended December 31, 2007, the Advisory Board, and subsequently the IRC, reviewed: (i) the mandate of the Advisory Board, (ii) the proposed Charter of the IRC, (iii) the reporting to unitholders as required by National Instrument 81-106, (iv) periodic reports on the performance and the composition of the investment portfolio of the Trust of the Fund, (v) compliance with Investment Guidelines, (vi) the presentation of certain information in the quarterly and annual reports, and (vii) the implementation and actions necessary to comply with National Instrument 81-107. In addition, the IRC adopted its written Charter and reviewed the various policies and procedures of the Manager related to conflict on interest matters to determine their adequacy and effectiveness.

The Advisory Board and, effective as of November 1, 2007, the IRC, each report 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/ IRC in order to properly execute their responsibilities.

Compensation and Indemnities

The aggregate compensation paid by the Trust and the Fund to the IRC for the two-month period from its inception on November 1, 2007 through December 31, 2007 was $3,667. The aggregate compensation paid by the Trust and the Fund to the Advisory Board for the preceding 10 months of 2007 was $7,500.

No indemnities were paid to the IRC or the Advisory Board during the period.

The initial compensation of the IRC was set by the Manager. At least annually, the IRC will review member compensation giving consideration to the following:

1. the best interests of the Trust and the Fund;
2. that compensation paid to the IRC by the Trust and the underlying Fund should fairly and reasonably reflect the general and specific benefits accruing to the Trust and the Fund;

3. the recommendation of the Manager;
4. the nature and complexity of the business of the Trust and the Fund; and
5. the nature and extent of the workload of each member of the IRC.

Conflict of Interest Matters

No Conflict of Interest matters were referred to the IRC during the period. Neither the IRC or the Advisory Board is aware of any instance in which the Manager acted in a conflict of interest matter referred to the IRC (or the Advisory Board) for which the IRC (or the Advisory Board, as applicable) did not give a positive recommendation.

Furthermore, the IRC / Advisory Board is not aware of any instance in which the Manager acted in a conflict of interest matter but did not meet a condition imposed by the IRC / Advisory Board in its recommendation or approval.

The Manager relied on the following standing instructions of the IRC in the period. In each case, the standing instructions required the Manager to comply with its related policy and procedures and to report periodically to the IRC.

Standing Instructions

1. allowing transfers between the Trust or the Fund and other Northwater-advised entities, provided that all such transfers will exclusively involve hedge fund investments transferred at an independently determined net asset value and must be consistent with the investment guidelines of the transferee; and
2. allowing Northwater and its affiliates to act in various capacities with respect to other entities, including without limitation in such capacities as manager, investment advisor, administrator or trustee, provided that Northwater and its affiliates shall in all cases act in accordance with its Procedures for Minimizing Potential Conflicts of Interest and its Code of Ethics.

The Manager also received positive recommendations and standing instructions with respect to the conflict of interest matters addressed by the following policies. In each case, the standing instructions required the Manager to comply with its related policies and procedures and to periodically report to the IRC.

Policies that address conflict of interest matters

1. Statement of Policies Respecting Related and Connected Issuers and Procedures for Minimizing Potential Conflicts of Interest

2. Code of Ethics
3. Allocation of Trades Procedures
4. Selection of Brokers, Best Execution and Soft Dollar Procedures
5. Consistency of Client Portfolio with Client Investment Objectives
6. Personal Securities Transactions Policy
7. Insider Trading Policy
8. Cross Trading Procedures

We look forward to continuing to discharge our duties in 2008 for the benefit of the Trust and the Fund.

Jeffrey D. Francoz
Chair of the IRC

Ann Marshall

Peter Vesely

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 consolidated 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.

Benita M. Warmbold, CA
Managing Director and
Chief Financial Officer
Northwater Fund Management Inc.

Shauna Cassidy, CFA
Vice-President

Northwater Fund Management Inc.

March 14, 2008

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, 2007, the statements of net assets as at December 31, 2007 and 2006 and the statements of operations, changes in net assets and cash flows for the years then ended. 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, 2007 and 2006 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants,
Licensed Public Accountants
Toronto, Ontario
March 14, 2008

NORTHWATER TOP 75 INCOME TRUSTS[PLUS]

Statements of Net Assets

	As at December 31, 2007	As at December 31, 2006
Assets		
Cash and short-term investments	$ 352,986	$ 135,404
Income trusts – at fair value (cost: 2007: $18,011,919; 2006: $22,998,484)	16,001,949	21,662,389
Common shares – at fair value (cost: 2007: $2,201,724; 2006: $ 2,590,524)	4,880,241	3,442,542
Third party asset-backed commercial paper (note 3)	264,000	—
Distribution receivable	151,397	196,837
Unrealized gain on forward contract (note 5)	—	11,647
	21,650,573	25,448,819
Liabilities		
Audit, legal and custody fees payable	44,244	26,604
Service fees payable (note 4)	18,506	24,181
Management and advisory fees payable (note 4)	11,664	15,365
Unrealized loss on forward contract (note 5)	1,869,800	—
Unrealized loss on currency futures	6,016	1,981
Distribution payable (note 6)	161,931	204,407
Loan payable (note 7)	2,574,032	2,576,252
	4,686,193	2,848,790
Net assets	$16,964,380	$22,600,029
Net assets and unitholders' equity (note 8)		
Unit capital	19,033,594	23,826,214
Contributed Surplus	31,709	—
Retained earnings (deficit)	(2,100,923)	(1,226,185)
	$16,964,380	$22,600,029
Number of units outstanding (note 8)	2,041,136	2,555,090
Net assets per unit	8.31	8.85

Signed on behalf of the Trustee,

Per:

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, 2007	For the year ended December 31, 2006
Investment income		
Distributions	$ 1,758,792	$ 2,424,941
Interest	14,308	21,325
	1,773,100	2,446,266
Expenses		
Service fees (note 4)	87,712	110,761
Forward fees (note 4)	140,039	172,432
Management fees (note 4)	55,375	77,751
Audit fees	89,072	51,534
Advisory fees (note 4)	16,122	10,149
Custodian fees	4,187	6,613
Legal fees	16,431	2,220
Security holder reporting costs	72,102	84,751
Administrative fees	11,868	10,599
Loan interest (note 7)	134,963	129,716
Transaction costs	12,377	1,842
	640,248	658,368
Net investment income	1,132,852	1,787,898
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Income trusts	695,578	895,604
Common shares	206,507	14,465
Currency futures	161,001	(17,261)
Change in unrealized appreciation (depreciation) on:		
Income trusts	(673,875)	(3,741,316)
Common shares	1,826,499	973,161
Third party asset-backed commercial paper	(36,000)	—
Forward contract	(1,881,447)	270,532
Currency futures	(4,035)	(865)
Realized and unrealized gain (loss) on investments for the year	294,228	(1,605,680)
Increase in net assets from operations for the year	$ 1,427,080	$ 182,218
Increase in net assets from operations per unit for the year*	0.62	$ 0.06

* Based on the average number of units outstanding 2007 – 2,317,296 (2006 – 2,805,053) for the year.

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, 2007	For the year ended December 31, 2006
Net assets – beginning of the year	$22,600,029	$31,038,539
Opening adjustment from closing traded prices to bid market prices (note 2)	(99,614)	
Net assets – beginning of the year – Adjusted	22,500,415	31,038,539
Increase in net assets from operations for the period	1,427,080	182,218
Unit transactions (note 8)		
Net assets of units repurchased and cancelled	(1,167,939)	(1,434,376)
Net assets of units redeemed	(3,592,972)	(4,456,428)
	(4,760,911)	(5,890,804)
Distribution to unitholders (note 6)		
Return of capital	(536,783)	(664,373)
From net realized gain	(1,079,288)	(1,280,071)
From other income	(586,133)	(700,958)
Dividends	—	(84,522)
	(2,202,204)	(2,729,924)
Net assets – end of the year	$16,964,380	$22,600,029

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, 2007	For the year ended December 31, 2006
Cash flows from operating activities		
Increase in net assets from operations for the year	$ 1,427,080	$ 182,218
Items not affecting cash:		
Change in unrealized depreciation (appreciation) on income trusts	673,875	3,741,316
Change in unrealized depreciation (appreciation) on common shares	(1,826,499)	(973,161)
Change in unrealized depreciation (appreciation) on third party asset-backed commercial paper	36,000	—
Change in unrealized depreciation (appreciation) on forward contract	1,881,447	(270,532)
Change in unrealized depreciation (appreciation) on future contract	4,035	865
Realized loss (gain) on income trusts	(695,578)	(895,604)
Realized loss (gain) on common shares	(206,507)	(14,465)
Changes in non-cash working capital:		
Change in payables	8,264	(23,666)
Change in receivables	45,440	36,067
Purchase of income trusts	(5,012,703)	(8,184,812)
Third party asset-backed commercial paper	(300,000)	—
Proceeds on sale of income trusts	10,599,650	15,099,076
Proceeds on sale of common shares	590,889	454,428
	7,225,393	9,151,730
Cash flows from financing activities		
Advance on (repayment of) loan	(2,220)	(472,992)
Repurchase of Trust units	(1,167,939)	(1,434,376)
Distributions paid to Trust unitholders	(2,244,680)	(2,779,693)
Redemption of Trust units	(3,592,972)	(4,456,428)
	(7,007,811)	(9,143,489)
Net increase (decrease) in cash and short-term investments	$ 217,582	$ 8,241
Cash and short-term investments at the beginning of the year	135,404	127,163
Cash and short-term investments at the end of the year	$ 352,986	$ 135,404
Supplementary information:		
Interest paid	$ 137,183	$ 143,708

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, 2007

	No. of Shares / Units	Cost	Fair Value	Fair Value as a % of Net Assets
Income trust portfolio				
Advantage Energy Income Fund	16,900	$300,198	$147,030	0.87%
Aeroplan Income Fund	9,800	180,614	231,476	1.36%
Algonquin Power Income Fund	28,800	298,614	241,632	1.42%
Allied Properties Real Estate Investment Trust	9,700	204,767	200,499	1.18%
AltaGas Income Trust	8,800	219,297	231,440	1.36%
ARC Energy Trust	11,300	216,143	230,181	1.36%
Baytex Energy Trust	11,900	174,695	224,910	1.33%
Bell Aliant Regional Communications Income Fund	7,900	221,121	232,497	1.37%
BFI Canada Income Fund	8,800	233,802	234,080	1.38%
Boardwalk Real Estate Investment Trust	5,200	100,388	231,244	1.36%
Bonavista Energy Trust	8,100	249,156	229,878	1.36%
Calloway Real Estate Investment Trust	10,100	195,328	244,723	1.44%
Canadian Apartment Properties REIT	12,929	195,102	206,605	1.22%
Canadian Oil Sands Trust	6,650	108,800	257,156	1.52%
Canadian Real Estate Investment Trust	8,300	158,031	239,704	1.41%
Canetic Resources Trust	14,512	299,396	193,155	1.14%
Canfor Pulp Income Fund	15,750	256,456	171,990	1.01%
Chartwell Seniors Housing REIT	16,600	243,503	187,746	1.11%
CI Financial Income Fund	9,200	230,460	257,048	1.52%
Cinplex Galaxy Income Fund	13,500	236,741	224,505	1.32%
Cinram International Income	9,300	239,089	53,103	0.31%
CML Healthcare Income Fund	15,200	207,617	260,224	1.53%
Cominar Real Estate Investment Trust	10,700	198,827	217,638	1.28%
Consumers’ Waterheater Income Fund (The)	14,400	227,087	211,680	1.25%
Crescent Point Energy Trust	11,000	218,768	271,590	1.60%
Davis + Henderson Income Fund	11,700	245,149	244,647	1.44%
Daylight Energy Trust	23,201	330,317	166,815	0.98%
Dundee Real Estate Investment Trust	5,500	218,185	185,350	1.09%
Energy Savings Income Fund	15,400	248,765	256,410	1.51%
Enerplus Resources Fund	5,000	233,329	198,800	1.17%
Epcor Power LP	9,500	336,565	220,970	1.30%
Extendicare Real Estate Investment Trust	15,800	290,044	195,920	1.15%
Focus Energy Trust	14,300	300,563	239,096	1.41%
Fording Canadian Coal Trust	5,900	198,487	226,383	1.33%
Fort Chicago Energy Partners L.P.	21,600	259,282	233,928	1.38%
Freehold Royalty Trust	15,800	277,586	246,006	1.45%
Gaz Metro Limited Partnership	14,700	327,184	238,728	1.41%
GMP Capital Trust	10,700	219,254	263,220	1.55%
Great Lakes Hydro Income Fund	12,000	238,645	240,120	1.42%
H&R Real Estate Investment Trust	11,200	217,500	221,648	1.31%
Harvest Energy Trust	7,547	228,818	155,695	0.92%
InnVest Real Estate Investment Trust	19,400	239,106	205,446	1.21%
Inter Pipeline Fund	24,900	233,291	236,052	1.39%
Jazz Air Income Fund	26,000	200,720	198,120	1.17%

	No. of Shares / Units	Cost	Fair Value	Fair Value as a % of Net Assets
Keyera Facilities Income Fund	13,900	$ 216,632	$ 274,803	1.62%
Labrador Iron Ore Royalty Income Fund	5,000	135,534	236,450	1.39%
Livingston International Income Fund	12,300	313,814	204,180	1.20%
Morguard Real Estate Investment Trust	17,800	275,695	229,620	1.35%
Mullen Group Income Fund	12,100	347,574	211,750	1.25%
NAL Oil & Gas Trust	19,400	270,868	224,070	1.32%
Newalta Income Fund	10,500	250,112	191,100	1.13%
North West Company Fund	12,000	197,056	250,560	1.48%
Northland Power Income Fund	18,800	269,454	229,548	1.35%
Paramount Energy Trust	21,200	337,005	132,712	0.78%
Parkland Income Fund	13,200	233,376	211,200	1.24%
Pembina Pipeline Income Fund	14,600	206,005	255,354	1.51%
Pengrowth Energy Trust – Class B Trust Unit	12,375	384,594	218,048	1.29%
Penn West Energy Trust	7,100	222,017	183,251	1.08%
Peyto Energy Trust	13,700	331,435	230,708	1.36%
Precision Drilling Trust	9,300	315,188	139,686	0.82%
Primaris Retail Real Estate Investment Trust	12,700	175,089	231,013	1.36%
PrimeWest Energy Trust	8,657	259,702	232,960	1.37%
Progress Energy Trust	18,800	261,182	203,416	1.20%
Provident Energy Trust	19,700	244,095	195,818	1.15%
Riocan Real Estate Investment Trust	10,500	197,802	228,375	1.35%
Superior Plus Income Fund	15,900	354,990	184,281	1.09%
Teranet Income Fund	22,500	220,930	228,825	1.35%
TimberWest Forest Corp.	14,200	221,796	208,740	1.23%
TransForce Income Fund	17,420	286,814	160,264	0.94%
Trilogy Energy Trust	25,900	424,391	177,933	1.05%
Trinidad Energy Services Income Trust	16,400	179,809	172,200	1.02%
Vermilion Energy Trust	7,100	160,013	241,826	1.43%
Westshore Terminals Income Fund	17,800	236,659	257,388	1.52%
Yellow Pages Income Fund	18,055	251,991	250,782	1.48%
Transaction costs (note 2)		(26,493)		
Income trust portfolio		18,011,919	16,001,949	94.32%
Common share portfolio				
Nortel Networks Corp(1)	31,298	1,101,067	468,844	2.76%
Research In Motion Ltd(1)	39,195	1,100,657	4,411,397	26.00%
Common share portfolio		2,201,724	4,880,241	28.76%
Third party asset-backed commercial paper (note 3)				
MMAI – I Trust		300,000	264,000	1.56%
Cash		352,986	352,986	2.08%
Total investment Portfolio		20,866,629	21,499,176	126.72%
Other net assets			(4,534,796)	-26.72%
Total net assets and unitholders' equity			16,964,380	100.00%

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

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

Schedule 1 – Currency futures contracts:

	Bid Price	Notional contract Value	Settlement payable on futures contracts
6 Canadian Dollar Futures Contracts – March 2008	U.S. $100.99	US $ 605,940	
		CAD. $599,669	(CDN $6,016)

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, 2007 and 2006

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 ("GAAP") and are denominated in Canadian dollars.

Adoption of new accounting standards

(i) Section 3855 – Financial Instruments – Recognition and Measurement

On April 1, 2005, the Canadian Institute of Chartered Accountants issued Section 3855, "Financial Instruments – Recognition and Measurement" of the CICA Handbook – Accounting, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006.

In addition, Section 14.2 of National Instrument 81-106, issued by the Canadian Securities Administrators in 2005, requires the net asset value of an investment fund to be calculated in accordance with GAAP.

With respect to the implementation of Section 3855, the Canadian securities regulatory authorities have granted relief to investment funds from complying on an interim basis with Section 3855 for the purposes of calculating and reporting the purchase and redemption net asset value or the "Reported NAV" of an investment fund for up to a one year period ending September 30, 2008. This relief is to permit further review of the suitability of this new pronouncement for the purpose of calculating the Reported NAV. Depending on the outcome of this review by the Canadian Securities authorities, the method by which the net assets is calculated as governed by Section 3855 may result in a change to the Reported NAV of an investment fund.

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Reported NAV and the net asset value calculated in accordance with Section 3855 of the investment fund is required in the notes to the financial statements.

The provisions of this new standard have been applied prospectively (no restatement of prior periods). Accordingly, the opening net assets have been adjusted to reflect the provisions of the new handbook section. The opening net assets changed from $22,600,029 to $22,500,415 as a result of the implementation of the new standard.

The following paragraphs outline the accounting policies of the Fund after the adoption of Section 3855:

(a) Cash

Cash consists of cash in interest bearing accounts. Interest income is accrued on a monthly basis.

(b) Investments

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

The income trusts and common shares listed on a public securities exchange are valued at their bid price on each Valuation Date. 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 adoption of Section 3855 has resulted in a change in the valuation of the income trusts common shares in the Trust's financial statements which prior to Section 3855 were valued at the closing price on the valuation date.

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 reported 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 reported net asset values based on preliminary returns reported by the administrators or the portfolio managers of such funds.

The third party asset-backed commercial paper ("ABCP") is valued at fair value as determined by Northwater. See note 3 for further details regarding ABCP.

(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 bid 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) 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.

(e) 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.

(f) Transaction Costs

In accordance with Section 3855, transaction costs are expensed and are included in the Statement of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment.

(g) Comparative Figures

Certain of the 2006 comparative figures have been reclassed to conform to the 2006 financial statement presentations.

3. Third Party Asset-Backed Commercial Paper ("ABCP")

In August of 2007, market conditions resulted in there being no liquidity for the ABCP. The ABCP held by the Fund continues to be illiquid as at December 31, 2007.

A committee of note holders knows as the Pan-Canadian Investor Committee for Third Party Asset-Backed Commercial Paper (the "Committee") was formed to propose a restructuring of the ABCP. On December 23, 2007 the Committee announced an agreement in principle (the "AIP") to restructure the ABCP subject to certain approvals and the affirmative votes of a special majority of note holders with the plan of bringing the restructuring to a final implementation in 2008. The AIP proposes restructuring the ABCP held by the Fund into a trust pooling the interests of certain affected ABCP in exchange for a mix of senior and subordinated floating rate notes.

incorporates the terms of the restructuring as proposed by the Committee and relevant market information. The model's significant assumptions include the high probability of success of the restructuring as proposed, the mix of senior and subordinated notes to be received in exchange for the ABCP currently held, as well as factors including risk adjusted interest rate spreads, discount rate assumptions and assumptions concerning credit conditions.

The fair value of the ABCP represents an estimate by Northwater based on the information available to it at the time of the calculation. The calculation of the estimated fair value was based on information that may become more complete or change. Possible changes in assumptions that could have a material impact on the valuation of the ABCP include but not limited to: the outcome of the AIP, changes in the value of the underlying assets of the ABCP conduits, the change in the mix of senior and subordinated floating rate notes received and changes in risk adjusted interest rate spreads, discount rate assumptions and assumptions concerning credit conditions.

The fair value assigned to ABCP may differ from the actual value realized on any sale or other liquidation and, as such, the value of such securities may be over-stated or under-stated.

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.

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 5).

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

5. Forward Agreement

The Trust has entered into a forward agreement ("Forward") with a Canadian Bank on March 31, 2005 (the "Counterparty") to obtain exposure to a diversified portfolio of market-neutral hedge funds (the "Hedge Fund Portfolio") held in the Enhancement Fund Limited (the "Fund"), a Cayman Islands exempt company. 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 reported 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 forward agreement matures on March 31, 2012.

The notional amounts of the Forward as at December 31, 2007 are in the amount of U.S.$15,617,647 and Canadian $2,201,997 (December 31, 2006: U.S.$19,485,536 and Canadian $2,590,595). During the year ended December 31, 2007, the Counterparty redeemed 378.2935 participating shares of the Fund for U.S.$4,370,000.

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, 2007 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 hedge fund 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 hedge fund 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 hedge fund holdings by strategy as at December 31, 2007 and December 31, 2006. The multi-strategy funds have not been allocated to any of the underlying hedge fund strategies set out in this table.

	As at December 31, 2007			As at December 31, 2006		
Strategy	No. of Hedge Funds	Fair Value (in US Dollars)		No. of Hedge Funds	Fair Value (in US Dollars)	
Activist Investment	1	$ 823,361	5%	1	$ 776,206	4%
Asset-backed securities arbitrage	3	2,393,950	13%	3	2,644,901	13%
Capital structure arbitrage	—	—	—	1	383,551	2%
Distressed securities arbitrage	4	2,214,191	12%	5	3,258,875	15%
Energy relative value	—	—		2	715,775	3%
Fixed-income arbitrage	3	1,138,400	6%	2	1,484,116	7%
Merger arbitrage	1	213,907	1%	1	591,458	3%
Mortgage-backed security arbitrage	4	2,727,271	15%	4	3,167,892	15%
Multi-strategy	6	3,918,539	22%	4	2,518,163	12%
Re-insurance arbitrage	2	1,199,750	7%	2	1,390,180	7%
Structured finance	2	1,456,923	8%	5	3,220,665	15%
Statistical arbitrage	4	2,024,325	11%	2	904,590	4%
	30	$18,110,617	100%	32	$21,056,372	100%

The following table shows the number of hedge funds held by the Fund as at December 31, 2007 and 2006 categorized by the size of each hedge fund.

Total Assets of each hedge fund in U.S.$ Millions	2007	2006
< 100	0	3
100 - 250	7	8
250 - 500	2	5
500 - 750	2	3
750 - 1000	3	2
> 1000	16	11
	30	32

The following table shows the number of hedge funds held by the Fund as at December 31, 2007 and 2006 categorized by the years since inception of each hedge fund.

Years	2007	2006
< 3	2	13
3 - 6	16	13
6 - 9	7	5
9 - 12	2	0
12 - 15	2	1
> 15	1	0
	30	32

The following chart illustrates the number of hedge fund holdings of the Fund by jurisdiction of organization as at December 31, 2007 and 2006.

Location	2007	2006
Cayman Islands	26	29
British Virgin Islands	2	1
Bermuda	2	2
	30	32

6. 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, 2007, the Trust made distributions totaling $0.96 per unit ($2,202,204 was distributed in aggregate) (year ended December 31, 2006: $0.96 per unit; $2,729,924 in aggregate).

7. Bank Loan

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

During the year ended December 31, 2007, the bank loan fluctuated between $2,574,032 and $2,690,571(year-ended December 31, 2006: bank loan balance fluctuated between $2,591,000 and $3,050,000).

The average rate of interest paid on the loan for the year ended December 31, 2007 was 5.21%.

8. 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 reported 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 140,200 units at a cost of $1,167,939 for cancellation during the year ended December 31, 2007 (year ended December 31, 2006: 158,700 units were purchased for cancellation).

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 reported 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, 2007, 900,902 Units were submitted for redemption (June 30, 2006: 766,791 Units). 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 373,754 Units were redeemed at the June 30, 2007 reported net asset value per Unit of $9.6132 for $3,592,972 cash paid on July 26, 2007 (June 30, 2006: 463,410 Units for $4,456,428 cash paid).

Unitholders’ equity is comprised of unit capital and deficit. The following table shows the transactions for unit capital and deficit during the relevant periods:

Year ended December 31, 2007	**Units Outstanding**	**Unit Capital**	**Contributed Surplus**	**Deficit**	**Unitholders’ Equity**
Balance – December 31, 2006	2,555,090	$23,826,214	$ —	$(1,226,185)	$22,600,029
Adjustment from closing traded prices to bid market prices (Note 2)	—	—	—	(99,614)	(99,614)
Increase (decrease) in net assets from operations for the year	—	—	—	1,427,080	1,427,080
Units cancelled during the period	(140,200)	(1,307,365)	139,426*	—	(1,167,939)
Units redeemed during the year	(373,754)	(3,485,255)	(107,717)*	—	(3,592,972)
Distributions				(2,202,204)	(2,202,204)
Balance – December 31, 2007	2,041,136	$19,033,594	$ 31,709	$(2,100,923)	$16,964,380

Year ended December 31, 2006	Units Outstanding	Unit Capital	Contributed Surplus	Deficit	Unitholders' Equity
Balance – December 31, 2005	3,177,200	$29,627,390	$ 18,504	$ 1,392,645	$31,038,539
Increase (decrease) in net assets from operations for the year	—	—	—	182,218	182,218
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)	(64,006)*	(71,124)	(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

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

9. Income Taxes

As at December 31, 2007, 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, 2007, the Trust has no non-capital loss carryforwards and no capital loss carryforwards.

10. Reconciliation of Net Assets

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Reported NAV and the net assets calculated in accordance with Section 3855 (the "GAAP NAV") of the investment fund is required and reported in the financial statements.

The below tables reconciles the reported net asset value as at December 31, 2007 with the net assets per unit as calculated in accordance with section 3855.

	Net asset value	Net asset value per unit
Net Assets per the Statement of Net Assets	$16,964,380	$8.31
Section 3855 Adjustment (note 2)	65,590	0.03
Reported net asset value	$17,029,970	$8.34

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 exposure under management to approximately CDN $14.1 billion in total, including $4.8 billion USD invested in hedge funds as at December 31, 2007. 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, Australia, 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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TSE Symbol: NTP.UN