NORTHWATER TOP 75 INCOME TRUSTS PLUS

NORTHWATER

Northwater Top 75 Income Trusts PLUS
December 31, 2008
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, 2008 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 traded on the Toronto Stock Exchange under the symbol NMN.UN that delivers the return of a diversified portfolio of market-neutral hedge funds. As at December 31, 2008, the net asset value of the Trust per unit was $2.37. For the year ended December 31, 2008, the return of the Trust was -66.19% including distributions. During the same time period, the DEX Universe Bond Index returned 6.41 %, the S&P/TSX Composite Index declined by 33.00% and the S&P 500 in U.S. dollar terms, fell by 37.00% which translates to a loss of 21.20% in Canadian dollar terms. The Trust made distributions of $0.90 per unit during the year.

Overall, the return of the Trust in 2008 was disappointing from both an absolute return basis as well as from its lack of neutrality in respect of other asset class returns. Performance of all asset classes was impacted by the escalating uncertainty which surrounded the state of the global financial system. The Trust's hedge fund investments were not immune to these stresses in the capital markets.

The credit crisis which began to unfold in the US sub-prime housing market during the last quarter of 2007, continued to unravel across all markets during 2008. Credit markets contracted, banks restricted lending to each other and the deleveraging spiral negatively impacted all market participants including hedge funds. Strategies that rely on normalization of historical spreads were dramatically impacted by widening spreads while the price and availability of leverage altered the fundamental economics of some profitable trades. Regulatory uncertainty increased in mid 2008 when new short selling rules altered some fund's abilities to adequately hedge in the equity markets. The bankruptcy of Lehman Brothers and subsequent AIG bailout increased the overall market uncertainty leading into the final quarter of 2008. Spread widening in credit markets combined with technical pricing pressures and increased volatility in the hedging instruments made for extremely volatile and often negative returns in many of the hedge funds held by the Trust. While the hedge fund managers were reducing risk in their portfolios, the investor demand for the return of capital from these hedge fund managers increased leading into year end, putting further pressure on hedge fund's underlying investments.

The continuing deterioration in the credit and economic environment worldwide in the second half of the year weighed heavily on income trust performance as well. The passively-managed portfolio of income trusts held by the Trust reflected the sharp declines experienced by the broader equity and income trust markets in 2008.

Although the market outlook for many of the hedge fund strategies has improved, the Trust is proceeding with an orderly windup scheduled for December 31, 2009 in accordance with the prospectus of the Trust. As such we are focused on creating liquidity and returning capital to unitholders.

As of January 31, 2009, approximately 52% of the Fund (108% of the Trust) will continue to have exposure to underlying hedge funds market movements. Based on the most recent information that the Investment Advisor had available to it , the Manager anticipates that approximately 31% of the Fund (representing 18 hedge funds) (64% of the Trust) may be subject to restrictions on liquidity that could extend beyond the December 31, 2009 termination date of the Fund.

Based on current market conditions, the Investment Advisor anticipates that due to liquidity constraints in the underlying hedge funds it is likely that the Fund will continue to exist and be winding down its operations beyond the December 31, 2009 termination date.

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

David S. Finch, CFA
Managing Director and
Chief Investment Officer
Northwater Capital Management Inc.

March 23, 2009

MANAGEMENT REPORT OF FUND PERFORMANCE

This Management Report of Fund Performance contains financial highlights but does not contain the complete financial statements of Northwater Top 75 Income Trusts Plus (the "Trust"). A copy of the financial statements of the Trust for the year ended December 31, 2008 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, Brookfield Place, Bay Wellington Tower, 181 Bay Street, P.O. Box 794, Toronto, Ontario, M5J 2T3. You may also visit our website at www.northwatercapital.com or the SEDAR website at www.sedar.com.

Northwater 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

In December 2006, the Accounting Standards Board issued Canadian Institute of Charted Accountants ("CICA") Handbook Section 3862 "Financial Instruments – Disclosures" ("S. 3862") and Section 3863, "Financial Instruments – Presentation" ("S. 3863"), which provide comprehensive disclosure and presentation requirements for financial instruments.

In addition, in December 2006, the Accounting Standards Board issued CICA Handbook Section 1535 "Capital Disclosures" ("S. 1535"), which provides standards for disclosing information about an entity's capital and how it is managed.

The requirements of S. 3862, S. 3863 and S. 1535 are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and have been reflected in the notes to the financial statements.

Investment Objectives and Strategies

Investment Objectives

The investment objectives of the Trust comprise making monthly cash distributions to unitholders and achieving low incremental risk for the exposure to hedge funds, above the level of risk for 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"). The Fund holds a diversified portfolio of market-neutral hedge funds ("Hedge Fund Portfolio"). In order to facilitate obtaining this exposure to Hedge Fund Portfolio through the Forward, the Trust borrowed approximately 10% of the net proceeds of its offering to invest in a portfolio of common shares of Canadian public companies ("Common Share Portfolio"), which has then been sold under the Forward to the Counterparty. Under the Forward, the Common Share Portfolio is exchanged for the return of the Fund. 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. Given that the Trust does have exposure to Common Share Portfolio. 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 target exposure to the Fund is equal to 100% of the net assets of the Trust. As at December 31, 2008, the actual exposure was 201%. The Trust is required to take action to reduce leverage if this exposure exceeds 120%. Such actions were taken and implemented in January 2009. 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

Throughout the year the Trust's investment objectives and strategy were 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 19 years in managing index funds and hedge fund investments for its institutional clients.

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.

This investment management process comprises selection and ongoing monitoring of the hedge fund investments, including but not limited to: comprehensive quantitative and qualitative assessment of hedge fund managers, including hedge fund manager reviews involving on-site interviews, monthly portfolio reviews and various industry references; a comprehensive investment and operational due diligence process; the construction of a diversified model portfolio using various portfolio construction techniques, including mathematical optimization, statistical process control and factor analysis and use of an established operational infrastructure necessary for managing complex fund of market-neutral hedge fund and derivative strategies.

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.

Leverage

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, 2008 was 13.03% (December 31, 2007: 15.17%)

Risks

The following tables present information for the periods from inception and for the year ended December 31, 2008 and 2007 regarding the risk profile of both the Trust and the Fund's hedge fund holdings.

Trust Statistics	**For the period from inception to December 31, 2008**	**For the period from inception to December 31, 2007**
# of positive monthly returns	27	22
# of negative monthly returns	21	13
% of negative months	43.8%	37.1%
Average size of negative months	(7.33)%	(3.54)%
Worst monthly return	(34.41)%	(9.86)%

Single Hedge Fund Statistics of the Fund	**Year ended December 31, 2008**	**Year ended December 31, 2007**
# of hedge funds with positive returns[1, 2]	4	17
# of hedge funds with negative returns[1, 2]	19	7
Average annual hedge fund standard deviation[2, 3]	16.78%	6.92%
Average correlation between hedge funds[2, 4]	0.43	0.27

(1) Measured for hedge funds in the Hedge Fund Portfolio as at December 31, 2008 and December 31, 2007 respectively.

(2) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio as at December 31, 2008 and December 31, 2007 respectively, excludes hedge funds with less than 24 months of historical return.

(3) Standard deviation is defined as a measure of dispersion of returns around a mean (average return). A low standard deviation implies low risk of experiencing returns that vary highly in magnitude from the mean.

(4) Correlation is a measure of the degree to which variables (such as performance of two hedge funds) move together.

No material changes affecting the overall risk of investing in the Trust were made by the Manager in the year ended December 31, 2008. However, the hedge fund industry, like other market participants, has been subject to unprecedented turmoil in the markets due to the ongoing credit crisis.

The change in the risk characteristics of the Trust reflects the magnitude of the stress felt across the entire financial system in 2008. Trust returns in 2008 were uncharacteristically skewed to the negative on a monthly basis and the Trust experienced its worst monthly return since inception.

As illustrated in the Single Hedge Fund Strategies chart above, diversification across managers was not sufficient to avoid the overwhelming negative impact from the industry wide deleveraging. The volatility in the underlying managers (as expressed by standard deviation) rose to 16.65% versus the 2007 level of 3.60%.

The similarity of manager returns (average correlation between hedge funds), which had historically been very low and stable, spiked in 2008, which is reflective of the magnitude of the problems across all financial markets.

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

As of January 31, 2009, approximately 52% of the Fund will continue to have exposure to underlying hedge funds market movements. Based on the most recent information that the Manager had available to it, the Manager anticipates that approximately 31% of the Fund (representing five hedge funds) may be subject to restrictions on liquidity that could extend beyond the December 31, 2009 termination date of the Fund.

Based on current market conditions, the Manager anticipates that due to liquidity constraints in the underlying hedge funds it is likely that the Fund will continue to exist and be winding down its operations beyond the originally scheduled December 31, 2009 termination date of the Fund.

At December 31, 2008, the Advisor submitted redemption requests to all the underlying hedge funds in anticipation of the Fund's scheduled termination date.

The following table shows the expected payout timeline of redemption proceeds from the underlying hedge fund managers:

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

	Amount ($)	% of hedge fund portfolio as at December 31, 2008
Restricted redemptions [1, 2]	702,090	12%
Liquidating	942,477	16%
Normal Course	2,220,757	38%
	3,865,324	66%

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

	Amount ($)	% of hedge fund portfolio as at December 31, 2008
Restricted redemptions [1]	954,204	16%
Liquidating	1,034,800	18%
	1,989,004	34%

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

(2) Although these redemptions are currently restricted, the Manager anticipates that the redemption proceeds will still be received with 2009

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

Results of Operations

For the year ended December 31, 2008, the Trust posted a loss of -66.19% taking into account distributions made during the year. Distributions during the year totaled $1,653,565 or $0.90 per Unit.

Income Trust Portfolio Performance

During the year ended December 31, 2008, all of the Trust's income trust sectors posted negative returns, not considering distributions received from the income trusts, (with the business trust sector posting the weakest results.) The S&P Capped Income Trust index posted a return inclusive of reinvested distributions of -26.08% during this year.

The following table presents the total realized and unrealized gains and losses by income trust sector for the years ended December 31, 2008 and 2007.

Trust Sector	Year ended December 31, 2008	Year ended December 31, 2007
Business trusts	$(2,484,093)	$ 731,010
Energy trusts	(442,119)	(653,421)
Power & pipeline trusts	(352,795)	35,671
Real estate investment trusts	(1,138,384)	(91,557)

The income trust market was volatile in the first half of 2008, while the rapid deterioration in the financial and economic environment worldwide in the second half of the year weighed heavily on performance during that time period. As the year progressed, the decline in the real estate and credit markets accelerated, while the malaise spread to the general economy with government and central banks unable to thwart the deterioration of economic fundamentals worldwide. These broad economic themes were reflected in the sharply negative performance of the portfolio of income trusts held by the Trust.

Hedge Fund Portfolio Performance

For the year ended December 31, 2008, the Fund's return was -26.80% (USD return). The asset-backed securities arbitrage strategy contributed most positively to hedge fund returns while the fixed income arbitrage was the weakest performer.

The following table presents the USD return by investment strategy for the years ended December 31, 2008 and 2007 for the Fund:

Strategy	Year ended December 31, 2008	Year ended December 31, 2007
Activist investments	(35.34)%	6.08%
Asset-backed securities arbitrage	2.16%	18.56%
Distressed securities arbitrage	(11.97)%	20.48%
Fixed-income arbitrage	(56.21)%	5.02%
Merger arbitrage	—	(22.68)%
Mortgage-backed security arbitrage	(30.25)%	(1.98)%
Multi-strategy	(36.13)%	10.64%
Re-insurance arbitrage	(2.53)%	15.16%
Statistical arbitrage	(10.65)%	(11.52)%
Structured finance	(52.79)%	4.99%

As the credit crisis continued to unravel across all the markets, the hedge fund performance across almost all strategies was negatively impacted. Strategies which rely on normalization of historical spreads were dramatically impacted by the continued spread widening while the price and availability of leverage altered the fundamental economics of some profitable trades. Regulatory uncertainty increased in mid 2008 when new short selling rules altered some funds' abilities to adequately hedge in the equity markets. While the hedge fund managers were reducing risk in their portfolios, the investor demand for the return of capital from these hedge fund managers increased leading into year end, putting further pressure on hedge fund's underlying investments.

Specific manager returns within the asset-backed securities arbitrage strategy were enough to generate a slightly positive return for the year, however, the returns generated from the mortgage-backed securities arbitrage managers were more reflective of the heightened volatility and illiquidity in the mortgage markets.

Fixed income arbitrage and structured finance strategies were the largest negative contributors to performance and were driven by the negative consequences of a dislocated credit market.

The activist strategy was ineffective as the actions of the underlying hedge fund manager were not sufficient to offset the impact of the negative equity markets.

Multistrategy managers that historically were able to reap the benefits of strategy diversification, were caught up in the technical market behaviours and ultimately in the investor liquidation pressures which combined to deliver the negative result.

The Trust had borrowings in the amount of $496,807 as at December 31, 2008 through a revolving loan facility with a Canadian financial institution. The financial leverage as at December 31, 2008 was 13.03%. The Trust has employed the loan as leverage to enhance its investment returns.

The Trust purchased 431,050 Units under its repurchase and cancellation programs at a cost of $3,310,276 resulting in a contribution of 0.92% to the overall return of the Trust.

Summary of Investment Portfolio

As described in the Investment Strategies section of this report, the strategy of the Trust is to provide unitholders with (i) 100% exposure to an equally-weighted portfolio of the largest 75 income trusts listed on the Toronto Stock Exchange ranked by market capitalization plus (ii) an additional 100% exposure to a broadly diversified portfolio of market-neutral hedge funds through Enhancement Fund Limited ("Fund"). The Trust directly holds the income trust portfolio. The Trust does not invest directly in the Fund, rather the net return of the Fund is provided to it through a Forward Agreement with a major financial institution. Under the Forward Agreement the counterparty provides the Trust with a return of the Fund in exchange for receiving the return of non-dividend paying Canadian common shares that it has acquired and then has sold forward. Because the non dividend paying Canadian common shares are sold forward, the Trust has no real exposure to them.

The following sections describe in more detail the two aspects of the Trust's investment portfolio: the income trust portfolio and the exposure to the hedge fund portfolio obtained through the Forward.

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, 2008 is set out in the Statement of Investment Portfolio. As at December 31, 2008, the Trust held 75 income trusts. Pursuant to the Trust's policy of rebalancing on an annual basis, the Trust will rebalance the income trust portfolio at least annually. The Trust rebalances the income trust portfolio so that, at the time of each rebalancing, the income trusts in the portfolio are equally-weighted and generally reflective of the largest 75 income trusts.

Asset Allocation by Trust Sector

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

Income Trust Portfolio Exposure

Trust Sector	As at December 31, 2008 No. of Income Trusts	Fair Value		As at December 31, 2007 No. of Income Trusts	Fair Value	
Business trusts	28	$1,835,070	37%	28	$ 6,049,264	38%
Energy trusts	26	1,774,090	36%	25	5,236,511	33%
Power & pipeline trusts	7	450,714	9%	7	1,675,362	10%
Real estate investment trusts	14	880,735	18%	14	3,040,812	19%
	75	$4,940,609	100%	74	$16,001,949	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, 2008 and 2007.

Trust Sector	As at December 31, 2008	As at December 31, 2007
Business trusts	2.26%	1.55%
Energy trusts	2.78%	1.62%
Power & pipeline trusts	1.97%	1.51%
Real estate investment trusts	1.94%	1.44%

The following table lists the largest 25 income trusts by fair value held by the Trust as at December 31, 2008.

Top 25 Income Trust Investments	Type of Investment	Cost	Fair Value	Fair Value as a % of Net Assets
Extendicare Real Estate Investment Trust	Trust Units	$318,735	$105,774	2.78%
Artis Real Estate Investment Trust	Trust Units	173,360	86,258	2.26%
Livingston International Income Fund	Trust Units	153,545	83,430	2.19%
Morguard Real Estate Investment Trust	Trust Units	111,301	82,440	2.16%
Wajax Income Fund	Trust Units	61,742	81,900	2.15%
Zargon Energy Trust	Trust Units	107,495	77,715	2.04%
AG Growth Income Fund	Trust Units	139,378	77,560	2.03%
Armetic Infrastructure Income Fund	Trust Units	101,248	76,455	2.01%
Keyera Facilities Income Fund	Trust Units	66,887	76,367	2.00%
Parkland Income Fund	Trust Units	201,374	75,334	1.98%
Energy Savings Income Fund	Trust Units	138,323	75,308	1.98%
Mullen Group Income Fund	Trust Units	169,301	74,930	1.97%
Chartwell Seniors Housing REIT	Trust Units	189,177	74,106	1.94%
H&R Real Estate Investment Trust	Trust Units	193,953	74,000	1.94%
Enerflex Systems Income Fund	Trust Units	80,656	73,485	1.93%
Macquarie Power & Infrastructure Income Fund	Trust Units	130,423	72,842	1.91%
Bell Aliant Regional Communications Income Fund	Trust Units	86,769	72,757	1.91%
Gaz Metro Limited Partnership	Trust Units	122,251	71,830	1.88%
InnVest Real Estate Investment Trust	Trust Units	220,683	71,238	1.87%
Epcor Power LP	Trust Units	141,592	70,800	1.86%
Labrador Iron Ore Royalty Income Fund	Trust Units	89,353	70,224	1.84%
Daylight Resources Trust	Trust Units	129,215	70,169	1.84%
Allied Properties Real Estate Investment Trust	Trust Units	116,303	69,496	1.82%
Primaris Retail Real Estate Investment Trust	Trust Units	91,618	69,300	1.82%
Yellow Pages Income Fund	Trust Units	142,827	67,991	1.78%

Hedge Funds

The Trust has obtained exposure to the Hedge Fund Portfolio through the Forward. As at December 31, 2008, the notional values of the forward were CAD$1,871,724 and U.S.$7,085,168 and the net assets of the Fund were U.S.$6,325,930. 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 ended December 31, 2008, the Fund redeemed from eight hedge funds (consisting of two structured finance funds, one energy relative value fund, one asset-backed securities, one multi-strategy, one statistical arbitrage and two distressed securities funds (year ended December 31, 2007: the Fund placed investments with six new hedge funds and redeemed from eight hedge funds).

As at December 31, 2008, the Hedge Fund Portfolio included investments in 23 hedge funds with 20 managers engaged in nine 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 shows the hedge fund holdings by strategy as at December 31, 2008 and 2007. 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, 2008			As at December 31, 2007		
Strategy	No. of Hedge Funds	Fair Value (in U.S. Dollars)		No. of Hedge Funds	Fair Value (in U.S. dollars)	
Activist investments	1	$ 532,392	9%	1	$ 823,361	5%
Asset-backed securities arbitrage	2	392,981	7%	3	2,393,950	13%
Distressed securities arbitrage	1	92,079	2%	4	2,214,191	12%
Fixed-income arbitrage	3	445,802	8%	3	1,138,400	6%
Merger arbitrage	—	—	—	1	213,907	1%
Mortgage-backed security arbitrage	4	1,449,421	25%	4	2,727,271	15%
Multi-strategy	6	1,490,007	25%	6	3,918,539	22%
Re-insurance arbitrage	2	388,057	6%	2	1,199,750	7%
Structured finance	1	369,826	6%	2	1,456,923	8%
Statistical arbitrage	3	693,763	12%	4	2,024,325	11%
	23	$5,854,328	100%	30	$18,110,617	100%

The following table illustrate the hedge fund holdings by strategy of the Fund as at December 31, 2008 and December 31, 2007. The Fund's multi-strategy hedge funds have not been allocated to the various hedge fund strategies to reflect their exposure to their constituent strategies. Strategy weights are dynamic and may change from year to year.

Strategy	As at December 31, 2008	As at December 31, 2007
Activist investments	16.96%	4.85%
Asset-backed securities arbitrage	9.27%	7.06%
Distressed securities arbitrage	2.93%	3.88%
Fixed-income arbitrage	6.46%	2.61%
Merger arbitrage	—	1.26%
Mortgage-backed security arbitrage	15.08%	6.07%
Multi-strategy	11.93%	6.29%
Re-insurance arbitrage	9.86%	5.28%
Structured finance	11.78%	4.99%
Statistical arbitrage	13.66%	5.11%

The following table lists the all hedge funds held by the Fund by fair value as December 31, 2008. The Fund will disclose the names of those hedge funds that it holds that represent more than 5% of the net assets of the Fund at the end of the period. For hedge funds that represent less than 5% of the Fund's net assets, the Fund has adopted unique fund numbers as identifiers. These numbers are used consistently in its reporting by the Fund.

Hedge Fund Investments	Type of Investment	Cost	Fair Value	Fair value as a % of Net Assets
Icahn Fund Ltd.*	Participating Shares	$ 600,000	$ 532,391	16.96%
Sorin Offshore Fund*	Participating Shares	500,000	473,587	15.08%
Two Sigma Spectrum Cayman Fund, Ltd.*	Participating Shares	400,000	428,897	13.66%
New Ellington Overseas Ltd. *	Participating Shares	488,472	405,239	12.91%
H/2 Credit Partners Ltd.*	Participating Shares	500,000	400,367	12.75%
Satellite Overseas Fund, Ltd.*	Participating Shares	609,983	374,638	11.93%
D.B. Zwirn Special Opportunity Fund, Ltd.*	Voting shares and capital balance	598,675	369,826	11.78%
Tempo Fund Ltd.*	Participating Shares	482,170	316,516	10.08%
FCM CAT Fund Ltd.*	Participating Shares	243,043	309,705	9.86%
Mariner-Tricadia Credit Strategies, Ltd.*	Participating Shares	142,119	291,205	9.27%
Citadal Kensington Global Strategies Fund, Ltd.*	Participating Shares	600,000	281,427	8.96%
HBK Offshore Fund Ltd.*	Participating Shares	303,236	254,065	8.09%
Tykhe Portfolios Ltd.*	Participating Shares	400,000	253,320	8.07%
Shephard Investments International Ltd.*	Participating Shares	226,548	227,204	7.24%
Platinum Grove Contingent Capital Offshore Fund Ltd.*	Participating Shares	400,000	202,908	6.46%
Relative Value opportunity Fund III, Ltd.*	Participating Shares	260,225	180,946	5.76%
West Side Offshore Partners*	Participating Shares	312,907	170,229	5.42%
Fund 171*	Participating Shares	134,192	101,776	3.24%
Fund 212*	Participating Shares	—	92,079	2.93%
Fund 131*	Participating Shares	—	78,351	2.50%
Fund 191*	Participating Shares	246,755	61,947	1.97%
Fund 118*	Participating Shares	—	36,157	1.15%
Fund 104*	Participating Shares	14,344	11,548	0.37%
		7,462,669	5,854,328	

* 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 26,604 shares in Nortel Networks Corp. and 33,316 shares in Research in Motion Ltd. as at December 31, 2008. 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 0.22% and 43.23% as at December 31, 2008, 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 years ended December 31, 2008, 2007 and 2006 and for the period from February 25, 2005 to December 31, 2005. This information is derived from the Trust's financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

The Trust's Net Assets per Unit

	Year ended December 31, 2008	For year ended December 31, 2007	For year ended December 31, 2006	February 25, to December 31, 2005
Net assets, beginning of year	$ 8.31	$ 8.85	$ 9.77	$ 9.325
Increase (decrease) from operations:				
Total revenue	0.72	0.77	0.87	0.70
Total expenses	(0.28)	(0.28)	(0.23)	(0.16)
Realized gains (losses) for the year	(1.37)	0.46	0.32	0.07
Unrealized gains (losses) for the year	(3.56)	(0.33)	(0.90)	1.74
Total increase from operations(1)	(4.49)	0.62	0.06	1.23
Distributions:				
From income (excluding dividends)	0.19607	0.2552	$0.24650	$0.23814
From dividends	0.02003	—	0.02972	0.02530
From capital gains	—	0.4712	0.45015	0.09514
Return of capital	0.6839	0.2336	0.23363	0.44142
Total Distributions in the year(2)	(0.90)	0.9600	$0.96000	0.80000
Net Assets, at end of year(3)	$ 2.37	$ 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 year.

(2) Distributions were paid in cash.

(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

	2008	2007	2006	2005
Total net asset value (000's)[1]	$ 3,845	$ 17,030	$ 22,600	$ 31,038
Number of units outstanding[1]	1,610,086	2,041,136	2,555,090	3,177,200
Management expense ratio[2]	11.73%	9.05%	7.15%	14.63%
Management expense ratio before waivers or absorptions	11.73%	9.05%	7.15%	14.63%
Portfolio turnover rate[3]	23.43%	21.26%	28.12%	15.23%
Trading expense ratio[4]	0.44%	0.12%	0.13%	0.33%
Closing market price, end of year	$ 1.85	$ 6.99	$ 7.91	$ 8.55

(1) This information is provided as at December 31 of the years shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of month-end average net asset value during the period. Please note that the management expense ratio includes not only the expenses of the Trust and Fund 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, 2008 added 7.62%, the year ended December 31, 2007 added 4.33% and 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 years 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 year. Performance fees incurred by the underlying hedge funds can vary significantly from year to year 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 year. Included in the management expense ratios for the year 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 Trust.

(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 year.

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 years 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

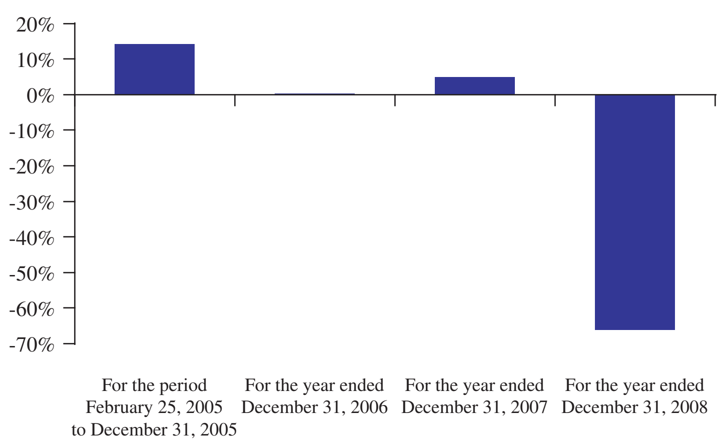
(c) how the Trust has performed in the past does not necessarily indicate how it will perform in the future.

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 years shown, and illustrates how the Trust's performance has changed from year to year; and

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



Annual Compound Returns

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

	Since Inception*	Past year	3 Years
Northwater Top 75 Income Trusts Plus	(20.87)%	(66.19)%	(29.13)%
S&P/TSX Capped Income Trust Index	(1.90)%	(26.08)%	(8.52)%
S&P/TSX Composite Index	0.38%	(33.00)%	(4.80)%
S&P 500 Index	(5.48)%	(37.00)%	(8.36)%
DEX Universe Bond Index	5.06%	6.41%	4.71%

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

The S&P/TSX Capped Income Trust Index is an index of all of the income trust constituents from the S&P/TSX Composite Index.

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 DEX Bond Index is a broad index of Canadian federal government, provincial government and corporate fixed income securities.

The Trust returns do not currently compare favourably to relevant benchmarks as outlined in the above chart. These results are the combination of the leverage employed by the Trust and the unusually poor results delivered by both the hedge funds and the income trusts in 2008 due to market dislocation caused by the credit crisis.

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 asset value 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. Substantially all of the management fee is applied to the provision of portfolio management and advisory services of the Manager.

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, 2008, the management fee and service fee expense were $33,989 and $50,342 respectively, and the management fee and service fee payable by the Trust as at December 31, 2008 was $3,471 and $4,622 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, 2008, the reported net asset value of the Trust fluctuated between $2.37 per unit and $8.81 per unit (year ended December 31, 2007: low of $8.31 and a high of $9.85), 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, 2008, the daily closing price of the units fluctuated between $1.00 and $7.54 (the year ended December 31, 2007: low of $6.40 and a high of $9.25).

Distributions

During the year ended December 31, 2008, the Trust made distributions totaling $0.90 per unit ($1,653,565 was distributed in aggregate) compared to $0.96 per unit ($2,729,924 in aggregate) during the year ended December 31, 2007.

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

The character of the 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/payable	Character of distribution for tax purposes	Amount per unit
January 31, 2008	February 15, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
February 29, 2008	March 14, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
March 31, 2008	April 15, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
April 30, 2008	May 15, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
May 30, 2008	June 13, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
June 30, 2008	July 15, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
July 31, 2008	August 15, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000

Record date	Date distribution paid/payable	Character of distribution for tax purposes	Amount per unit
August 29, 2008	September 12, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
September 30, 2008	October 15, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
November 28, 2008	December 12, 2008	Return of Capital	$0.06079
		Dividends	$0.00178
		Other Income	$0.01743
		Total	$0.08000
December 31, 2008	January 15, 2009	Return of Capital	$0.01520
		Dividends	$0.00045
		Other Income	$0.00436
		Total	$0.02000

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 August of 2008, the Trust filed a notice of intention to make normal-course purchases of units with the Toronto Stock Exchange. In its filing with the Exchange, the Trust indicated an intention to purchase up to 166,009 of the units of the Trust, representing 10% of the public float of the Trust then outstanding during the period from September 11, 2008 to September 10, 2009. In accordance with exchange rules and by-laws, the Trust may not pay more than the most recent market price for the units purchased. Units purchased under the bid are cancelled.

During the year ended December 31, 2008, the Trust purchased 133,700 units for cancellation under this program at a cost of $858,296 (for the year-ended December 31, 2007: 140,200 units at a cost of $1,167,939).

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, 2008, 1,065,089 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 297,350 Units were redeemed at the June 30, 2008 reported net asset value per Unit of $8.3470 for $2,481,981 cash paid on July 23, 2008.

Potential Tax Implications of Wind-Up

The Manger currently anticipates commencing cash distributions (“Termination Distributions”) to investors effective as of December 31, 2009. Upon the commencement of the payment of Termination Distributions from the Trust, the percentage of a particular illiquid holding in relation to the trust’s assets is likely to exceed the 10% concentration limits required in order for the Trust to continue to qualify as a unit trust for Canadian income tax purposes. If and when the Trust fails to qualify as a unit trust it will no longer qualify as a mutual fund trust for Canadian income tax purposes and the trust will no longer be a “qualified investment” for registered accounts, including without limitation, RRIF’s RRSP’s and RESP’s. The Manager anticipates that the Trust will lose its “qualified investment” status for Canadian income tax purposes on or about December 31, 2009.

However, it is possible that the trust could lose its “qualified investment” status prior to December 31, 2009. The Manager will endeavour to provide investors with as much advance notice as reasonably possible if the Trust’s loss of its “qualified investment” status will occur prior to December 31, 2009. Investors are advised to speak with their advisors to obtain tax advice with respect to appropriate actions to take in respect of the failure of the trust to qualify as a mutual fund trust.

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 second 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.

As previously disclosed by the Trust, both the Trust and the Fund are scheduled to terminate effective as of December 31, 2009. We will be working with the Manager throughout the scheduled termination of the Trust and the Fund in accordance with the terms of our mandate.

In addition, we wanted to take this opportunity to advise unitholders that effective as of March 31, 2009, Jeff Francoz has had to resign his position as chair of the independent review committee. Mr. Francoz’ employment relationship has recently changed and his new employer has an internal policy against sitting on boards such as the independent review committee. The remaining members of the independent review committee wish to thank Mr. Francoz for his contribution and will continue to fulfill their mandate under NI 81-107 as they work with the Manager to seek a replacement.

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.

Holdings of Securities

(a) The Trust and the Fund

As at December 31, 2008, 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, 2008, 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, 2008, 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 IRC is pleased to report on its activities for the period ended December 31, 2008.

All of the members of the IRC are non-related and independent of management.

(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.

General

During the period ended December 31, 2008, the members of the IRC held four meetings. Mr. Francoz and Mr. Vesely attended all of the meetings held by the IRC, while Ms. Marshall attended all but one of the meetings.

During the period ended December 31, 2008, the IRC reviewed: (i) the Charter of the IRC, (ii) the reporting to unitholders as required by National Instrument 81-106, (iii) periodic reports on the performance and the composition of the investment portfolio of the Trust of the Fund, (iv) compliance with Investment Guidelines, (v) the compensation of the IRC members to determine whether such compensation continues to be reasonable, (vi) the presentation of certain information in the quarterly and annual reports, and (vii) the standing instructions issued to the Manager in respect of conflict of interest matters under National Instrument 81-107. In addition, the IRC reviewed the various policies and procedures of the Manager related to conflict on interest matters to determine their adequacy and effectiveness.

The IRC reports that management of the Manager has been open and cooperative, permitting the members to review such documents and speak to such members of management of the Manager as deemed necessary by the 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 twelve-month period through December 31, 2008 was $21,620.44.

No indemnities were paid to the IRC 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. The IRC is not aware of any instance in which the Manager acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation.

Furthermore, the IRC 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 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 entities advised by the Manager, 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 the Manager 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 the Manager 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 2009 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"), and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and other sections of the annual report.

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

Paul Robson

PAUL ROBSON, CFA
President and Chief Operating Officer

EVE N. JEDRZEJEWSKA, CA, CFA
Vice-President and
Chief Compliance Officer

March 23, 2008

AUDITORS’ REPORT TO THE UNITHOLDERS OF NORTHWATER TOP 75 INCOME TRUSTS PLUS

We have audited the statement of investment portfolio of **Northwater Top 75 Income Trusts Plus** (the Trust) as at December 31, 2008, the statements of net assets as at December 31, 2008 and 2007 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, 2008 and 2007 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
March 23, 2009

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Net Assets

	As at December 31, 2008	As at December 31, 2007
Assets		
Cash and short-term investments	$ 1,002,360	$ 352,986
Income trusts – at fair value (cost: $8,862,903; 2007: $18,011,350)	4,940,609	16,001,949
Common shares – at fair value (cost: $1,871,584; 2007: $2,201,826)	1,656,323	4,880,241
Third party asset-backed commercial paper (cost: $300,000; 2007: $300,000) (note 3)	159,000	264,000
Distribution receivable	77,596	151,397
	7,835,888	21,650,573
Liabilities		
Audit, legal and custody fees payable	40,314	44,244
Service fees payable (note 4)	4,622	18,506
Management and advisory fees payable (note 4)	3,471	11,664
Unrealized loss on forward contract (note 5)	3,419,214	1,869,800
Unrealized loss on currency futures	27,616	6,016
Distribution payable (note 6)	32,202	161,931
Loan payable (note 7)	496,807	2,574,032
	4,024,246	4,686,193
Net assets	$ 3,811,642	$16,964,380
Net assets and unitholders' equity (note 8)		
Unit capital	15,014,052	19,033,594
Contributed Surplus	710,974	31,709
Deficit	(11,913,384)	(2,100,923)
	$ 3,811,642	$16,964,380
Number of units outstanding (note 8)	1,610,086	2,041,136
Net assets per unit	$ 2.37	$ 8.31

Signed on behalf of the Trustee,

Per: Paul Robson

Per: [illegible]

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Operations

	For the year ended December 31, 2008	For the year ended December 31, 2007
Investment income		
Distributions	$ 1,306,298	$ 1,758,792
Interest	9,088	14,308
	1,315,386	1,773,100
Expenses		
Service fees (note 4)	50,342	87,712
Management fees (note 4)	33,989	140,039
Audit fees	79,444	55,375
Independent review committee fees (note 4)	22,701	89,072
Custodian fees	2,382	16,122
Legal fees	18,018	4,187
Security holder reporting costs	80,055	16,431
Administrative fees	10,015	72,102
Forward fees (note 4)	100,424	11,868
Loan interest (note 7)	99,996	134,963
Transaction costs	9,780	12,377
	507,146	640,248
Net investment income	808,240	1,132,852
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Income trusts	(2,504,497)	695,578
Common shares	61,418	206,507
Currency futures	(41,475)	161,001
Change in unrealized appreciation (depreciation) on:		
Income trusts	(1,912,893)	(673,875)
Common shares	(2,893,676)	1,826,499
Third party asset-backed commercial paper	(105,000)	(36,000)
Forward contract	(1,549,414)	(1,881,447)
Currency futures	(21,600)	(4,035)
Realized and unrealized gain (loss) on investments for the year	(8,967,137)	294,228
Increase (decrease) in net assets from operations for the year	$(8,158,897)	$ 1,427,080
Increase (decrease) in net assets from operations per unit for the year *	$ (4.48)	$ 0.62

* Based on the average number of units outstanding of 1,819,578 (2007 – 2,317,296) for the year.

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Changes in Net Assets

	For the year ended December 31, 2008	For the year ended December 31, 2007
Net assets – beginning of the year	$16,964,380	$22,500,415
Increase (decrease) in net assets from operations for the year	(8,158,897)	1,427,080
Unit transactions (note 9)		
Net assets of units repurchased and cancelled	(858,296)	(1,167,939)
Net assets of units redeemed	(2,481,981)	(3,592,972)
	(3,340,277)	(4,760,911)
Distribution to unitholders (note 7)		
Return of capital	(1,257,332)	(536,783)
From net realized gain	—	(1,079,288)
From other income	(396,232)	(586,133)
	(1,653,564)	(2,202,204)
Net assets – end of the year	$ 3,811,642	$16,964,380

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statements of Cash Flows

	For the year ended December 31, 2008	For the year ended December 31, 2007
Cash flows from operating activities		
Increase in net assets from operations for the year	$ (8,158,897)	$ 1,427,080
Items not affecting cash:		
Change in unrealized depreciation (appreciation) on income trusts	1,912,893	673,875
Change in unrealized depreciation (appreciation) on common shares	2,893,676	(1,826,499)
Change in unrealized depreciation (appreciation) on third party asset-backed commercial paper	105,000	36,000
Change in unrealized depreciation (appreciation) on forward contract	1,549,414	1,881,447
Change in unrealized depreciation (appreciation) on futures contract	21,600	4,035
Realized loss (gain) on income trusts	2,504,497	(695,578)
Realized loss (gain) on common shares	(61,418)	(206,507)
Changes in non-cash working capital:		
Change in payables	(26,007)	8,264
Change in receivables	73,801	45,440
Purchase of income trusts	(3,890,052)	(5,012,703)
Third party asset-backed commercial paper	—	(300,000)
Proceeds on sale of income trusts	10,534,003	10,599,650
Proceeds on sale of common shares	391,660	590,889
	7,850,170	7,225,393
Cash flows from financing activities		
Advance on (repayment of) loan	(2,077,225)	(2,220)
Repurchase of Trust units	(2,481,981)	(1,167,939)
Distributions paid to Trust unitholders	(1,783,294)	(2,244,680)
Redemption of Trust units	(858,296)	(3,592,972)
	(7,200,796)	(7,007,811)
Net increase (decrease) in cash and short-term investments	$ 649,374	$ 217,582
Cash and short-term investments at the beginning of the year	352,986	135,404
Cash and short-term investments at the end of the year	$ 1,002,360	$ 352,986
Supplementary information:		
Interest paid	86,221	$ 137,183

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Statement of Investment Portfolio

As at December 31, 2008

	No. of Shares / Units	Cost	Fair Value	Fair Value as a % of Net Assets
Income trust portfolio				
Advantage Energy Income Fund	11,600	$193,036	$58,464	1.53%
AG Growth Income Fund	4,000	139,378	77,560	2.03%
Algonquin Power Income Fund	23,000	235,294	53,130	1.39%
Allied Properties Real Estate Investment Trust	5,600	116,303	69,496	1.82%
AltaGas Income Trust	3,500	87,116	59,710	1.57%
ARC Energy Trust	3,200	61,116	64,160	1.68%
Armtec Infrastructure Income Fund	4,500	101,248	76,455	2.01%
Artis Real Estate Investment Trust	11,800	173,360	86,258	2.26%
Avenir Diversified Income Trust	11,400	56,701	57,912	1.52%
Baytex Energy Trust	4,000	58,631	57,920	1.52%
Bell Aliant Regional Communications Income Fund	3,100	86,769	72,757	1.91%
Boardwalk Real Estate Investment Trust	2,600	54,279	66,430	1.74%
Bonavista Energy Trust	3,700	113,701	62,419	1.64%
Calloway Real Estate Investment Trust	5,700	110,093	64,524	1.69%
Canadian Apartment Properties REIT	4,229	63,697	66,438	1.74%
Canadian Oil Sands Trust	2,750	44,992	58,025	1.52%
Canadian Real Estate Investment Trust	2,500	47,525	56,425	1.48%
Cathedral Energy Services Income Trust	9,300	136,093	59,427	1.56%
Chartwell Seniors Housing REIT	13,800	189,177	74,106	1.94%
Chemtrade Logistics Income Fund	7,700	113,537	66,836	1.75%
Cinplex Galaxy Income Fund	4,500	78,779	66,515	1.61%
CML Healthcare Income Fund	4,600	62,693	59,064	1.55%
Cominar Real Estate Investment Trust	4,100	76,063	65,641	1.72%
Consumers’ Waterheater Income Fund (The)	7,300	113,916	67,890	1.78%
Crescent Point Energy Trust	2,500	49,645	60,000	1.57%
Davis + Henderson Income Fund	3,900	81,599	65,091	1.71%
Daylight Resources Trust	9,101	129,215	70,169	1.84%
Dundee Real Estate Investment Trust	4,200	163,583	52,920	1.39%
Enerflex Systems Income Fund	7,100	80,656	73,485	1.93%
Energy Savings Income Fund	8,686	138,323	75,308	1.98%
Enerplus Resources Fund	2,777	123,377	66,259	1.74%
Epcor Power LP	4,000	141,592	70,800	1.86%
Extendicare Real Estate Investment Trust	18,300	318,735	105,774	2.78%
Fort Chicago Energy Partners L.P.	8,300	99,383	59,096	1.55%
Freehold Royalty Trust	5,800	101,725	60,320	1.58%
Gaz Metro Limited Partnership	5,500	122,251	71,830	1.88%
Genivar Income Fund	2,700	55,620	67,581	1.77%
GMP Capital Trust	10,300	210,748	51,912	1.36%
Great Lakes Hydro Income Fund	4,200	83,149	66,780	1.75%
H&R Real Estate Investment Trust	10,000	193,953	74,000	1.94%
Harvest Energy Trust	6,347	186,334	66,136	1.74%
Innergex Power Income Fund	6,700	60,779	61,640	1.62%
InnVest Real Estate Investment Trust	18,600	220,683	71,238	1.87%
Inter Pipeline Fund	8,600	80,316	60,630	1.59%
Jazz Air Income Fund	17,600	135,502	56,496	1.48%

	No. of Shares / Units	Cost	Fair Value	Fair Value as a % of Net Assets
Keyera Facilities Income Fund	4,300	$ 66,887	$ 76,367	2.00%
Labrador Iron Ore Royalty Income Fund	3,300	89,353	70,224	1.84%
Liquor Stores Income Fund	6,200	146,507	64,542	1.69%
Livingston International Income Fund	10,300	153,545	83,430	2.19%
Macquarie Power & Infrastructure Income Fund	15,400	130,423	72,842	1.91%
Morguard Real Estate Investment Trust	7,200	111,301	82,440	2.16%
Morneau Sobeco Income Fund	7,600	71,429	66,652	1.75%
Mullen Group Income Fund	5,900	169,301	74,930	1.97%
NAL Oil & Gas Trust	8,300	115,638	65,155	1.71%
North West Company Fund	3,300	54,091	55,473	1.46%
Northern Property Real Estate Investment Trust	3,500	71,202	56,735	1.49%
Northland Power Income Fund	5,500	78,665	63,415	1.66%
Paramount Energy Trust	12,800	181,402	63,232	1.66%
Parkland Income Fund	11,845	201,374	75,334	1.98%
Pembina Pipeline Income Fund	3,900	54,912	58,812	1.54%
Pengrowth Energy Trust – Class B Trust Unit	5,975	185,693	55,090	1.45%
Penn West Energy Trust	4,173	123,347	56,419	1.48%
Peyto Energy Trust	6,200	149,864	60,884	1.60%
Precision Drilling Trust	6,700	222,798	67,402	1.77%
Primaris Retail Real Estate Investment Trust	6,600	91,618	69,300	1.82%
Provident Energy Trust	10,200	126,078	53,550	1.40%
Riocan Real Estate Investment Trust	4,300	80,876	58,695	1.54%
Rogers Sugar Income Fund	15,200	60,821	58,064	1.52%
TimberWest Forest Corp.	13,000	200,446	45,500	1.19%
Trilogy Energy Trust	11,200	183,185	64,624	1.70%
Vermilion Energy Trust	2,700	61,149	67,581	1.77%
WaJax Income Fund	3,900	61,742	81,900	2.15%
Westshore Terminals Income Fund	5,900	78,266	56,286	1.48%
Yellow Pages Income Fund	10,255	142,827	67,991	1.78%
Zargon Energy Trust	4,500	107,495	77,715	2.04%
Income trust portfolio		8,862,903	4,940,609	129.59%
Common share portfolio				
Nortel Networks Corp(1)	26,604	935,931	8,514	0.22%
Research In Motion Ltd(1)	33,316	935,653	1,647,809	43.23%
Common share portfolio		1,871,584	1,656,323	43.45%
Third party asset-backed commercial paper				
MMAI – I Trust	2,988	300,000	159,000	4.17%
Cash		1,002,360	1,002,360	26.30%
Total investment Portfolio		12,036,847	7,758,292	203.51%
Other net assets			(3,946,650)	(103.51)%
Total net assets and unitholders' equity			3,811,642	100%

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

Schedule 1 – Currency futures contracts:

	Price	Notional contract value	Settlement payable on futures contracts
35 Canadian Dollar Futures Contract – March 2009, held short	U.S. $ 82.24	US $ 2,878,400	
		CAD. $3,494,090	CAD $27,616

NORTHWATER TOP 75 INCOME TRUSTS PLUS

Notes to Financial Statements
For the years ended December 31, 2008 and 2007

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 (the “Manager”) 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 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.

On June 23, 2008, the Manager announced a decision to wind up the affairs of the Trust on or about December 31, 2009 (the “Termination Date”). As the Trust obtains exposures to a portfolio of market-neutral hedge funds held by Enhancement Fund Limited (“the Fund”) through a forward agreement the early termination of the Trust will also result in the early termination of the Fund.

The Fund has begun the process of winding up its operations to work towards the Trust’s scheduled Termination Date of December 31, 2009. Based on the information available to the manager as of December 31, 2008, the Manager anticipates that approximately 31% of the Fund’s net assets may be subject to restrictions on liquidity that extend beyond the Termination Date. Based on the current market conditions the Manager anticipates that it is likely that the Fund and the Trust will continue to operate and wind down its portfolio beyond the Termination Date.

2. Summary of Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are denominated in Canadian dollars.

Adoption of New Accounting Standards

In December 2006, the Accounting Standards Board issued CICA Handbook Section 3862 “ Financial Instruments – Disclosures (S.3862) and Section 3863, "Financial Instruments- Presentation (S. 3863), which provide comprehensive disclosure and presentation requirements for financial instruments.

In addition, in December 2006, the Accounting Standards Board issued CICA Handbook Section 1535 "Capital Disclosures" ("S.1535"), which provides standards for disclosing information about an entity's capital and how it is managed.

The requirements of S. 3862, S. 3863 and S. 1535 are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and have been reflected in the notes to the financial statements.

The following paragraphs outline the accounting policies of the Trust.

(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 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 (the "Fund"), 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 Manager or Investment Advisor may, in its sole discretion, us a different valuation methodology to price the underlying hedge funds, that in the opinion of the Manager or Investment Advisor, is more reflective of fair value.

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 may be 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.

(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 year. 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 year. Actual results could differ from those estimates.

(f) Transaction Costs

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

2. Financial Instrument Risk

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

No material changes affecting the overall risk of investing in the Trust were made by the Manager in the year ended December 31, 2008. However, the hedge fund industry, like other market participants, has been subject to unprecedented turmoil in the markets due to the ongoing credit crisis. This has had both an impact on the returns and the volatility the Trust has experienced in 2008. In addition, as the Trust goes through the wind up process its exposure to hedge funds will continuously change and the diversification of its hedge fund holdings will decrease, causing concentration risk to increase. In addition due to the persisting market conditions, the income trusts experienced unprecedented volatility and poor results. Hence, the overall risk profile of the Trust has been impacted as discussed below.

Market price risk

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

The Trust mainly invests in the largest 75 publicly traded income trusts in Canada. The Manager mitigates the market price risk through holding a diverse portfolio of the 75 largest income trusts in Canada across various sectors. The standard deviation of returns of the investment in income trusts as measured for a rolling 24 month period has been 19.49%. If the value of the portfolio were to change by this amount the impact on the net assets of the Trust would be $969,123.

In addition, the Trust invests in Canadian publicly traded common shares and through a forward agreement with a counterparty agrees to sell the common shares at a price based on the return of an underlying portfolio of hedge funds. As such the Trust has no exposure to the market price risk for the common shares held.

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

Income Trust Portfolio Exposure

Trust Sector	As at December 31, 2008 No. of Income Trusts	Fair Value		As at December 31, 2007 No. of Income Trusts	Fair Value	
Business trusts	28	$1,835,070	37%	28	$ 6,049,264	38%
Energy trusts	26	1,774,090	36%	25	5,236,511	33%
Power & pipeline trusts	7	450,714	9%	7	1,675,362	10%
Real estate investment trusts	14	880,735	18%	14	3,040,812	19%
	75	$4,940,609	100%	74	$16,001,949	100%

The Trust is exposed through a forward agreement to a portfolio of hedge funds (note 5). The process of fair valuing hedge fund investments for which no published market exists, is based upon the fair value of the underlying holdings of the hedge fund. These values may differ from values available had a ready market existed for such investments and may differ from the prices at which such investments may be sold.

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

The impact on net assets of the Trust, based on a change in the strategy's returns, as approximated by that strategy's standard deviation, as at December 31, 2008, is included in the following table.

Strategy	Potential change in strategy return * (%)	Impact on net assets ($ USD)
Activist Investment	16.73%	89,045
Asset-backed securities arbitrage	6.48%	25,452
Distressed securities arbitrage	7.41%	6,826
Fixed-income arbitrage	28.53%	127,201
Mortgage-backed security arbitrage	11.44%	165,797
Multi-strategy	17.26%	257,241
Re-insurance arbitrage	4.84%	18,772
Statistical arbitrage	14.29%	99,115
Structured Finance	20.78%	76,847

* Potential change in strategy return is based on standard deviation for each strategy as measured over the past 24 months for hedge funds in the hedge fund portfolio as at December 31, 2008.

Currency risk

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

As the Trust is exposed to hedge fund investments that are primarily denominated in U.S. dollars through a forward agreement, the value of such investments may fluctuate with the exchange rate. To manage its currency risk, the Trust attempts to hedge such currency fluctuations through the use of currency futures.

As at December 31, 2008, the impact on net assets per 1% change in the Canadian dollar would have been $1,879.

Liquidity risk

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

The Trust primarily invests in the 75 largest publicly traded Canadian income trusts in Canada. As such the investments are considered highly liquid. The Trust is exposed to hedge fund investments through a forward agreement for which there is no active secondary market. As such the investments are considered illiquid. The Fund is subject to redemption restrictions for each of the hedge funds it holds as part of its portfolio. Typically the redemption restrictions are generally monthly, quarterly, semi-annually or annually. Notice periods for redemptions range from 30 days notice to 180 days notice. Redemptions may, in some cases, be subject to lock-up periods, gates, redemption suspensions and side pocket restrictions.

To assist the Trust in its ability to meet its financial obligations, a credit facility is available to provide liquidity within certain contracted restrictions. In addition, the hedge fund portfolio is diversified and managed considering the Trust Termination Date.

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

The Advisor has been managing the Fund's portfolio taking into account the Fund's Termination Date. As such, as of December 31, 2008, the Advisor submitted redemption requests to all of the underlying hedge funds.

The value of total redemption requests made prior to December 31, 2008, broken out by effective date of redemption, are included in the table below:

Effective Date of redemption	Amount (U.S.$) as at December 31, 2008	% of total hedge fund held	Amounts ($ USD) received subsequent to year end
January 1, 2008	369,826	6%	33,775
April 1, 2008	205,403	4%	43,769
July 1, 2008	651,498	11%	96,863
August 1,2008	78,351	1%	57,866
October 1, 2008	217,103	4%	25,954
December 1, 2008	202,908	4%	—
January 1, 2009	3,754,601	64%	2,294,684(1)
March 1, 2009	374,638	6%	—
	5,854,328	100%	2,552,912

(1) For one of the hedge funds, the Fund received the redemption proceeds prior to the effective date of the redemption. This amount is included here and is disclosed in the Statement of Net Assets as hedge fund investment sales in advance. This amount is $ 450,893.

The following table shows the expected payout timeline of redemption proceeds from the underlying hedge fund managers:

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

	Amount ($)	% of hedge fund portfolio as at December 31, 2008
Restricted redemptions (1, 2)	702,090	12%
Liquidating	942,477	16%
Normal Course	2,220,757	38%
	3,865,324	66%

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

	Amount ($)	% of hedge fund portfolio as at December 31, 2008
Restricted redemptions [1]	954,204	16%
Liquidating	1,034,800	18%
	1,989,004	34%

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

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

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

The Fund has hedge fund redemption receivables of USD$150,791 as at December 31, 2008. The Fund is exposed to liquidity risk as these amounts may not be realized (collected) for an extended period of time. As at December 31, 2008 the hedge fund redemptions receivable aging was as follows:

	< 60 days	61-90 days	91-120 days	> 120 days	Total
Hedge Fund Redemptions Receivable	—	—	USD$59,953	USD$90,838	USD$150,791

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

The below table shows hedge fund redemptions receivable, as at December 31, 2008 broken down by type.

Type	Amount (USD$)
Audit Holdbacks	$ 98,618
Liquidations	$ 52,173
	$150,791

Credit risk

The Trust invests in debt obligations of both government and corporate issuers and is exposed to hedge fund investments through a forward agreement. These financial instruments involve the risk that the counterparty cannot or will not fulfill its obligations of the financial instrument.

The Trust also assumes credit risk to its financial counterparties in connection with derivatives, credit facilities and cash. In evaluating credit risk, the Manager will often be dependent upon information provided by the counterparty or a rating agency which may be materially inaccurate. As at December 31, 2008, the credit rating of the counterparties was as follows:

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

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

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

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

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

Interest rate risk

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

Subsequent to year-end the loan balance was paid off and there is no intention to draw on the loan prior to Termination Date due to the wind up. As such the Trust has no exposure to interest rate risk from the bank loan.

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

A committee of noteholders known as the Pan-Canadian Investors Committee for Third Party Asset-Backed Commercial Paper (the "Committee") was formed to propose a plan to restructure the ABCP ("Restructuring Plan").

The Restructuring Plan pooled certain assets of all the affected ABCP conduits, to be allocated on a pro-rata basis to the newly created Master Asset Vehicles referred to as MAV 1 and MAV 2. MAV 1 requires self-funding of a margin facility by participants in the event of possible margin calls. Only certain noteholders were eligible to participate in MAV 1.

Subsequent to year end, the Fund became an investor in MAV 2, which established a third party funding facility funded by a consortium of third party lenders. MAV 2 issued Class A-1, Class A-2, Class B and Class C notes to ABCP holders. Each class of notes that the Fund received subsequent to year end is supported by a portfolio of unleveraged and leveraged corporate CDOs, traditional securitized assets and certain hybrid assets.

Assets in each Master Asset Vehicle, for which the credit quality is uncertain, are designated as ineligible assets and will be supported by notes designated as IA Tracking Notes that will bear interest at the net rate of return generated by the corresponding designated tracking asset. Ineligible assets are not pooled.

The ABCP investments held by the Fund are considered financial instruments for accounting purposes and must be reported at their fair value. The Fund has determined fair value for the ABCP primarily using a probability-weighted discounted cash flow model. The valuation model incorporates the terms of the Restructuring Plan and relevant market information, including, but not limited to credit indices on structured finance products. As at December 31, 2008, the model's significant assumptions included 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 primary inputs used in determining the market discount factors for the note tranches were: 3 month CDOR rates, credit default swap indices for investment grade issuers and the Merrill Lynch Global US high yield spread.

The below table shows the breakdown of the restructuring as implemented subsequent to year end and market discount factors used by the Fund in determining the fair value of the ABCP it held as at December 31, 2008.

Restructured notes (MAV II)	Rating	Allocation of face value**	Interest rate	Expected principal repayment date	Priority of ongoing interest payments	Priority of payment on maturity		Market discount factor used at 12/31/08
						Interest	Principal	
Class A-1	A	199,253	BAs minus 50 basis points	1/22/2017	1	1	2	BAs plus 727 basis points
Class A-2	A	76,660	BAs minus 50 basis points	1/22/2017	2	3	4	BAs plus 727 basis points
Class B	Unrated	13,916	BAs minus 50 basis points	1/22/2017	3	5	6	BAs plus 1,768 basis points
Class C	Unrated	8,963	BAs plus 20%*	1/22/2017	4	7	8	BAs plus 2,500 basis points

* Given priority of interest payments the interest on Class C notes will likely be lower than 20%.

** Allocation is based on face value, excluding any interest due.

Subsequent to year end the Fund received $7,263 in interest payments related to ABCP.

The fair value of the ABCP represents an estimate by Northwater based on the information available to it at the time of the valuation. The calculation of the estimated fair value was based on information that may become more complete or change. Furthermore, the fair value assigned to the ABCP held by the Fund may differ from the actual value realized on any sale or other liquidation. As a result of these uncertainties, the estimate of fair value reported may change materially in subsequent periods. Possible changes in assumptions that were used as at December 31, 2008, that could have a material impact on the valuation of the ABCP include but are not limited to: 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.

4. Management, Advisory and Other Fees

The Trust retained Northwater Fund Management Inc. (the “Manager”) under a management agreement dated February 15, 2005. Northwater Capital Management Inc. (the "Investment Advisor"), a company formed under the laws of Ontario, Canada, acts as the advisor for the Trust. The Investment Advisor is registered in Canada as an advisor in the categories investment counsel and portfolio manager and as a dealer in the category limited market dealer under the *Securities Act (Ontario)*, as amended, and as an advisor in the category commodity trading manager under the *Commodity Futures Act (Ontario)*, as amended. The Investment Advisor is registered as a securities advisor under the *Securities Act (Quebec)*, as amended. The Investment Advisor also has equivalent registrations in the Canadian provinces of New Brunswick, Prince Edward Island, Nova Scotia, Saskatchewan, Alberta and British Columbia under the securities legislation in these provinces. The Investment Advisor is also registered in the United States as an investment advisor under the *U.S. Investment Advisers Act of 1940*, as amended, and as a commodity trading advisor and commodity pool operator under the *U.S. Commodity Exchange Act*, as amended. The Investment Advisor is a member of the U.S. National Futures Association.

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

A service fee of 0.40% per annum of the net asset value of the Trust, is payable to the Manager calculated on the last Valuation Date of each quarter. The service fee will be applied by the Manager to pay a service fee to registered dealers for services they provide to unitholders. The 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 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 asset value 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 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 Trust intends to wind the forward up early as part of its orderly wind up procedures.

The notional amounts of the Forward as at December 31, 2008 are in the amount of U.S. $7,085,168 and Canadian $1,871,724 (December 31, 2007: USD $15,617,647 and Canadian $2,201,997). During the year ended December 31, 2008, the Counterparty redeemed 850.99 participating shares of the Fund for USD $8,950,000. The target exposure to the Fund is equal to 100% of the net assets of the Trust. As at December 31, 2008 the actual exposure was 198%. The Trust is required to take action to reduce leverage if this exposure exceeds 120%. Such actions were taken prior to year end through redemption of hedge funds at the Fund level. Exposure was reduced, and will continue to be reduced, subsequent to year end, as hedge fund redemption proceeds are received at the Fund level and the Counterparty reduces its exposure to the Fund.

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, 2008 the credit rating of the Counterparty was AA-. The Trust is exposed to monies to be received from the Counterparty at the maturity of the Forward. The Forward agreement provides for the Trust's ability to terminate the Forward if the credit rating of the Counterparty goes below a certain threshold.

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

The following table shows the hedge fund holdings by strategy as at December 31, 2008 and December 31, 2007. 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, 2008			As at December 31, 2007		
Strategy	No. of Hedge Funds	Fair Value (in US Dollars)		No. of Hedge Funds	Fair Value (in US Dollars)	
Activist Investment	1	$ 532,392	9%	1	$ 823,361	5%
Asset-backed securities arbitrage	2	392,981	7%	3	2,393,950	13%
Distressed securities arbitrage	1	92,079	2%	4	2,214,191	12%
Fixed-income arbitrage	3	445,802	8%	3	1,138,400	6%
Merger arbitrage	—	—	—	1	213,907	1%
Mortgage-backed security arbitrage	4	1,449,421	25%	4	2,727,271	15%
Multi-strategy	6	1,490,007	25%	6	3,918,539	22%
Re-insurance arbitrage	2	388,057	6%	2	1,199,750	7%
Structured finance	1	369,826	6%	2	1,456,923	8%
Statistical arbitrage	3	693,763	12%	4	2,024,325	11%
	23	$5,854,328	100%	30	$18,110,617	100%

The following table shows the number of hedge funds held by the Fund as at December 31, 2008 and 2007 categorized by the size of each hedge fund.

Total Assets of each hedge fund in U.S.$ Millions	2008	2007
< 100	3	0
100-250	2	7
250-500	5	2
500-750	1	2
750-1000	0	3
> 1000	12	16
	23	30

The following table shows the number of hedge funds held by the Fund as at December 31, 2008 and 2007 categorized by the years since inception of each hedge fund.

Years	2008	2007
< 3	1	2
3 – 6	6	16
6 – 9	8	7
9 – 12	5	2
12 – 15	2	2
> 15	1	1
	23	30

The following chart illustrates the number of hedge fund holdings of the Fund by jurisdiction of organization as at December 31, 2008 and 2007.

Location	2008	2007
Cayman Islands	20	26
British Virgin Islands	2	2
Bermuda	1	2
	23	30

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 the Fund.

During the year ended December 31, 2008, the Trust made distributions totaling $0.90 per unit ($1,653,365 was distributed in aggregate) (year ended December 31, 2007: $0.96 per unit; $2,202,204 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 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.

During the year ended December 31, 2008, the bank loan fluctuated between $500,000 and $2,591,000 (year-ended December 31, 2007: bank loan balance fluctuated between $2,574,032 and $2,690,571).

The average rate of interest paid on the loan for the year ended December 31, 2008 was 4.38%.

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. In August of 2008, the trust filed a notice of intention to make normal-course purchases of units with the Toronto Stock Exchange. In its filing with the Exchange, the Trust indicated an intention to purchase up to 166,009 of units of the trust, representing 10% of the public float of the Trust then outstanding during the period from September 11, 2008 to September 10, 2009. Under a normal course issuer bid and the Trust's quarterly market support obligation, the Trust purchased 133,700 units at a cost of $858,296 for cancellation during the year ended December 31, 2008 (year ended December 31, 2007: 140,209 units were purchased for cancellation for $1,167,939 cash paid).

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, 2008 (the annual Redemption Date), 1,065,089 Units were submitted for redemption (June 30, 2007: 900,902 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 297,350 Units were redeemed at the June 30, 2008 reported net asset value per Unit of $8.3470 for $2,481,981 cash paid on July 23, 2008 (June 30, 2007: 373,754 Units for $3,592,972 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 years:

Year ended December 31, 2008	Units Outstanding	Unit Capital	Contributed Surplus	Retained Earnings (Deficit)	Unitholders' Equity
Balance – December 31, 2007	2,041,136	19,033,594	31,709	(2,100,923)	16,964,380
Increase (decrease) in net assets from operations for the year	—	—	—	(8,158,897)	(8,158,897)
Units cancelled during the year	(133,700)	(1,246,753)	388,457*	—	(858,296)
Units redeemed during the year	(297,350)	(2,772,789)	290,808*	—	(2,481,981)
Distributions	—	—	—	(1,653,564)	(1,653,565)
Balance – December 31, 2008	1,610,086	15,014,052	710,974	(11,913,384)	3,811,642

Year ended December 31, 2007	Units Outstanding	Unit Capital	Contributed Surplus	Retained Earnings (Deficit)	Unitholders' Equity
Balance – December 31, 2006	2,555,090	$23,826,214	—	$(1,325,799)	$22,500,415
Increase (decrease) in net assets from operations for the year	—	—	—	1,427,080	1,427,080
Units cancelled during the year	(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

9. Income Taxes

As at December 31, 2008, 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, 2008, the Trust had no non-capital loss carryforwards (2007: nil) and $2,057,395 in gross capital loss carryforwards (December 31, 2007: nil).

10. Reconciliation of Net Assets

The below tables reconciles the reported net asset value as at December 31, 2008 with the net assets as calculated in accordance with GAAP.

	Total	Per Unit
Net Assets per the Statement of Net Assets	$3,811,642	$2.37
Section 3855 Adjustment	11,001	—
Reported net asset value	$3,822,643	$2.37

11. Indemnities

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

NORTHWATER 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 fourteen years of experience in fund of hedge funds, Northwater has steadily grown exposure under management to approximately CDN $7.9 billion in total, including $2.8 billion USD invested in hedge funds as at December 31, 2008. 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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