

**NORTHWATER**

**Northwater Top 75 Income Trusts<sup>Plus</sup>**  
**March 31, 2005**  
**First Quarter Report**





## BACKGROUND

Northwater Top 75 Income Trusts<sup>Plus</sup> is a closed-end investment trust established under the laws of the Province of Ontario. Financial statements of the Trust, denominated in Canadian dollars, for the period from February 25, 2005 (commencement of operations) to March 31, 2005 are included in this report. Management discussion and analysis will be included in the June 30, 2005 Quarterly Report.

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

## Statement of Net Assets

	<b>As at March 31, 2005 (unaudited)</b>
<b>Assets</b>	
Cash and short-term investments (cost: \$485,100) .....	\$ 485,352
Income trusts – at fair value (note 3) (cost: \$30,296,387) .....	28,944,135
Common shares – at fair value (note 3) (cost: \$3,030,487) .....	3,084,402
Forward contract (note 8) .....	(189,230)
Distribution receivable .....	218,957
	<u>32,543,616</u>
<b>Liabilities</b>	
Professional, custody and other fees payable .....	20,396
Distribution payable (note 7) .....	260,000
Offering costs payable .....	487,162
Loan payable (note 6) .....	3,029,002
	<u>3,796,560</u>
<b>Net assets and unitholders' equity (note 4) .....</b>	<b>\$28,747,056</b>
<b>Number of units outstanding (note 4) .....</b>	<b>3,250,000</b>
<b>Net asset value per unit .....</b>	<b>\$ 8.85</b>

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

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

## Statement of Operations

	<b>For the period from February 25, 2005 to March 31, 2005 (unaudited)</b>
<b>Investment income</b>	
Distributions .....	\$ 305,128
Interest .....	645
	<u>305,773</u>
<b>Expenses</b>	
Service fee (note 5) .....	10,257
Forward financing fee (note 5) .....	11,941
Management fee (note 5) .....	6,411
Professional and custody fees .....	3,703
Interest .....	5,788
Other fees .....	1,479
	<u>39,579</u>
<b>Net investment loss</b> .....	<u>266,194</u>
<b>Realized and unrealized gain (loss) on investments</b>	
Net realized gain (loss) on:	
Income trusts .....	(77,821)
Change in unrealized appreciation (depreciation) on:	
Common shares .....	53,915
Income trusts .....	(1,352,252)
Forward contract .....	(189,230)
	<u>(1,565,388)</u>
<b>Unrealized loss on investments for the period</b> .....	<u>(1,565,388)</u>
<b>Net loss from operations for the period</b> .....	<u>\$(1,299,194)</u>
<b>Net loss from operations per unit for the period*</b> .....	<u>\$ (0.42)</u>

\* Based on the average number of units of 3,125,000 outstanding for the period.

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

## Statement of Changes in Net Assets

	<b>For the period from February 25, 2005 to March 31, 2005 (unaudited)</b>
<b>Net assets – beginning of the period</b> .....	\$ —
<b>Net loss from operations for the period</b> .....	<u>(1,299,194)</u>
<b>Unit Transactions (note 4)</b>	
Units issued .....	30,793,750
Offering costs deducted .....	<u>(487,500)</u>
	<u>30,306,250</u>
<b>Distribution to unitholders (note 7)</b> .....	<u>(260,000)</u>
<b>Net assets – end of the period</b> .....	<u>\$28,747,056</u>
<b>Distribution per unit for the period*</b> .....	<u>\$ 0.08</u>

\*Based on the actual number of units outstanding on record date.

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

## Statement of Cash Flows

**For the period from  
February 25, 2005  
to March 31, 2005  
(unaudited)**

**Cash flows from operating activities**

Net loss from operations . . . . .	\$ (1,299,194)
Items not affecting cash:	
Change in unrealized appreciation on common shares . . . . .	(53,915)
Change in unrealized depreciation on forward contract . . . . .	189,230
Change in unrealized depreciation on income trusts . . . . .	1,352,252
Realized loss on income trusts . . . . .	77,821
Changes in non-cash working capital:	
Change in payables . . . . .	20,396
Change in receivables . . . . .	(218,957)
Purchase of common shares . . . . .	(3,030,487)
Purchase of income trusts . . . . .	(33,440,407)
Proceeds on sale of income trusts . . . . .	3,066,199
	<u>(33,337,062)</u>

**Cash flows from financing activities**

Issuance of units . . . . .	30,793,750
Advance on loan . . . . .	3,029,002
Payment of offering costs . . . . .	(338)
	<u>33,822,414</u>
Net increase in cash and short-term investments . . . . .	\$ 485,352
Cash and short-term investments at the beginning of the period . . . . .	<u>—</u>
<b>Cash and short-term investments at the end of the period . . . . .</b>	<b><u>\$ 485,352</u></b>

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

Statement of Investment Portfolio  
As at March 31, 2005  
(unaudited)

	Maturity Date	No. of Shares/ Face Value	Cost	Fair/ Market Value	Percentage of Investment Portfolio
<b>Common share portfolio</b>					
Nortel Networks Corp <sup>(1)</sup> .....		430,703	\$ 1,515,205	\$ 1,417,013	
Research In Motion Ltd. <sup>(1)</sup> .....		17,985	1,515,282	1,667,389	
			<u>3,030,487</u>	<u>3,084,402</u>	<u>9.54%</u>
<b>Income trust portfolio</b>					
Acclaim Energy Trust .....		26,300	408,165	400,023	
Advantage Energy Income Fund .....		20,000	420,246	389,000	
Algonquin Power Income Fund .....		40,500	419,926	381,105	
AltaGas Income Trust .....		15,900	396,231	386,370	
APF Energy Trust .....		34,400	406,762	412,800	
ARC Energy Trust .....		21,500	411,246	390,225	
Baytex Energy Trust .....		27,300	400,770	407,043	
Bell Nordiq Income Fund .....		23,500	390,807	373,650	
BFI Canada Income Fund .....		15,400	406,715	375,606	
Boardwalk Real Estate Investment Trust ..		21,300	411,204	394,050	
Bonavista Energy Trust .....		12,700	390,653	382,651	
Boralex Power Income Fund .....		38,900	427,801	407,672	
Borealis Retail Real Estate Investment Trust .....		28,600	394,294	383,240	
Brick Group Income Fund .....		28,600	410,780	388,960	
Calloway Real Estate Investment Trust .....		21,300	411,930	375,945	
Calpine Power Income Fund .....		36,200	420,654	390,598	
Canadian Apartment Properties Real Estate Investment Trust .....		27,129	409,383	391,200	
Canadian Oil Sands Trust .....		4,900	400,840	403,025	
Canadian Real Estate Investment Trust .....		20,300	386,510	360,325	
CCS Income Trust .....		10,700	331,661	297,567	
Chartwell Seniors Housing Real Estate Investment Trust .....		27,600	404,405	395,232	
CML Healthcare Income Fund .....		30,900	422,063	420,240	
Cominar Real Estate Investment Trust .....		20,900	387,813	365,123	
Connors Bros. Income Fund .....		20,900	403,609	379,335	
Consumers' Waterheater Income Fund .....		26,000	410,010	386,100	
Crescent Point Energy Trust .....		20,800	413,671	416,000	
Davis + Henderson Income Fund .....		18,100	403,346	398,200	
Energy Savings Income Fund .....		24,200	410,938	398,090	
Enerplus Resources Fund .....		8,700	405,992	381,756	
Enterra Energy Trust .....		17,400	427,141	421,254	
Focus Energy Trust .....		18,600	398,799	386,880	
Fording Canadian Coal Trust .....		3,400	374,326	376,958	
Fort Chicago Energy Partners L.P. ....		33,800	405,565	384,644	
Freehold Royalty Trust .....		23,000	416,076	370,300	
Gateway Casinos Income Fund .....		17,700	390,967	364,089	

	Maturity Date	No. of Shares/ Face Value	Cost	Fair/ Market Value	Percentage of Investment Portfolio
<b>Income trust portfolio (continued)</b>					
Gaz Metro Limited Partnership .....		18,100	410,082	379,014	
Great Lakes Hydro Income Fund .....		19,700	394,156	374,300	
H&R Real Estate Investment Trust .....		20,700	401,987	376,740	
Harvest Energy Trust .....		15,700	397,506	387,790	
InnVest Real Estate Investment Trust .....		33,600	413,919	381,360	
Inter Pipeline Fund .....		42,700	400,062	378,749	
Keyera Facilities Income Fund .....		26,300	407,001	393,185	
Labrador Iron Ore Royalty Income Fund .....		14,700	398,524	338,247	
Legacy Hotels Real Estate Investment Trust .....		56,600	398,903	391,672	
Morguard Real Estate Investment Trust .....		38,100	398,826	390,525	
NAL Oil & Gas Trust .....		28,500	409,379	393,300	
Newalta Income Fund .....		16,900	400,615	384,475	
Noranda Income Fund .....		31,500	410,124	372,645	
North West Company Fund .....		12,200	385,665	375,150	
Northland Power Income Fund .....		29,500	422,813	393,235	
O&Y Real Estate Investment Trust .....		25,600	406,804	401,664	
Osprey Media Income Fund .....		49,300	420,740	419,050	
Paramount Energy Trust .....		23,300	406,678	401,925	
Pembina Pipeline Income Fund .....		28,100	396,489	370,358	
Pengrowth Energy Trust – Class B Trust Unit .....		22,100	417,189	376,805	
Petrofund Energy Trust .....		21,500	392,030	379,260	
Peyto Energy Trust .....		7,800	414,870	403,260	
PrimeWest Energy Trust .....		12,900	387,293	373,971	
Progress Energy Trust .....		29,200	413,390	390,696	
Provident Energy Trust .....		32,800	406,283	392,944	
Retirement Residences Real Estate Investment Trust .....		40,274	410,006	384,617	
Riocan Real Estate Investment Trust .....		21,100	397,489	382,965	
Shiningbank Energy Income Fund .....		18,300	416,790	393,267	
Summit Real Estate Investment Trust .....		20,500	399,349	378,840	
Superior Plus Income Fund .....		12,500	393,208	373,375	
TimberWest Forest Corp. ....		25,300	403,111	373,934	
TransAlta Power L.P. ....		40,400	415,136	387,840	
TransCanada Power L.P. ....		11,400	403,967	383,040	
TransForce Income Fund .....		23,200	408,485	377,000	
Trinidad Energy Services Income Trust .....		38,200	404,223	412,560	
UE Waterheater Income Fund .....		30,400	409,385	410,400	
Vermilion Energy Trust .....		18,300	415,006	415,959	
Viking Energy Royalty Trust .....		55,400	403,993	390,016	
Westshore Terminals Income Fund .....		26,700	362,485	328,410	
Yellow Pages Income Fund .....		29,755	411,127	396,337	
			30,296,387	28,944,135	89.54%
Unrealized loss on forward contract (note 8) ..			—	(189,230)	(0.59%)
<b>Total investments</b> .....			<b>33,326,874</b>	<b>31,839,307</b>	<b>98.49%</b>
<b>Cash</b> .....			36,180	36,180	

	<u>Maturity Date</u>	<u>No. of Shares/ Face Value</u>	<u>Cost</u>	<u>Fair/ Market Value</u>	<u>Percentage of Investment Portfolio</u>
<b>Bankers' Deposit</b>	April 26,				
Bank of Montreal <sup>(2)</sup> .....	2005	\$450,000	448,920	449,172	
<b>Cash and short-term investments</b> . . .			485,100	485,352	1.51%
<b>Total investment portfolio</b> .....			\$33,811,974	32,324,659	100.00%
<b>Net liabilities</b> .....				(3,577,603)	
<b>Net assets and unitholders' equity</b> ..				\$28,747,056	

- (1) Securities pledged as part of the forward agreement to the counterparty.
- (2) The bankers deposit held at March 31, 2005 has a yield of 2.59%.

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

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

Notes to Financial Statements

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

(unaudited)

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### 1. Establishment and Operations of the Trust

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

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

### 2. Summary of Significant Accounting Policies

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

#### (a) Investments

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

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

The income trusts and common shares listed on a public securities exchange are valued at their closing sale price on each Valuation Date. Income trusts and common shares not traded on that date are valued at the average of the closing bid and ask or the latest available sale price. Realized gains and losses are calculated using the average cost.

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

**(b) Use of Estimates**

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

**3. Investment in Income Trusts and Common Shares**

The following table summarizes investment transactions during the period:

	<b>For the period from February 25, 2005 to March 31, 2005</b>
<b>Income trusts at cost – beginning of the period</b> .....	\$ —
Cost of income trusts purchased .....	33,440,407
Cost of income trusts sold .....	<u>(3,144,020)</u>
<b>Income trusts at cost – end of the period</b> .....	30,296,387
Unrealized depreciation on income trusts .....	<u>(1,352,252)</u>
<b>Market value of income trusts – end of the period</b> .....	<u>\$28,944,135</u>
Proceeds of income trusts .....	\$ 3,066,199
Cost of income trusts sold .....	<u>(3,144,020)</u>
<b>Net realized gain on income trusts</b> .....	<u>\$ (77,821)</u>

	<u>For the period from February 25, 2005 to March 31, 2005</u>
<b>Common shares at cost – beginning of the period</b> . . . . .	\$ —
Cost of common shares purchased . . . . .	3,030,487
Cost of common shares sold . . . . .	<u>—</u>
<b>Common shares at cost – end of the period</b> . . . . .	3,030,487
Unrealized appreciation on common shares . . . . .	<u>53,915</u>
<b>Market value of common shares – end of the period</b> . . . . .	<u>\$3,084,402</u>
Proceeds of common shares sold . . . . .	\$ —
Cost of common shares sold . . . . .	<u>—</u>
<b>Net realized gain on common shares</b> . . . . .	<u>\$ —</u>

#### 4. Units Issued and Outstanding

The authorized capital of the Trust consists of an unlimited number of non-redeemable units. Units are transferable and represent an equal, undivided interest in the net assets of the Trust. All units are of the same class with equal rights and privileges. Each unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Trust.

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

Under the declaration of trust, the Trust is required to make purchases of units of up to 1.25% of the outstanding units per quarter if the price at which the units offered in the market is less than 95.0% of the net asset value per unit as at the close of business on the preceding Valuation Date.

The following unit transactions took place during the period from February 25, 2005 to March 31, 2005:

	<u>For the period from February 25, 2005 to March 31, 2005</u>
<b>Balance of units outstanding – beginning of the period</b> . . . . .	—
Units issued during the period . . . . .	3,250,000
Units cancelled during the period . . . . .	<u>—</u>
<b>Balance of units outstanding – end of the period</b> . . . . .	<u>3,250,000</u>

Unitholders' equity is comprised of unit capital and retained earnings. The following transactions for unit capital and retained earnings/(deficit) took place during the period from February 25, 2005 to March 31, 2005:

	<b><u>For the period from February 25, 2005 to March 31, 2005</u></b>
<b>Unit capital – beginning of the period</b> .....	\$ —
Gross proceeds from offering (net of agents' fees) .....	30,793,750
Offering costs .....	<u>(487,500)</u>
<b>Unit capital – end of the period</b> .....	<u>\$30,306,250</u>
	<b><u>For the period from February 25, 2005 to March 31, 2005</u></b>
<b>Retained earnings – beginning of the period</b> .....	\$ —
Net loss from operations for the period .....	(1,299,194)
Distribution to unitholders .....	<u>(260,000)</u>
<b>Retained earnings/(deficit) – end of the period</b> .....	<u>\$(1,559,194)</u>

## 5. 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") 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 legislations in these provinces. The Investment Advisor is also registered in the United States as an investment advisor under the U.S. *Investment Advisers Act of 1940*, as amended, and as a commodity trading advisor and commodity pool operator under the U.S. *Commodity Exchange Act*, as amended. The Investment Advisor is a member of the U.S. National Futures Association (the "NFA").

The Manager is responsible for the day-to-day administration, portfolio management and unitholder services of the Trust. In return for these services, the Manager is entitled to an annual fee of 0.25% of the net assets

of the Trust, calculated on the last Valuation Date of each month. The fee is paid monthly in arrears.

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

A financing fee of approximately 0.60% per annum of the book value of Enhancement Fund Limited, is payable to the Counterparty of the Forward as described in note 8 , plus a fee that may vary based on the value of the Common Share Portfolio, calculated and paid quarterly in arrears.

The Fund (as defined below) also pays to the Investment Advisor an advisory fee of 1.00% per annum of the net assets of the Fund calculated and accrued monthly, and paid monthly in arrears. For the period from February 25, 2005 to March 31, 2005, the advisory fee charged totaled U.S. \$13,366.

## 6. Bank Loan

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

The cost of the bank loan approximates its market value due to its short term nature. As at March 31, 2005, the loan payable is in the amount of \$3,029,002.

## 7. Distributions

The Trust pays monthly distributions to unitholders to be comprised of distributions received by the Trust on the income trust portfolio plus an

additional distribution of 3.5% per annum on the original price of the Units to be derived from the returns of Enhancement Fund Limited.

During the period from February 25, 2005 to March 31, 2005, distributions of \$0.08 per unit and \$260,000 in aggregate were declared by the Trust.

## 8. Forward Contract

The Trust has entered into a forward agreement ('Forward') with a Canadian Bank (the 'Counterparty') to obtain exposure to a diversified portfolio of hedge funds (the 'Hedge Fund Portfolio') through the performance of Enhancement Fund Limited (the 'Fund'), a Cayman Islands company. The U.S. dollar exposure to the Hedge Fund Portfolio is largely hedged through the Forward. The target exposure to the Hedge Fund Portfolio is equivalent to approximately 100% of the net asset value of the Trust. The exposure as at March 31, 2005 was 84%. The Trust has purchased and pledged to the Counterparty the Common Share Portfolio listed on the Statement of Investment Portfolio. The Trust has agreed to deliver the Common Share Portfolio to the Counterparty, on or about the Termination Date, in exchange for the redemption proceeds of the Fund less the financing costs incurred by the Counterparty. As a result, the value of the Forward is determined based on the change in valuation of the Fund and the Common Share Portfolio.

The Trust's net asset value is not affected by the changes in the market value of the Common Share Portfolio as any decrease (increase) in the value of the Common Share Portfolio will be offset by a corresponding increase (decrease) in the value of the Forward.

The notional amounts of the Forward as at March 31, 2005 are in the amount of U.S. \$20,100,000 and Canadian \$3,030,500.

As at March 31, 2005, the Trust had exposure, through the Forward, to hedge funds in the following strategies; 7.44% asset-backed securities arbitrage, 14.00% capital structure arbitrage, 10.93% convertible bond arbitrage, 13.43% distressed securities, 8.04% fixed-income arbitrage, 3.10% energy relative value, 6.06% merger arbitrage, 8.05% mortgage-backed security arbitrage, 12.34% re-insurance, 6.17% structured finance and 7.99% multi-strategy. As at March 31, 2005, the Fund's portfolio consisted of 97.55% hedge fund investments and 2.45% in cash holdings.

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 March 31, 2005 the credit rating of the counterparty was AA-. The Trust is exposed to monies to be received from the Counterparty at the maturity of the Forward. The Forward agreement provides for the Trust's ability to terminate the Forward if the credit rating of the Counterparty goes below a certain threshold.

## 9. Income Taxes

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.

The recent federal budget included a measure to eliminate the foreign property rule for pension funds and other tax deferred retirement plans. This proposed change will have no impact on the Trust if enacted as units of the Trust have always been eligible to be held in RRSPs and RRIFs as Canadian property.

## 10. Indemnities

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

- 1) in priority to all and any rights of the Manager or of the unitholders, an indemnity to each of its directors, officers, employees and agents, other than the Manager, in respect of any liability and all costs, charges and expenses sustained or incurred in respect of any action, suit or proceeding that is proposed or commenced and all other expenses, costs or charges, sustained or incurred in respect of the administration or termination of the Trust including any taxes, penalties and interest in respect of unpaid taxes and all other liabilities and charges of any nature whatsoever;

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

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

## NORTHWATER CAPITAL MANAGEMENT INC.

Northwater is a Canadian-based investment advisor known as an innovator and leader in applying derivative and other quantitative strategies to create sophisticated investment products. Northwater was incorporated on January 4, 1989 as Newcastle Capital Management Inc. and amalgamated with related entities on July 4, 1994 and July 31, 2001 to form Northwater. As at March 31, 2005, Northwater had approximately \$10.2 billion in assets under management, including \$4.5 billion in funds of market-neutral hedge fund assets, which Northwater believes makes it the largest such provider in Canada, and among the largest in the world. Northwater has offices in Toronto and New York.

Northwater has been managing assets using derivative instruments since 1989. Northwater launched its first fund of hedge funds in 1994, establishing NewQuant Trust I, which Northwater believes was the first investment vehicle of its kind in Canada. Northwater Market-Neutral Trust launched in 1997 is the first publicly-listed investment vehicle of its kind in Canada to invest in a diversified portfolio of hedge funds.

Clients of Northwater include the pension funds of many of the largest corporations in Canada, including the Canadian subsidiaries of a number of Fortune 500 companies. Currently Northwater manages or advises a number of other funds of market-neutral hedge funds for its European, American and Canadian clients. Northwater also acts as adviser to a number of sophisticated U.S. and European institutional investors as well as pension and endowment funds of a number of universities and other public sector institutions.

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

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## FOR FURTHER INFORMATION PLEASE CONTACT:

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TSE Symbol: NTP.UN





