

NORTHWATER

**Northwater Top 75 Income Trusts^{Plus}
June 30, 2005
Second Quarter Report**



BACKGROUND

Northwater Top 75 Income Trusts^{Plus} 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 June 30, 2005 are included in this report.

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MESSAGE TO UNITHOLDERS FROM THE INVESTMENT ADVISOR

The Northwater Top 75 Income Trusts^{Plus} (the “Trust”) is a closed-end fund that invests in a diversified, equal-weighted portfolio of the 75 largest income trusts listed on the Toronto Stock Exchange. The Trust also provides a 100% leveraged exposure to Northwater’s fund of market-neutral hedge funds. Units of the Trust trade on the Toronto Stock Exchange (TSX: NTP.UN). For the second quarter of 2005, the return of the Trust was 5.50%. During the same time period, the S&P TSX Capped Canadian Income Trust Total Return Index rose by 6.19%, the TSX Composite Index rose by 3.58% and the S&P 500 rose by 1.37%. The Trust made distributions of \$0.24 per unit during the quarter.

The Trust’s exposure to an equal-weighted portfolio of the 75 largest Canadian income trusts had a positive impact on the quarterly return of approximately 7.01% as trust prices rose and yields declined during the quarter. Strong energy markets, declining 5 and 10-year bond yields and solid economic growth all contributed to the continued demand for income trusts and resulting positive performance from the portfolio.

Overall, Northwater’s fund of market-neutral hedge funds experienced muted returns in the second quarter. While convertible bond arbitrage and capital structure arbitrage experienced losses, merger arbitrage and asset-backed securities arbitrage contributed solidly to portfolio performance.

American monetary policy tightened as the U.S. Federal Open Market Committee raised the federal funds rate twice in the second quarter, to 3.25%. Despite increases in short-term rates, longer-term yields remained unusually low, resulting in a continued flattening of the yield curve. Broader equity markets registered a modest gain during the second quarter, as investors shrugged off higher energy prices in light of unexpectedly strong economic news and corporate profits. Positive leading economic indicators, including consumer confidence and job creation, sustained a strong 2005 growth outlook for the U.S. economy. Real estate prices continued their extraordinary rise, heightening fears of an overvaluation.

April and May marked volatile months for the credit markets, as downgrades of General Motors and Ford debt to junk bond status caused a surge in credit spreads and a breakdown of expected correlations in structured finance products. However, the contagion from credit derivative markets into other asset classes remained limited. U.S. light crude oil prices breached the \$60 barrier in June, driven by supply bottlenecks, inadequate refinery capacity, and adverse political developments in Nigeria and the Middle East. In the currency markets, strong U.S. economic data, negative outcomes on the Dutch and French European

Union referendums, as well as the deadlock over the European Union budget drove the U.S. dollar higher against the Euro.

Heavy selling of convertible bonds and a reduced expectation of forward long-dated volatility contributed to the weak performance by convertible bond arbitrage managers. Fixed-income arbitrage saw some weakness in June, continuing what had been a difficult environment in the first quarter. The bond market experienced declining volatility with brief rallies. The energy relative value strategy also performed modestly, driven by abnormal weather conditions in Europe.

While distressed securities witnessed a shortage of new investment options, selective exposure to operational distressed opportunities provided solid returns during the quarter. Asset-backed securities arbitrage remained a strong contributor as spreads generally remained tight and offered profit-taking opportunities. Merger arbitrage and related event-driven strategies were relatively strong performers as well, driven by special situation trades arising from corporate actions such as stub-holding company trades, spin-offs and recapitalizations.

During the second quarter, Northwater continued to actively invest the proceeds of the offering, investing in seven new funds. Northwater continues to focus on improving the Trust's portfolio by refining its stable of managers and focusing on market-neutral strategies that are able to deliver strong risk adjusted returns consistent with the investment objectives.



DANIEL C. R. MILLS, CFA
Managing Director and
Chief Investment Officer



DAVID S. FINCH, CFA
Vice-President

July 25, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Northwater Top 75 Income Trusts^{Plus} (the “Trust”) is managed by Northwater Fund Management Inc. (the “Manager”). The Manager is responsible for managing the business and administering the Trust pursuant to the provisions of the declaration of trust as well as for monitoring of the Trust’s investment portfolio. The Manager has retained Northwater Capital Management Inc. (the “Investment Advisor”) to provide investment advice and manage the Trust’s investment portfolio in accordance with the Trust’s investment objectives. In fulfilling its responsibilities, the Manager must ensure that appropriate information systems, procedures and controls are in place in order to ascertain that information used internally and disclosed to unitholders is complete and reliable. The Manager takes this responsibility seriously and is satisfied that appropriate systems, procedures and controls are in place for the Trust.

All amounts noted throughout this report are in Canadian dollars unless otherwise specifically indicated.

Investment Objectives

The Trust’s investment objectives are:

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

There is no guarantee that an investment in the Trust will earn any positive return in the short or long term.

The recent change in the foreign property rule for pension funds and other tax deferred retirement plans will have no impact on the Trust as units of the Trust have always been eligible to be held in RRSPs and RRIFs as Canadian property.

Investment Strategy

The Trust has invested an amount equal to the net proceeds of the offering in an equally-weighted portfolio of the largest 75 income trusts listed on the Toronto Stock Exchange ranked by market capitalization. The portfolio of income trusts

will be rebalanced at least annually, commencing in February 2006, to adjust for changes in the market value of securities, to add any new income trusts that at the time of rebalancing qualify for inclusion and to remove any income trusts that are no longer eligible.

The Trust also has an additional exposure to a market-neutral hedge fund portfolio through a forward purchase and sale agreement (the “Forward”) with a Canadian bank (the “Counterparty”) that has a long term credit rating of AA-. The Forward provides the Trust with exposure to the performance of Enhancement Fund Limited (the “Fund”), an exempt company formed under the laws of The Cayman Islands and advised by the Investment Advisor. In order to obtain this exposure, the Trust has invested a portion of the net proceeds of its offering in a portfolio of common shares of Canadian public companies (“Common Share Portfolio”), which has then been sold under the Forward to the Counterparty. Pursuant to the Forward, the Common Share Portfolio has been pledged to the Counterparty. The Trust’s valuation is not affected by the change in the market value of the Common Share Portfolio as gains or losses are offset by the Forward. The Trust’s return is based on its exposure, through the Forward, to the Fund and through its direct investment, to the value of the income trusts.

The Fund holds a diversified portfolio of market-neutral hedge funds (“Hedge Fund Portfolio”). The target exposure to the Hedge Fund Portfolio is equal to 100% of the net asset value of the Trust. The actual exposure as at June 30, 2005 was 95%. In establishing the Hedge Fund Portfolio “mix,” the Investment Advisor seeks out strategies that have a low correlation with one another, thereby increasing the benefits of diversification and reducing expected volatility. There can be no assurance that the Trust’s performance will exhibit strong risk-adjusted returns.

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

The financial leverage employed by the Trust to make investments as at June 30, 2005 was 10%.

Investment Management Process

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

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

1. The development of a multi-faceted set of investment beliefs, which serve as a framework for identifying appropriate market-neutral strategies and the managers that employ those strategies. These investment beliefs have and continue to evolve with the Investment Advisor's experience in market-neutral hedge fund investing and in managing complex derivative strategies.
2. The use of an established operational infrastructure necessary for managing complex market-neutral and derivative strategies. The Investment Advisor has built a team of investment professionals and developed robust portfolio and risk management systems and tools essential to managing a sophisticated fund of market-neutral hedge funds.
3. A progressive global search for market-neutral strategies consistent with the Investment Advisor's investment beliefs and the Hedge Fund Portfolio's investment criteria of market-neutrality and strong risk-adjusted returns. The Investment Advisor's search focuses on managers who have demonstrated expertise in consistently implementing these strategies.
4. A comprehensive quantitative and qualitative assessment of hedge fund managers who employ market-neutral strategies that adhere to the Investment Advisor's investment beliefs and the objectives of the Hedge Fund Portfolio.

5. The use of specific quantitative procedures, including screens that attempt to identify consistency and adaptability, market-neutrality, and portfolio fit, which are integral to the Investment Advisor's investment process. Various portfolio construction techniques are used, including mathematical optimization, statistical process control and factor analysis.
6. An ongoing qualitative assessment of existing and prospective hedge fund managers, including hedge fund manager reviews involving on-site interviews, monthly portfolio reviews and various industry references. The goal of this process is to fully understand the hedge fund manager's investment strategy and risk management processes. The Investment Advisor also seeks to ascertain the strength of a hedge fund manager's competitive advantage, its investment team and its business plan.
7. The construction of a diversified model portfolio across 13 market-neutral strategies. This is a dynamic process.
8. A comprehensive due diligence process that typically must be completed before the Investment Advisor recommends an investment. This process includes on-site interviews conducted by investment professionals from the Investment Advisor, an all-inclusive strategy and operational due diligence report, a legal review of the offering documentation, an analysis of the hedge fund's financial statements, an assessment of the fees charged by the hedge fund's manager and an examination of any administrative or other costs associated with making the investment. Rigorous monitoring and due diligence continues once a hedge fund is added to the Hedge Fund Portfolio. This process includes regular discussions with the hedge fund manager, multiple on-site interviews each year, continual quantitative and qualitative assessments and monthly review of the hedge fund's role within the Investment Advisor's model portfolio.

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

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

1. Select the largest 75 income trusts listed on the Toronto Stock Exchange;

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

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

Investment Portfolio and Activity

The Trust 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 June 30, 2005 is set out in the Statement of Investment Portfolio. As at June 30, 2005, the Trust holds 76 income trusts due to a corporate action incurred by one of its holdings. Commencing in February 2006, the Trust will rebalance the income trust portfolio annually so that, at the time of each rebalancing, the income trusts in the portfolio are equally-weighted and reflective of the largest 75 income trusts.

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

The Hedge Fund Portfolio is invested in hedge funds that pursue non-traditional investment strategies and is, therefore, subject to the special risks of investing in these strategies. For this reason, the Investment Advisor seeks to diversify the Hedge Fund Portfolio across 13 broad investment strategies. The hedge funds that the Trust has exposure to have been established in offshore jurisdictions and prepare annual audited financial statements, in accordance with US or International generally accepted accounting principles (GAAP).

During the three-month period ended June 30, 2005, investments in the Hedge Fund Portfolio were placed with 7 new hedge funds.

During the period from February 25 to June 30, 2005, as the Hedge Fund Portfolio was invested, investments were placed with 30 hedge funds.

As at June 30, 2005, the Hedge Fund Portfolio included investments in 30 hedge funds with 29 managers engaged in 13 market-neutral or hedged investment strategies. The Investment Advisor believes that this wide array of hedge fund investments has created broad diversification through which the Fund seeks to achieve its risk/return objectives and market neutrality.

Asset Allocation by Trust Sector and Hedge Fund Investment Strategy

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

Income Trust Portfolio Exposure

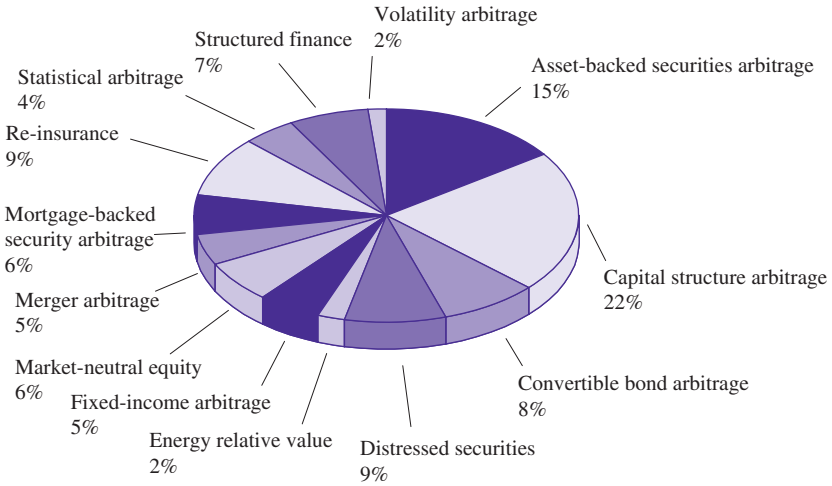
<u>Trust Sector</u>	<u>As at June 30, 2005</u>		
	<u>No. of Income Trusts</u>	<u>Fair Value</u>	
Business trusts	24	\$ 9,304,472	31%
Energy trusts	26	10,075,164	34%
Power & pipeline trusts	11	4,453,189	15%
Real estate investment trusts	15	6,047,496	20%
	<u>76</u>	<u>\$29,880,321</u>	<u>100%</u>

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

Hedge Fund Portfolio Exposure

<u>Strategy</u>	<u>As at June 30, 2005</u>		
	<u>No. of Hedge Funds</u>	<u>Fair Value (in U.S. dollars)</u>	
Asset-backed securities arbitrage	4	\$ 3,269,671	14%
Capital structure arbitrage	5	3,775,142	17%
Convertible bond arbitrage	2	1,680,809	8%
Distressed securities	3	2,204,897	10%
Energy relative value	1	504,144	2%
Fixed-income arbitrage	2	1,308,869	6%
Merger arbitrage	2	1,020,170	5%
Mortgage-backed security arbitrage	2	1,323,067	6%
Multi-strategy	4	3,508,994	16%
Re-insurance	2	2,042,843	9%
Structured finance	3	1,612,915	7%
	<u>30</u>	<u>\$22,251,521</u>	<u>100%</u>

The chart below illustrates the hedge fund holdings by strategy of the Fund as at June 30, 2005. The Fund's multi-strategy hedge funds have been allocated to the various hedge fund strategies to reflect their exposure to their constituent strategies.



The following table presents the largest individual income trust holding for each trust sector of the Trust as a percentage of the total net asset value of the Trust as at June 30, 2005.

<u>Strategy</u>	<u>As at June 30, 2005</u>
Business trusts	1.50%
Energy trusts	1.55%
Power & pipeline trusts	1.49%
Real estate investment trusts	1.43%

The following table presents the largest individual hedge fund holding for each investment strategy of the Fund as a percentage of the total net asset value of the Fund as at June 30, 2005.

<u>Strategy</u>	<u>As at June 30, 2005</u>
Asset-backed securities arbitrage	5.41%
Capital structure arbitrage	5.85%
Convertible bond arbitrage	4.28%
Distressed securities	5.24%
Energy relative value	2.20%
Fixed-income arbitrage	3.47%
Merger arbitrage	2.29%
Mortgage-backed security arbitrage	3.53%
Multi-strategy	6.70%
Re-insurance	6.67%
Structured finance	2.63%

Risk Characteristics

The following tables present information for the three-month period ended June 30, 2005 and for the period from February 25 to June 30, 2005 regarding elements of the risk profile of both the Trust and the Trust's exposure to the Hedge Fund Portfolio held by the Fund, which the Manager believes to be relevant.

<u>Trust Statistics</u>	<u>For the period from inception to June 30, 2005</u>
# of positive monthly returns	3
# of negative monthly returns	2
% of negative months	40%
Average size of negative months	-2.59%
Worst monthly return	-4.24%

<u>Single Hedge Fund Statistics of the Fund</u>	<u>For the three-month period ended June 30, 2005</u>	<u>For the period from February 25, 2005 to June 30, 2005</u>
# of hedge funds with positive returns ⁽¹⁾	19	19
# of hedge funds with negative returns ⁽¹⁾	11	11
Average annual hedge fund standard deviation ⁽²⁾	3.59%	3.59%
Average correlation between hedge funds ⁽³⁾	0.146	0.146

Notes:

(1) Measured for hedge funds in the Hedge Fund Portfolio of the Fund as at June 30, 2005.

- (2) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio of the Fund as at June 30, 2005, excludes hedge funds with less than 24 months of historical return.
- (3) As measured over the past 24 months for hedge funds in the Hedge Fund Portfolio of the Fund as at June 30, 2005, excludes hedge funds with less than 24 months of historical returns.

Review of Financial Results

Performance

During the period from February 25 to June 30, 2005, the Trust posted a return of 1.03%, taking into account the distributions made during the period. During the three-month period ended June 30, 2005, the Trust posted a return of 5.50%.

During the period from February 25 to June 30, 2005, two of the Trust's income trust sectors posted positive returns, not considering distributions received from the income trusts, with the real estate sector posting the strongest results. The S&P/TSX Capped Income Trust Index posted a return inclusive of reinvested distributions of 4.26% during this period. During the period from February 25 to June 30, 2005, overall hedge fund returns were negative. Specifically, the Fund's asset-backed securities arbitrage and re-insurance managers posted the strongest results while the convertible bond arbitrage and capital structure arbitrage managers produced the weakest results.

During the three-month period ended June 30, 2005, all four of the Trust's income trust sectors posted positive returns, not considering distributions received from the income trusts, with the energy sector posting the strongest results. The S&P/TSX Capped Income Trust Index posted a return inclusive of reinvested distributions of 6.19% during this period. During the three-month period ended June 30, 2005, overall hedge fund returns were negative. Specifically, the Fund's asset-backed securities arbitrage and merger arbitrage managers posted the strongest results while the convertible bond arbitrage and capital structure arbitrage managers produced the weakest results.

The Trust was not required to make purchases of its units under its repurchase and cancellation program as the units of the Trust for the period from February 25 to June 30, 2005 were not offered for sale at less than 95.0% of the net asset value. As a result, over the period from February 25 to June 30, 2005, this program did not contribute to the overall return of the Trust.

The following table presents the total realized and unrealized gains and losses by income trust sector for both the three-month period ended June 30, 2005 and for the period from February 25 to June 30, 2005.

<u>Trust Sector</u>	<u>Three-month period ended June 30, 2005</u>	<u>For the period from February 25, 2005 to June 30, 2005</u>
Business trusts	\$361,408	\$(161,621)
Energy trusts	364,781	29,864
Power & pipeline trusts	274,570	(12,753)
Real estate investment trusts	345,270	60,466

The following table presents the return by investment strategy of the Hedge Fund Portfolio held by the Fund for the three-month period ended June 30, 2005 and for the period from February 25 to June 30, 2005.

<u>Strategy</u>	<u>Three-month period ended June 30, 2005</u>	<u>For the period from February 25, 2005 to June 30, 2005</u>
Asset-backed securities arbitrage	2.31%	3.03%
Capital structure arbitrage	-2.53%	-3.67%
Convertible bond arbitrage	-5.32%	-6.62%
Distressed securities	1.11%	0.22%
Energy relative value	0.24%	0.83%
Fixed-income arbitrage	0.24%	0.68%
Merger arbitrage	3.70%	2.02%
Mortgage-backed security arbitrage	1.21%	1.77%
Multi-strategy	-0.09%	-0.23%
Re-insurance	1.80%	2.14%
Structured finance	0.70%	0.87%

Net Asset Value and Price Per Unit

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

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

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

The Trust's net asset value per unit is calculated and reported monthly. During the period from February 25, 2005 to June 30, 2005, the net asset value of the Trust fluctuated between \$8.68 per unit and \$9.28 per unit after taking into account distributions. During the three-month period ended June 30, 2005, the net asset value of the Trust fluctuated between \$8.68 per unit and \$9.08 per unit after taking into account distributions.

The market price for units of the Trust is determined by the actions of buyers and sellers in the market. The daily closing price of the units fluctuated between \$9.35 and \$10.45 during the period from February 25, 2005 to June 30, 2005. The daily closing price of the units fluctuated between \$9.35 and \$10.45 during the three-month period ended June 30, 2005.

Distributions

During the period from February 25, 2005 to June 30, 2005, distributions totaling \$0.32 per unit and \$1,040,000 in aggregate were declared. This represents a 3.2% return on the initial subscription price of \$10.00 per unit consistent with the targeted annual yield for the Trust of 9.5%.

During the three-month period ended June 30, 2005, distributions totaling \$0.24 per unit and \$780,000 in aggregate were declared.

The character of the monthly distributions for tax purposes will be 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.

The Trust is required to distribute all of its net income and net realized capital gains so that the Trust will not be liable to pay income tax under Part I of the Income Tax Act. The recent change in the foreign property rule for pension funds and other tax deferred retirement plans will have no impact on the character of taxable distributions made by the Trust.

Distribution History

<u>Record date</u>	<u>Date distribution paid</u>	<u>Character of distribution for tax purposes</u>	<u>Amount per unit</u>
March 31, 2005	April 15, 2005	To be determined	\$0.08
April 30, 2005	May 15, 2005	To be determined	\$0.08
May 31, 2005	June 15, 2005	To be determined	\$0.08
June 30, 2005	July 15, 2005	To be determined	\$0.08

Fees

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

The Trust pays to the Manager a service fee of 0.40% per annum of the net assets of the Trust, accrued monthly, and calculated on the last Valuation Date of each quarter. The service fee is applied by the Manager to pay a service fee to registered dealers for services they provide to unitholders, including investment advice and account statements, based on the number of units held by clients of such dealers at the end of the relevant quarter. The fee is accrued monthly and calculated and paid quarterly in arrears.

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

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

Net Income from Operations

For the period from February 25, 2005 to June 30, 2005, the Trust's net gain from operations was \$254,928. For the three-month period ended June 30, 2005, the Trust's net gain from operations was \$1,554,122.

Consistent with the Trust's objectives, the key components of income from operations were the realized and unrealized gains and losses on the income trusts, Common Share Portfolio and Forward Contract, and distributions earned from the income trust portfolio. The Trust's valuation is not affected by the change in the market value of the Common Share Portfolio as gains or losses are offset by the Forward. The Trust's return is based on the value of the income trusts and on its exposure, through the Forward, to the Fund.

The following table presents the expense ratio for the three-month period ended June 30, 2005 and for the period from February 25, 2005 to June 30, 2005. The line of the table entitled "Total expenses" presents the ratio of total expenses to weighted average net assets. The following line presents an alternative measure that the Manager feels is of value to investors and that provides additional information with respect to the Trust's expenses. The expense ratios do not reflect the management fees and expenses to which the income trust portfolio and underlying hedge funds held by the Fund are subject.

<u>Ratio of expenses to weighted-average net assets</u>	<u>Three-month period ended June 30, 2005</u>	<u>For the period from February 25, 2005 to June 30, 2005</u>
Total expenses *	<u>1.86%</u>	<u>1.75%</u>
Total expenses excluding financing fees *	<u>1.25%</u>	<u>1.19%</u>

* annualized

Purchases for Cancellation

Under its declaration of trust, the Trust is required to make purchases of units of up to 1.25% of the outstanding units per quarter if the price at which the units are offered for sale is less than 95.0% of the current net asset value per unit as at the close of business on the preceding valuation date.

On July 5, 2005, the Trust filed a notice of intention to make normal-course purchases of its units with the Toronto Stock Exchange (the “Exchange”). In its filing with the Exchange, the Trust indicated an intention to purchase up to 325,000 of the units of the Trust during the period from July 7, 2005 to July 6, 2006, representing 10% of the public float of the Trust then outstanding. In accordance with exchange rules and by-laws, the Trust may not pay more than the most recent market price for the units purchased. Units purchased under the bid are cancelled.

During the period from February 25, 2005 to June 30, 2005, the Trust did not purchase any units for cancellation under these programs.

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

MANAGEMENT'S RESPONSIBILITY

The accompanying financial statements have been prepared by Northwater Fund Management Inc., the Manager of the Trust ("Manager"), and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and other sections of the Quarterly report.

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



BENITA M. WARMBOLD, CA
Managing Director and
Chief Financial Officer



DANIEL C.R. MILLS, CFA
Managing Director and
Chief Investment Officer

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}

Statement of Net Assets

	As at June 30, 2005 (unaudited)
Assets	
Cash and short-term investments	
(cost: \$192,141)	\$ 192,246
Income trusts – at fair value (note 3)	
(cost: \$29,900,632)	29,880,321
Common shares – at fair value (note 3)	
(cost: \$3,030,487)	2,995,650
Forward contract (note 5)	(396,091)
Distribution receivable	229,144
	<u>32,901,270</u>
Liabilities	
Professional, custody and other fees payable	65,090
Distribution payable (note 8)	260,000
Loan payable (note 7)	3,048,834
Settlement payable on currency futures (note 9)	6,168
	<u>3,380,092</u>
Net assets and unitholders' equity (note 4)	<u>\$29,521,178</u>
Number of units outstanding (note 4)	<u>3,250,000</u>
Net asset value per unit	<u>\$ 9.08</u>

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

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}

Statement of Operations

	For the three-month period ended June 30, 2005 (unaudited)	For the period from February 25, 2005 to June 30, 2005 (unaudited)
Investment income		
Distributions	\$ 641,726	\$ 946,854
Interest	<u>1,593</u>	<u>2,238</u>
	643,319	949,092
Expenses		
Service fee (note 6)	20,354	30,611
Forward financing fee (note 6)	43,890	55,831
Management fee (note 6)	19,258	25,669
Audit fee	8,025	10,700
Directors' fee	3,324	3,324
Custodian fee	1,181	1,540
Legal fee	2,006	2,675
Security holder reporting costs	10,780	10,780
Interest	23,396	29,184
Other fees	<u>1,231</u>	<u>2,710</u>
	133,445	173,024
Net investment income	<u>509,874</u>	<u>776,068</u>
Realized and unrealized gain (loss) on investments		
Net realized gain (loss) on:		
Income trusts	14,088	(63,733)
Change in unrealized appreciation (depreciation) on:		
Common shares	(88,752)	(34,837)
Income trusts	1,331,941	(20,311)
Forward contract	(206,861)	(396,091)
Currency forwards	<u>(6,168)</u>	<u>(6,168)</u>
Realized and unrealized gain (loss) on investments for the period	<u>1,044,248</u>	<u>(521,140)</u>
Net gain from operations for the period ..	<u>\$1,554,122</u>	<u>\$ 254,928</u>
Net gain from operations per unit for the period*	<u>\$ 0.48</u>	<u>\$ 0.08</u>

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

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

STATEMENT OF CHANGES IN NET ASSETS

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}

Statement of Changes in Net Assets

	For the three-month period ended June 30, 2005 (unaudited)	For the period from February 25, 2005 to June 30, 2005 (unaudited)
Net assets – beginning of the period	\$28,747,056	\$ —
Net gain from operations for the period . .	1,554,122	254,928
Unit transactions (note 4)		
Units issued	—	30,793,750
Offering costs deducted	—	(487,500)
	—	30,306,250
Distribution to unitholders (note 8)	(780,000)	(1,040,000)
Net assets – end of the period	\$29,521,178	\$29,521,178
Distribution per unit for the period*	\$ 0.24	\$ 0.32

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

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

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}

Statement of Cash Flows

	For the three-month period ended June 30, 2005 (unaudited)	For the period from February 25, 2005 to June 30, 2005 (unaudited)
Cash flows from operating activities		
Net gain from operations	\$ 1,554,122	\$ 254,928
Items not affecting cash:		
Change in unrealized depreciation on common shares	88,752	34,837
Change in unrealized depreciation on forward contract	206,861	396,091
Change in unrealized depreciation (appreciation) on income trusts	(1,331,941)	20,311
Net realized loss on currency futures	6,168	6,168
Realized loss (gain) on income trusts	(14,088)	63,733
Changes in non-cash working capital:		
Change in payables	44,694	65,090
Change in receivables	(10,187)	(229,144)
Purchase of common shares	—	(3,030,487)
Purchase of income trusts	(4,716)	(33,445,123)
Proceeds on sale of income trusts	414,559	3,480,758
	<u>954,224</u>	<u>(32,382,838)</u>
Cash flows from financing activities		
Issuance of units	—	30,793,750
Advance on loan	19,832	3,048,834
Distributions paid	(780,000)	(780,000)
Payment of offering costs	(487,162)	(487,500)
	<u>(1,247,330)</u>	<u>32,575,084</u>
Net increase (decrease) in cash and short-term investments	<u>(293,106)</u>	<u>192,246</u>
Cash and short-term investments at the beginning of the period	<u>485,352</u>	<u>—</u>
Cash and short-term investments at the end of the period	<u>\$ 192,246</u>	<u>\$ 192,246</u>

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

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}

Statement of Investment Portfolio
As at June 30, 2005
(unaudited)

	Maturity Date	No. of Shares/ Face Value	Cost	Fair/ Market Value	Percentage of Investment Portfolio
Common share portfolio					
Nortel Networks Corp ⁽¹⁾		430,703	\$ 1,515,205	\$ 1,373,943	
Research In Motion Ltd ⁽¹⁾		<u>17,985</u>	<u>1,515,282</u>	<u>1,621,707</u>	
			<u>3,030,487</u>	<u>2,995,650</u>	<u>9.17%</u>
Income trust portfolio					
Acclaim Energy Trust		26,300	408,165	403,442	
Advantage Energy Income Fund		20,000	420,246	339,200	
Algonquin Power Income Fund		40,500	419,926	419,175	
AltaGas Income Trust		15,900	396,231	401,157	
ARC Energy Trust		21,500	411,246	428,710	
Baytex Energy Trust		27,300	400,770	368,004	
Bell Nordiq Income Fund		23,500	390,807	427,700	
BFI Canada Income Fund		13,600	359,177	371,280	
Boardwalk Real Estate Investment Trust		21,300	411,204	417,480	
Bonavista Energy Trust		12,700	390,653	394,208	
Borex Power Income Fund		34,100	375,013	376,805	
Brick Group Income Fund		28,600	410,780	348,920	
Calloway Real Estate Investment Trust		18,700	361,647	400,741	
Calpine Power Income Fund		36,200	420,654	376,480	
Canadian Apartment Properties Real Estate Investment Trust		27,129	409,383	402,323	
Canadian Oil Sands Trust		4,500	368,118	405,450	
Canadian Real Estate Investment Trust		20,300	386,510	391,993	
CCS Income Trust		14,900	331,661	432,100	
Chartwell Seniors Housing Real Estate Investment Trust		27,600	404,405	396,336	
CML Healthcare Income Fund		30,900	422,063	427,965	
Cominar Real Estate Investment Trust		20,900	387,813	394,383	
Connors Bros. Income Fund		20,900	403,609	315,590	
Consumers' Waterheater Income Fund (The)		26,000	410,010	423,280	
Crescent Point Energy Trust		20,800	413,671	384,384	
Davis + Henderson Income Fund		18,100	403,346	378,652	
Energy Savings Income Fund		24,200	410,938	423,500	
Enerplus Resources Fund		8,700	405,992	407,160	
Enterra Energy Trust		14,200	348,587	414,640	
Focus Energy Trust		18,600	398,799	401,760	
Fording Canadian Coal Trust		3,400	374,326	381,412	
Fort Chicago Energy Partners L.P.		33,800	405,565	439,738	
Freehold Royalty Trust		23,000	416,076	367,770	
Gateway Casinos Income Fund		17,700	390,967	342,318	

	Maturity Date	No. of Shares/ Face Value	Cost	Fair/ Market Value	Percentage of Investment Portfolio
Income trust portfolio (continued)					
Gaz Metro Limited Partnership		18,100	410,082	400,010	
Great Lakes Hydro Income Fund		19,700	394,156	385,135	
H&R Real Estate Investment Trust		20,700	401,987	404,064	
Harvest Energy Trust		15,872	401,453	429,338	
InnVest Real Estate Investment Trust ..		33,600	413,919	406,560	
Inter Pipeline Fund		42,700	400,062	417,606	
Keyera Facilities Income Fund		26,300	407,001	429,742	
Labrador Iron Ore Royalty Income Fund		14,700	398,524	333,690	
Legacy Hotels Real Estate Investment Trust		56,600	398,903	413,746	
Morguard Real Estate Investment Trust		38,100	398,826	411,480	
NAL Oil & Gas Trust		28,500	409,379	406,125	
Newalta Income Fund		16,900	400,615	373,659	
Noranda Income Fund		31,500	410,124	392,175	
North West Company Fund		12,200	385,665	405,650	
Northland Power Income Fund		29,500	422,813	432,470	
O&Y Real Estate Investment Trust		25,600	406,804	384,000	
Osprey Media Income Fund		45,700	390,017	399,875	
Paramount Energy Trust		23,300	406,678	400,760	
Pembina Pipeline Income Fund		28,100	396,489	390,590	
Pengrowth Energy Trust – Class B Trust Unit		22,100	417,189	406,640	
Petrofund Energy Trust		21,500	392,030	419,250	
Peyto Energy Trust		15,600	414,870	456,300	
Primaris Retail Real Estate Investment Trust		28,600	394,294	415,844	
PrimeWest Energy Trust		12,900	387,293	395,514	
Progress Energy Trust		29,200	413,390	380,476	
Provident Energy Trust		32,800	406,283	420,496	
Retirement Residences Real Estate Investment Trust		40,274	410,006	366,091	
Riocan Real Estate Investment Trust		21,100	397,489	422,000	
RockyView Energy Inc		5,316	—	23,284	
Shiningbank Energy Income Fund		18,300	416,790	394,365	
StarPoint Energy Trust		20,097	377,201	378,427	
Summit Real Estate Investment Trust ..		20,500	399,349	420,455	
Superior Plus Income Fund		12,500	393,208	398,125	
TimberWest Forest Corp.		25,300	403,111	372,669	
TransAlta Power L.P.		40,400	415,136	397,940	
TransCanada Power L.P.		11,400	403,966	417,239	
TransForce Income Fund		23,200	408,485	386,976	
Trinidad Energy Services Income Trust		33,800	357,664	422,500	
UE Waterheater Income Fund		28,100	378,412	384,970	
Vermilion Energy Trust		18,300	415,006	427,488	
Viking Energy Royalty Trust		55,400	403,993	392,232	

	Maturity Date	No. of Shares/ Face Value	Cost	Fair/ Market Value	Percentage of Investment Portfolio
Income trust portfolio (continued)					
Westshore Terminals Income Fund		26,700	362,485	316,662	
Yellow Pages Income Fund		29,755	411,127	443,647	
			<u>29,900,632</u>	<u>29,880,321</u>	<u>91.47%</u>
Settlement payable on currency futures contracts (note 9)			—	(6,168)	(0.02)%
Unrealized loss on forward contract (note 5)			—	(396,091)	(1.21)%
Total investments			<u>32,931,119</u>	<u>32,473,712</u>	<u>99.41%</u>
Cash			92,794	92,794	
Bankers' Deposit	June 30,				
Bank of Montreal ⁽²⁾	<u>2005</u>	<u>\$100,000</u>	<u>99,347</u>	<u>99,452</u>	
Cash and short-term investments			<u>192,141</u>	<u>192,246</u>	<u>0.59%</u>
Total investment portfolio			<u>\$33,123,260</u>	<u>32,665,958</u>	<u>100.00%</u>
Net liabilities				<u>(3,144,780)</u>	
Net assets and unitholders' equity				<u>\$29,521,178</u>	

Notes:

- (1) Securities pledged as part of the forward agreement to the counterparty.
- (2) The bankers deposit held at June 30, 2005 has a yield of 2.58%.

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

NORTHWATER TOP 75 INCOME TRUSTS^{PLUS}

Notes to Financial Statements

For the three-month period ended June 30, 2005 and for the period from February 25, 2005 to June 30, 2005
(unaudited)

1. Establishment and Operations of the Trust

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

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

2. Summary of Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and are denominated in Canadian dollars. No comparative amounts have been provided as the Trust commenced operations on February 25, 2005. The Manager of the Trust has not requested the auditors, PricewaterhouseCoopers LLP, to review these interim financial statements.

(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, and on the change in value of the Common Share Portfolio. 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) Currency Hedging

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

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

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

(c) Use of Estimates

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

3. Investment in Income Trusts and Common Shares

The following table summarizes investment transactions during the periods:

	For the three-month period ended June 30, 2005	For the period from February 25, 2005 to June 30, 2005
Income trusts at cost		
– beginning of the period	\$30,296,387	\$ —
Cost of income trusts purchased	4,716	33,445,123
Cost of income trusts sold	<u>(400,471)</u>	<u>(3,544,491)</u>
Income trusts at cost		
– end of the period	29,900,632	29,900,632
Unrealized depreciation on income trusts	<u>(20,311)</u>	<u>(20,311)</u>
Market value of income trusts		
– end of the period	<u>\$29,880,321</u>	<u>\$29,880,321</u>
Proceeds of income trusts	\$ 414,559	\$ 3,480,758
Cost of income trusts sold	<u>(400,471)</u>	<u>(3,544,491)</u>
Net realized gain (loss) on income trusts ...	<u>\$ 14,088</u>	<u>\$ (63,733)</u>

	For the three-month period ended June 30, 2005	For the period from February 25, 2005 to June 30, 2005
Common shares at cost		
– beginning of the period	\$ 3,030,487	\$ —
Cost of common shares purchased	—	3,030,487
Cost of common shares sold	<u>—</u>	<u>—</u>
Common shares at cost		
– end of the period	3,030,487	3,030,487
Unrealized depreciation on common shares	<u>(34,837)</u>	<u>(34,837)</u>
Market value of common shares		
– end of the period	<u>\$ 2,995,650</u>	<u>\$ 2,995,650</u>
Proceeds of common shares sold	\$ —	\$ —
Cost of common shares sold	<u>—</u>	<u>—</u>
Net realized gain on common shares	<u>\$ —</u>	<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. During the period from February 25, 2005 to June 30, 2005, the Trust did not make any purchases under the Trust's quarterly market support obligation.

The following unit transactions took place during the relevant periods:

	For the three-month period ended June 30, 2005	For the period from February 25, 2005 to June 30, 2005
Balance of units outstanding		
– beginning of the period	3,250,000	—
Units issued during the period	—	3,250,000
Units cancelled during the period	<u>—</u>	<u>—</u>
Balance of units outstanding		
– end of the period	<u>3,250,000</u>	<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 the relevant periods:

	For the three-month period ended June 30, 2005	For the period from February 25, 2005 to June 30, 2005
Unit capital		
– beginning of the period	\$30,306,250	\$ —
Gross proceeds from offering (net of agents' fees)	—	30,793,750
Offering costs	<u>—</u>	<u>(487,500)</u>
Unit capital		
– end of the period	<u>\$30,306,250</u>	<u>\$30,306,250</u>
	For the three-month period ended June 30, 2005	For the period from February 25, 2005 to June 30, 2005
Retained earnings		
– beginning of the period	\$(1,559,194)	\$ —
Net gain from operations for the period ...	1,554,122	254,928
Distribution to unitholders	<u>(780,000)</u>	<u>(1,040,000)</u>
Retained earnings / (deficit)		
– end of the period	<u>\$ (785,072)</u>	<u>\$ (785,072)</u>

5. 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”) held in Enhancement Fund Limited (the “Fund”), a Cayman Islands exempt company. The U.S. dollar exposure to the Hedge Fund Portfolio is largely hedged through the Forward. The target exposure to the Hedge Fund Portfolio is equal to 100% of the net asset value of the Trust. The actual exposure as at June 30, 2005 was 95%. 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 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 June 30, 2005 are in the amount of U.S. \$23,100,000 and Canadian \$3,030,500.

As at June 30, 2005, the Trust had exposure, through the Forward, to hedge funds in the following strategies.

<u>Strategy</u>	<u>Percentage exposure</u>
Asset-backed securities arbitrage	14.48%
Capital structure arbitrage	16.71%
Convertible bond arbitrage	7.44%
Distressed securities	9.76%
Energy relative value	2.23%
Fixed-income arbitrage	5.79%
Merger arbitrage	4.52%
Mortgage-backed security arbitrage	5.86%
Multi-strategy	15.53%
Re-insurance	9.04%
Structured finance	7.14%

As at June 30, 2005, the Fund's portfolio consisted of 98.51% hedge fund investments and 1.49% of 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 June 30, 2005 the credit rating of the counterparty was AA-. The Trust is exposed to monies to be received from the Counterparty at the maturity of the Forward. The Forward agreement provides for the Trust's ability to terminate the Forward if the credit rating of the Counterparty goes below a certain threshold.

6. Management, Advisory and Other Fees

The Trust retained Northwater Fund Management Inc. (the "Manager") under a management agreement dated February 15, 2005. Northwater Capital Management Inc. (the "Investment Advisor") 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 market value of Enhancement Fund Limited, is payable to the Counterparty of the Forward, plus a fee that may vary based on the market value of the Common Share Portfolio, calculated and paid monthly in arrears.

The Fund also pays to the Investment Advisor an advisory fee of 1.00% per annum of the net assets of the Fund calculated and accrued monthly, and paid monthly in arrears. For the period from February 25, 2005 to June 30, 2005, the advisory fee charged totaled U.S. \$68,061. For the three month period ended June 30, 2005, the advisory fee charged totaled U.S. \$54,695.

7. Bank Loan

The Trust has a revolving loan facility with a Canadian financial institution (the “Bank”). The amount of the loan facility allocated to assist the Trust in implementing its investment strategy will not exceed 10% of the total assets of the Trust determined at the time of borrowing. Additional borrowings under the loan facility may be made for working capital purposes, provided that the aggregate outstanding borrowings would not exceed 15% of the total assets of the Trust immediately after any such

borrowing. If, at any time, the amount outstanding under the loan facility exceeds 20% of the total assets of the Trust at such time, the Trustee will cause the Trust to sell income trusts and use the proceeds therefrom to reduce indebtedness so that the amount borrowed by the Trust does not exceed 20% of its total assets. In the event of a default by the Trust under the loan facility, the loan facility will provide that the Bank's recourse under the loan facility will be limited solely to the assets of the Trust.

The cost of the bank loan approximates its market value due to its short term nature.

8. Distributions

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

During the period from February 25, 2005 to June 30, 2005, distributions totaling \$0.32 per unit and \$1,040,000 in aggregate were declared by the Trust.

During the three-month period ended June 30, 2005, distributions totaling \$0.24 per unit and \$780,000 in aggregate were declared.

9. Futures Contracts

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

At June 30, 2005, the Trust held the following currency futures contracts:

	<u>Closing price</u>	<u>Notional contract value</u>	<u>Settlement payable on futures contracts</u>
6 September 2005			
Canadian Dollar Futures Contracts . . .	US \$81.63	US \$489,780	
		<u>CDN \$599,883</u>	<u>CDN \$6,168</u>

10. 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 change in the foreign property rule for pension funds and other tax deferred retirement plans will have no impact on the Trust as units of the Trust have always been eligible to be held in RRSPs and RRIFs as Canadian property.

11. Indemnities

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

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

- 4) an indemnity to the custodian, its affiliates, subsidiaries and agents, and their directors, officers and employees against all legal fees, judgments and amounts paid in settlement, actually and reasonably incurred arising in connection with custodial or sub-custodial services provided except to the extent incurred as a result of breach of the standard of care;
- 5) an indemnity to the trustee, a manager, an affiliate of the trustee or manager or a unitholder, against all liabilities and expenses reasonably incurred in connection with any action, suit or proceeding to which any such person may be made a party by reason of being or having been an indemnified party; 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 June 30, 2005, Northwater had approximately \$10.5 billion in assets under management, including \$4.6 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.

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TSE Symbol: NTP.UN

