



## GLOBAL PREFERRED TRUST



### **Annual Report**

Period ended December 31, 2004

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## GLOBAL PREFERRED TRUST

### Market Commentary

#### MARKET UPDATE

The strong performance of U.S. preferred shares was fueled by relatively stable conditions in the U.S. Treasury market and favorable supply and demand conditions. The U.S. Treasury market rallied in the third quarter, driven by a rise in oil prices and fears of a worldwide economic slowdown. In the fourth quarter, intermediate and long-term rates steadied, despite the U.S. Federal Reserve Board having raised short-term interest rates six times since June. Investors were comforted by the Fed's comments that it would continue to raise rates in a measured fashion.

Preferred shares also were helped by dwindling supply as companies redeemed their outstanding preferred issues and new supply waned. Meanwhile, demand for preferred shares remained strong as investors sought out their relatively high dividends and quality.

Additionally, the markets viewed the reelection of the U.S. President as a positive for tax-advantaged preferred shares since the Bush Administration supports the elimination of taxes paid on stock dividends.

#### PORTFOLIO UPDATE

As of December 31, 2004, the portfolio was overweight in the finance and utilities sectors. On a country allocation basis, approximately 70% of the assets were invested in North America and the balance primarily in European countries.

#### MARKET OUTLOOK 2005

The Fed has suggested that it will continue on a "measured" path of raising short-term interest rates. Although the recent rate hikes haven't hurt the prices of preferred shares yet, it is possible that potentially higher long-term interest rates could dampen their performance over the near term.

Over the longer term, however, we believe there are a number of factors working in favor of preferred stocks. Primary among these is the lack of new supply, and a likely strong demand from an aging American population for high-quality, income-producing assets. This combination of decreased supply and increased demand should provide some support for preferred shares even if long-term bond yields rise.

#### **John Hancock Advisers LLC**

*Investment Sub-Advisor, Global Preferred Trust*

## Management's Discussion & Analysis

The inception date for Global Preferred Trust was May 31, 2004. As at December 31, 2004, Global Preferred Trust had net assets of \$30,479,569 or \$9.96 per unit.

During the period, Global Preferred Trust had subscriptions of \$28,493,500 and no redemptions. Global Preferred Trust paid total distributions of \$3,391,050 to unitholders in 2004, of which \$2,059,931 was reinvested. Unitholders are entitled to redeem their units at any time at a price calculated by reference to Global Preferred Trust's net asset value.

Total expenses, inclusive of administration and investment management fees, general and administrative costs and interest expense, from inception to December 31, 2004, were \$323,937. Net investment income for the period was \$816,066.

## Management's Responsibility

The accompanying financial statements have been prepared by Fairway Advisors Inc., the Manager of the Trust, and approved by the Board of Directors of the Manager. The Trust's Manager is responsible for the information and representations contained in these financial statements and other sections of the Annual Report. Fairway Advisors Inc. maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Trust are described in Note 2 to the financial statements.

Ernst & Young LLP are the external auditors of the Trust. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.



Chief Executive Officer  
Fairway Advisors Inc.



Chief Financial Officer  
Fairway Advisors Inc.

## Auditors' Report

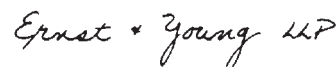
### TO THE UNITHOLDERS OF GLOBAL PREFERRED TRUST

We have audited the statements of net assets and investments of Global Preferred Trust as at December 31, 2004 and the statements of operations, changes in net assets and cash flows for the period from May 31, 2004 [date of inception] to December 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Trust as at December 31, 2004 and the results of its operations, the changes in its net assets and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
**April 15, 2005.**



**Chartered Accountants**

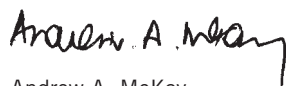
## GLOBAL PREFERRED TRUST

### Statement of Net Assets

As at December 31, 2004

<b>ASSETS</b> (Note 8)	
Investments, at market value ( <i>cost</i> – \$38,752,217)	\$ 36,985,486
Cash and cash equivalents (Note 3)	2,616,682
Due from brokers	353,876
Accrued interest, dividends and distributions from trusts	59,067
	<u>40,015,111</u>
<b>LIABILITIES</b>	
Due to brokers	600,458
Management fees payable (Note 5)	23,404
Accounts payable and accrued liabilities	66,556
Loan facility payable (Note 8)	8,528,777
Distributions payable	316,347
	<u>9,535,542</u>
<b>Net assets, at market value</b>	<b>\$ 30,479,569</b>
<b>Number of units outstanding</b> (Note 6)	<b>3,061,522</b>
<b>Net asset value per unit</b>	<b>\$ 9.96</b>

Approved on behalf of the Board of Directors of the Manager:



Andrew A. McKay  
Director



Paul Perrow  
Director

### Statement of Operations

From May 31, 2004 (Date of Inception) to December 31, 2004

<b>Investment income</b>	
Interest	\$ 204,040
Dividends (net of withholding taxes)	935,963
	<u>1,140,003</u>
<b>Expenses</b>	
Management fees (Note 5)	142,860
Administration	95,059
Interest expense	86,018
	<u>323,937</u>
<b>Net investment income</b>	<b>816,066</b>
<b>Realized and unrealized gain (loss) on investments</b>	
Net realized loss on investments (Note 7)	(676,168)
Realized foreign exchange gain	4,606,545
Change in unrealized depreciation on investments	(1,766,731)
Change in unrealized appreciation on foreign currency	337,476
<b>Net gain on investments</b>	<b>2,501,122</b>
<b>Increase in net assets from operations</b>	<b>\$ 3,317,188</b>
<b>Increase in net assets from operations per unit</b>	<b>\$ 1.0932</b>

The accompanying notes are an integral part of these financial statements

## Statement of Changes in Net Assets

From May 31, 2004 (Date of Inception) to December 31, 2004

<b>Increase in net assets from operations</b>	\$ 3,317,188
<b>Distributions to unitholders</b>	
Income	(3,391,050)
	(3,391,050)
<b>Capital unit transactions (Note 6)</b>	
Net proceeds from issuance of trust units	28,493,500
Reinvested trust units	2,059,931
	30,553,431
<b>Increase in net assets during the period</b>	30,479,569
<b>Net assets, beginning of period</b>	-
<b>Net assets, end of period</b>	<b>\$ 30,479,569</b>

## Statement of Cash Flows

From May 31, 2004 (Date of Inception) to December 31, 2004

### OPERATING ACTIVITIES

Increase in net assets from operations	3,317,188
Items not affecting cash:	
Net realized loss on sale of investments	629,233
Change in unrealized depreciation of investments	1,766,731
	5,713,152
Net change in non-cash assets and liabilities	277,475
<b>Cash flows provided by operating activities</b>	<b>5,990,627</b>

### FINANCING ACTIVITIES

Loan proceeds	8,528,777
Distributions paid to unitholders	(1,014,772)
Net proceeds from issuance of trust units	28,493,500
<b>Cash flows provided by financing activities</b>	<b>36,007,505</b>

### INVESTING ACTIVITIES

Proceeds from sale of investments	2,030,003
Purchases of investments	(41,411,453)
<b>Cash flows used in investing activities</b>	<b>(39,381,450)</b>
<b>Net increase in cash during the period</b>	2,616,682
Cash and cash equivalents, beginning of period	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,616,682</b>

The accompanying notes are an integral part of these financial statements

# Statement of Investments

As at December 31, 2004

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
<b>PREFERRED SECURITIES</b>				
<b>Bermuda</b>				
20,000	Renaissance Holdings Limited 6.08% Series C	587,813	574,360	1.88
		<b>587,813</b>	<b>574,360</b>	<b>1.88</b>
<b>Canada</b>				
33,000	Nexen Inc. 7.35% Nov 01/43	1,118,731	1,069,183	3.51
3,800	Shaw Communications Inc. 8.45% Sep 30/46 Series A	126,941	115,437	0.38
		<b>1,245,672</b>	<b>1,184,620</b>	<b>3.89</b>
<b>Cayman Islands</b>				
17,000	Repsol International Capital Limited 7.45% Series A	561,802	522,567	1.71
		<b>561,802</b>	<b>522,567</b>	<b>1.71</b>
<b>France</b>				
500,000	Axa 7.10%	673,887	629,432	2.07
500,000	BNP Paribas Capital Trust V 7.20%	692,742	637,091	2.09
		<b>1,366,629</b>	<b>1,266,523</b>	<b>4.16</b>
<b>Germany</b>				
500,000	Allianz Finance II BV 7.25%	686,484	638,306	2.09
		<b>686,484</b>	<b>638,306</b>	<b>2.09</b>
<b>Netherlands</b>				
20,000	ABN Amro Capital Funding Trust V 5.90%	597,902	589,519	1.93
10,000	ABN Amro Capital Funding Trust VII 6.08%	307,757	301,858	0.99
5,400	ING Groep NV 6.20%	173,501	164,822	0.54
23,000	ING Groep NV 7.05%	774,107	744,358	2.44
500,000	Rabobank Capital Fund II 5.26%	658,789	613,161	2.01
		<b>2,512,056</b>	<b>2,413,718</b>	<b>7.91</b>
<b>Spain</b>				
22,000	Banco Santander Central Hispano SA 6.41%	697,750	692,938	2.27
		<b>697,750</b>	<b>692,938</b>	<b>2.27</b>
<b>Sweden</b>				
500,000	Svensk Exportkredit AB 5.40%	595,710	574,655	1.89
		<b>595,710</b>	<b>574,655</b>	<b>1.89</b>
<b>Switzerland</b>				
25,000	UBS Funding Trust III 7.25%	859,010	790,738	2.59
		<b>859,010</b>	<b>790,738</b>	<b>2.59</b>
<b>United Kingdom</b>				
13,000	Abbey National PLC 7.25%	447,874	412,278	1.35
16,000	Abbey National PLC ADR 7.38% Series B	559,630	529,364	1.74
500,000	HBOS Capital Funding L.P. 6.85%	657,019	619,930	2.04
500,000	Lloyds TSB Bank PLC 6.90%	665,191	631,416	2.07
300,000	Prudential PLC 6.50%	376,984	363,177	1.19
15,000	Prudential PLC 6.75%	493,462	467,946	1.54
21,000	Royal Bank of Scotland Group PLC ADR 5.75% Series L	634,744	619,248	2.03
		<b>3,834,904</b>	<b>3,643,359</b>	<b>11.96</b>

The accompanying notes are an integral part of these financial statements

# Statement of Investments (continued)

As at December 31, 2004

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
<b>United States</b>				
11,000	Ameren Corporation 9.75% May 15/05	388,293	380,613	1.25
12,000	American Electric Power Company, Inc. 9.25% Aug 16/05	694,263	687,933	2.26
10,000	BAC Capital Trust II 7.00% Feb 01/32	339,910	321,468	1.05
5,000	BAC Capital Trust V 6.00% Nov 03/34	154,436	150,809	0.49
20,000	BGE Capital Trust III 6.20% Oct 15/43	655,509	615,747	2.02
10,000	BNY Capital IV 6.88% Dec 01/28	331,062	304,144	1.00
5,000	BNY Capital V 5.95% May 01/33 Series F	148,332	151,651	0.50
500,000	CA Funding Trust 7.00%	661,600	627,319	2.06
9,900	Citigroup Capital VIII 6.95% Sep 15/31	337,141	312,536	1.03
3,000	Consumers Energy Company Financing II 8.20% Sep 01/27	98,897	93,084	0.31
15,000	Consumers Energy Company Financing IV 9.00% Jun 30/31	522,638	479,135	1.57
3,500	Costal Finance I 8.38% Jun 30/38	106,393	105,440	0.35
14,000	Countrywide Capital IV 6.75% Apr 01/33	460,575	433,044	1.42
400,000	Dominion Resources Capital Trust I 7.83% Dec 01/27	572,170	523,602	1.72
12,000	DTE Energy Company 8.75% Aug 16/05	402,859	376,378	1.23
5,000	Duke Realty Corporation 6.63% Aug 25/08 Series J	157,725	157,606	0.52
26,000	Duke Realty Corporation 6.50% Series K	814,077	791,399	2.60
6,900	Energy East Capital Trust I 8.25% Jul 31/31	242,086	222,726	0.73
5,000	Enterprise Capital Trust I 7.44% Mar 31/47 Series A	165,781	152,493	0.50
7,000	Enterprise Capital Trust III 7.25% Jun 30/47 Series C	230,488	211,385	0.69
4,500	Fleet Capital Trust VII 7.20% Dec 15/31	154,669	143,740	0.47
5,400	Fleet Capital Trust IX 6.00% Aug 01/33	164,034	162,743	0.53
5,000	Ford Motor Company 7.50% Jun 10/43	169,318	157,005	0.51
15,000	Ford Motor Credit Company 7.38% Oct 15/31	508,897	465,239	1.53
23,894	FPC Capital I 7.10% May 13/39 Series A	789,128	727,871	2.39
5,000	FPL Group Capital Trust I 5.88% Mar 15/44	143,008	149,305	0.49
25,000	General Electric Capital Corporation 5.88% Feb 18/33	797,230	767,277	2.52
5,000	General Motors Corporation 7.25% Jul 15/41	167,108	150,929	0.50
13,000	General Motors Corporation 7.38% May 15/48	433,849	395,230	1.30
8,000	Georgia Power Capital Trust VII 5.88% Jan 15/44	237,370	238,021	0.78
13,000	Georgia Power Company 6.00% Oct 15/33 Series R	405,702	395,700	1.30
18,000	Great Plains Energy Incorporated 8.00% Feb 16/07	565,890	581,458	1.91
5,300	Heco Capital Trust III 6.50% Mar 18/34	173,810	167,062	0.55
29,100	HSBC Finance Corporation 6.88% Jan 30/33	985,434	951,227	3.12
4,000	J.P. Morgan Chase Capital X 7.00% Feb 15/32	135,684	128,635	0.42
5,000	J.P. Morgan Chase Capital XI 5.88% Jun 15/33	150,648	147,440	0.48
9,900	J.P. Morgan Chase Capital XII 6.25% Oct 15/33	308,078	306,105	1.00
15,000	J.P. Morgan Chase Capital XIV 6.20% Oct 15/34	469,344	461,088	1.51
9,500	KeySpan Corporation 8.75% May 16/05	642,415	596,274	1.96
5,000	Laclede Capital Trust I 7.70% Dec 01/32	178,747	166,148	0.54
8,900	Lehman Brothers Holdings Capital Trust III 6.38% Mar 15/52 Series K	292,971	273,579	0.90
8,900	Lehman Brothers Holdings Capital Trust V 6.00% Apr 22/53	260,558	266,619	0.87
22,100	Lincoln National Capital VI 6.75% Sep 11/52 Series F	734,316	712,306	2.34
22,100	Merrill Lynch Capital Trust V 7.28%	769,425	721,878	2.37
20,000	Morgan Stanley Capital Trust III 6.25% Mar 01/33	630,915	611,897	2.01
10,100	Morgan Stanley Capital Trust V 5.75% Jul 15/33	298,352	297,829	0.98
5,900	Northern States Power Company 8.00% Jul 01/42	210,609	193,499	0.63
10,000	NVP Capital III 7.75% Sep 30/38	315,259	303,783	1.00
7,500	ONEOK, Inc. 8.50% Feb 16/06	285,053	322,130	1.06
5,000	PLC Capital Trust V 6.13% Jan 27/34	150,833	147,981	0.49
9,500	Public Service Enterprise Group Incorporated 10.25% Nov 16/05	696,939	769,431	2.52
4,400	Public Storage, Inc. 8.00% Series R	152,378	139,593	0.46
5,400	Puget Sound Energy Capital Trust II 8.40% Jun 30/41	187,019	172,229	0.56
10,000	SLM Corporation 6.00% Dec 15/43	318,637	301,016	0.99

# Statement of Investments (continued)

As at December 31, 2004

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
<b>PREFERRED SECURITIES (continued)</b>				
<b>United States</b>				
6,600	Southwest Gas Capital II 7.70% Sep 15/43	228,168	216,139	0.71
10,200	Suntrust Capital V 7.05% Dec 15/31	344,204	324,215	1.06
13,600	Teco Capital Trust I 8.50% Jan 31/41	470,207	430,979	1.41
27,000	Telephone & Data Systems, Inc. 7.60% Dec 01/41	913,641	856,920	2.81
5,000	The Detroit Edison Company 7.38% Dec 31/28	166,556	151,591	0.50
23,100	The Phoenix Companies, Inc. 7.45% Jan 15/32	779,638	710,354	2.33
23,200	United States Cellular Corporation 7.50% Jun 15/34	776,606	756,413	2.48
1,500	USB Capital IV 7.35% Nov 01/31	52,155	48,022	0.16
20,000	Verizon New England Inc. 7.00% May 15/42 Series B	681,657	642,455	2.11
10,300	Virginia Power Capital Trust 7.38% Jul 30/42	356,570	333,963	1.10
4,700	Wells Fargo Capital Trust IV 7.00% Sep 01/31	159,752	148,602	0.49
15,000	Wells Fargo Capital Trust V 7.00% Dec 01/31	507,371	480,037	1.57
		<b>25,804,387</b>	<b>24,690,469</b>	<b>81.02</b>
<b>Total Preferred Securities</b>		<b>38,752,217</b>	<b>36,992,253</b>	<b>121.37</b>
Number of Contracts	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
<b>FUTURES</b>				
<b>United States</b>				
18	U.S. 10 Year Treasury Note Future expiry date Mar 21/05	-	(6,767)	(0.02)
<b>TOTAL INVESTMENTS</b>		<b>38,752,217</b>	<b>36,985,486</b>	<b>121.35</b>
<b>Liabilities less other assets</b>			<b>(6,505,917)</b>	<b>(21.35)</b>
<b>NET ASSETS, AT MARKET VALUE</b>			<b>30,479,569</b>	<b>100.00</b>

The accompanying notes are an integral part of these financial statements

# Notes to Financial Statements

December 31, 2004

## 1. THE TRUST

Global Preferred Trust (the "Trust") is an investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated May 31, 2004 ("Date of Inception").

The Manager and Trustee of the Trust is Fairway Advisors Inc. (the "Manager").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies followed by the Trust in the preparation of its financial statements:

### *(a) Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase.

### *(b) Valuation of investments*

Investments in publicly traded securities are valued at the closing market price from the relevant exchange. Investments in securities for which closing market prices are not readily available are valued at the last reported sales price. If no sales price can be ascertained or if the securities are not quoted on an exchange, the value is based on the average of the last bid and ask prices quoted by a major dealer in such securities. Securities for which no such information is readily available are valued at fair value as determined by the Manager. The difference between market value and average cost, as recorded in the accounts, is shown as change in unrealized appreciation (depreciation) on investments.

Short-term investments, including notes and money market instruments, will be valued at cost plus accrued interest which approximate market value.

The value of any bonds, debentures and other debt obligations will be valued by taking the average of the bid and ask prices on the valuation date.

### *(c) Investment transactions and income recognition*

All investment transactions are accounted for on the trade date. Realized gains and losses from investment transactions and unrealized appreciation or depreciation in the value of investments are calculated on an average cost basis.

Interest income and expenses are recognized daily on an accrual basis.

Dividend income is recognized on the ex-dividend date.

### *(d) Foreign currency translation*

Investments at market value and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange applicable on the valuation date. Investment transactions and income and expenses are translated at the rate of exchange on the date of such transactions.

### *(e) Forward foreign currency contracts*

Forward foreign currency contracts are included in the statement of investments and are valued at current market value on each valuation day. Gains or losses incurred when forward foreign currency contracts entered into by the Trust, which are of the nature of a general hedge of the currency exposure of the underlying portfolio of investments, mature or are closed out are included in "realized foreign exchange gain (loss)" in the statement of operations.

### *(f) Futures contracts*

The value of a futures contract is the gain or loss that would be realized if, on the valuation date, the position in the futures contract was closed out. Margin paid or deposited in connection with futures contracts is reflected on the statement of investments. The unrealized gains or losses on futures contracts are reported as part of unrealized appreciation or depreciation of futures contracts until the futures contracts are closed out. Realized gains and losses from futures contracts that are specific hedges are accounted for in the same manner as the underlying instrument being hedged. All other realized gains and losses on futures contracts are accounted for as gains or losses.

# Notes to Financial Statements (continued)

December 31, 2004

## **(g) Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Manager 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 income and expenses during the reporting period. Actual results could differ from those estimates.

## **(h) Net asset value per unit**

The net asset value per unit is computed by dividing the net assets of the Trust by the corresponding total number of units outstanding of the Trust on the valuation date.

### **3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include \$25,814 that represents cash margin held by brokers for futures contracts entered into by the Trust. Accordingly, the use of this cash is restricted.

### **4. TAXATION**

The Trust is a “unit trust” within the meaning of the Income Tax Act (Canada). A unit trust is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the period, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the period.

No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to the unitholders.

### **5. EXPENSES OF THE TRUST**

#### **(a) Management fees**

Pursuant to the Declaration of Trust, the Manager provides all administrative services required by the Trust, including the appointment of investment advisors to the Trust.

Pursuant to the Declaration of Trust, the Manager receives a monthly fee at the annual rate of 0.85%, plus applicable taxes, of the net asset value of the Trust, calculated and payable monthly in arrears.

The Manager is responsible for payment of the investment management fees of each of the investment advisors and the portfolio manager out of its annual management fee.

#### **(b) Other expenses**

The Trust is responsible for all other expenses incurred in connection with its operation and administration, such as custody, valuation, reporting, audit and legal fees. Brokerage commissions paid on securities transactions are not considered to be part of total expenses. These commissions are included in the cost of purchasing, or netted out of the proceeds from selling securities.

### **6. UNITHOLDERS' EQUITY**

The Trust is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. Unitholders are entitled to redeem their units daily, at the net asset value per unit on such date. On June 23, 2004, the Trust completed a private placement of 2,900,000 units at \$9.3025862 per unit for cash proceeds of \$26,977,500. On July 21, 2004, the Trust completed a further private placement of 161,522 units at \$9.3025862 per unit for additional cash proceeds of \$1,502,572. In 2004, distributions of \$2,059,931 were reinvested in units, resulting in 206,910 units issued and consolidated such that the number of units outstanding after such distribution was equal to the number of units outstanding immediately prior to the distribution. As at December 31, 2004, there were 3,061,522 units outstanding. Units of the Trust may be surrendered for redemption at any time. Unitholders of the Trust will receive a redemption price per unit calculated in reference to the net asset value per unit of the Trust.

The Trust will terminate operations on May 31, 2014 (the “Termination Date”) and the net assets will be distributed pro rata to unitholders unless an alternative later termination date is approved by the unitholders.

# Notes to Financial Statements (continued)

December 31, 2004

## 7. NET REALIZED LOSS ON INVESTMENTS

For the period from Date of Inception to December 31, 2004, the net realized loss on the sale of investments for the Trust was as follows:

<b>Net realized loss on investments</b>	
Proceeds from sale of investments	\$ 2,030,003
Cost of investments sold:	
Cost of investments, beginning of period	–
Investments purchased during the period	41,411,453
	41,411,453
Less: Cost of investments, end of period, excluding short-term investments	38,752,217
Cost of investments sold during the period	2,659,236
Loss on sale of investments	(629,233)
Loss on futures contracts	(46,935)
<b>Net realized loss on investments</b>	<b>\$ (676,168)</b>

## 8. LOAN FACILITY

The Manager, on behalf of the Trust, has entered into a revolving term credit facility with The Bank of Nova Scotia (“BNS”). The aggregate amount of borrowings under the credit facility and other forms of leverage may not exceed 25% of the total assets of the Trust at the time the borrowing or other transaction is entered into. The Trust has entered into a general security agreement providing BNS with a first charge on the assets of the Trust as collateral for indebtedness arising out of the credit facility.

As at December 31, 2004, the Manager, on behalf of the Trust, has drawn down loans in the aggregate principal amount of \$8,528,777. The first loan, with a payable amount of \$2,692,538, has an interest rate of 2.74%, maturing on January 31, 2005. The second loan, with a payable amount of \$5,836,239, has an interest rate of 2.82%, maturing on January 31, 2005.

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Trust's investment activities expose it to various types of risk associated with the financial instruments in which it invests. In addition to the risks of investing in preferred securities markets generally, the Trust is subject to other risks, including the following:

### ***Currency risk***

The Trust invests in securities denominated in currencies other than their reporting currency, the Canadian dollar. Consequently, the Trust is exposed to risks that the exchange rate of the Canadian dollar relative to the other currencies may change in a manner which has an adverse effect on the reported value of that portion of the Trust's assets. The Trust manages a portion of its currency risk through foreign currency hedging strategies.

### ***Interest rate risk***

The Trust invests in interest-bearing securities. The income of the Trust may be affected by changes in interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns on the expiry or sale of securities.

### ***Credit risk***

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Trust. Credit risk is managed by dealing with counterparties the Trust believes to be creditworthy and by regular monitoring of credit exposures.

# Corporate Information

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## About Fairway

Fairway is a specialized financial services firm focused on the creation, marketing, distribution and management of investment products in both traditional and alternative asset classes. Fairway's products are structured to provide yield enhancement, tax advantages and other benefits that complement the needs of Canadian investors. Fairway's principals are experienced investment professionals who share a strong track record as innovators in the Canadian securities industry.

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