Fairway
CAPITAL MANAGEMENT

LONG RESERVE LIFE RESOURCE FUND

Annual Report

Year ended December 31, 2006

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LONG RESERVE LIFE RESOURCE FUND

Annual Management Report of Fund Performance

For the Period Ended December 31, 2006

This annual management report of fund performance for Long Reserve Life Resource Fund (the "Trust") contains financial highlights and is included with the annual audited financial statements in the annual report of the Trust. You may request a copy of the Trust's current proxy voting policies and procedures, or quarterly portfolio disclosure at no cost from Fairway Advisors Inc., by calling toll free (1-866) 299-7929, or locally (416) 507-4110, by writing to us at: BCE Place, 181 Bay Street, Suite 3740 P.O. Box 750, Toronto, ON M5J 2T3, or by visiting our website at www.fairwaycapital.com or SEDAR at www.sedar.com.

The Trust's proxy voting disclosure record for the period ending June 30, 2007 will be available free of charge upon request at any time after August 31, 2007, by visiting our website at www.fairwaycapital.com.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Long Reserve Life Resource Fund is a closed-end investment trust, the units of which are listed on the Toronto Stock Exchange under the symbol LRF.UN. The Trust effectively began operations on May 31, 2006 when it completed an initial public offering of 2,000,000 units at $10.00 per unit for gross proceeds of $20.0 million. On June 27, 2006 an overallotment option granted to agents was exercised for an additional 150,000 units of the Trust at $10.00 per unit for gross proceeds of $1.5 million.

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

Investment Objective and Strategies

The Trust's investment objective is to:

(i) achieve long-term capital appreciation; and

(ii) provide unitholders with monthly distributions targeted to be $0.04167 ($0.50 per annum) representing an annual yield of 5.0% based on the $10.00 per unit issue price.

In order to achieve the Trust's investment objective, the Trust will be invested in an actively managed, broadly diversified portfolio of equity securities of issuers in the oil and gas, diversified base metal, precious metal, coal and uranium commodity sectors (collectively, "Resource Issuers").

The portfolio manager of the Trust, Lawrence Asset Management Inc. (the "Portfolio Manager" or "Lawrence"), will select Resource Issuers based primarily on reserve life, hedging practices and the political stability of the areas where the Resource Issuer's reserves are located. The Portfolio Manager believes that Resource Issuers with a longer reserve life will have higher performance over the life of the Trust than those with a shorter reserve life.

Risk

The Trust's investment activities expose it to various types of risk associated with the financial instruments in which it invests directly. In addition to the risks of investing in the equity markets generally, and the resources sector more specifically, the Trust is subject to other risks, including the following:

- Currency risk
- Interest rate risk
- Credit risk

For a detailed disclosure of risks associated with an investment in the Trust's units please refer to the Trust's Prospectus.

Results of Operations

The net asset value per unit of the Trust as at December 31, 2006 was $10.06 compared to the initial offering price of $10.00 at May 31, 2006. Net assets were $21.2 million at the end of 2006. The change in net assets from the initial offering is attributed to the various components of the net asset value as outlined below. For a further analysis as to the impact to the net asset value on a per unit basis, please see the section on *Financial Highlights*.

Managed Portfolio

A discussion by the portfolio manager of the Trust – Lawrence Asset Management Inc.

Market Review

The commodity complex showed mixed performance in 2006, in contrast to recent years where base metals, precious metals, and the various energy-related commodities contributed positive performance simultaneously. Oil showed remarkable volatility during the year but closed on a low note. The S&P/TSX Capped Energy Index logged a negative total return both for the year and since the inception of the Trust. Similarly, coal stocks were some of the worst performers in both U.S. and Canadian capital markets in 2006. Conversely, base metals stocks continued their upward trajectory and outperformed the market. Uranium was the real star with the commodity itself more than doubling during the year and uranium stocks in some cases providing even greater appreciation.

Portfolio

The performance of the portfolio of the Trust reflected the performance of its underlying sectors. The oil and gas, and coal related components of the portfolio delivered a loss for 2006 while the base metals, precious metals, and uranium components delivered gains. The portfolio also suffered a blow when the Canadian government announced changes to the taxation of income trusts on October 31, 2006. The portfolio held several long reserve life oil and gas trusts as part of its oil and gas portfolio. The unit prices of these trusts were negatively impacted by the potential changes in their tax treatment and by other restrictive rules placed upon them such as limited levels of dilution. The Trust used covered option writing strategies very selectively to realize additional income in 2006 and will continue to do so selectively throughout 2007.

The approach of focusing on long reserve life assets has demonstrated some success. For example, both Inco and Glamis Gold were taken over in 2006 at substantial premiums to their trading prices prior to their respective acquisitions. Both stocks were in the Trust's portfolio on the basis of the size of their reserves in the ground. The Portfolio Manager believes this theme will continue to unfold in 2007 and beyond and provide substantial opportunities for capital appreciation.

Outlook & Strategy

For 2007, Lawrence is optimistic that each sector of the portfolio will deliver a positive total return. Emerging markets represent a significant percentage of demand growth in most commodities. Emerging stock markets continue to register impressive gains implying continued strength in the underlying economies. It is worthwhile to note that while emerging markets have had very strong performance for several years, the price-to-earnings multiple of the emerging markets in aggregate is less than two thirds of what it was at the peak of these markets in 1994. Furthermore, at the previous peak for emerging markets in the 1990's, those nations were burdened with crippling debt levels. Conversely, they are now aggregate creditors to the rest of the world – representing a massive shift in global liquidity.

While oil and gas prices have been negatively impacted by various factors, the marginal cost of production continues to increase and large companies continue to suffer reserve declines making large-scale mergers and acquisitions increasingly likely. The Portfolio Manager will continue to rebalance the portfolio to maintain a diversified mix of stocks with an appropriate mix of exposure to the various commodity sub-sectors.

Income, Expenses and Distributions (all information relates to the period May 18, 2006 ("Date of Inception") to December 31, 2006)

For the period ended December 31, 2006, the Trust generated income from investments in the form of interest, dividends and distributions from income trusts in the amount of $0.3 million.

The Trust paid management fees and operating expenses of $0.3 million. The management expense ratio ("MER") for the Trust was 14.39% (14.99% before issue fees absorbed by the Manager; 2.45% excluding one-time costs associated with the offering of the Trust).

The Trust distributed $0.5 million to unitholders during the period.

The average daily net assets for the period were approximately $19.7 million. Income generated from the portfolio of investments and any operating expenses calculated as a percentage of the net assets of the Trust, such as management fees and some administration fees, are directly related to the amount of net assets in the Trust.

The 2006 calendar year was the first year of operations for the Trust.

Borrowings

The Manager, on behalf of the Trust, may enter into a revolving term credit facility (the "Loan Facility") with a lender in order to add leverage to the portfolio of investments. The Portfolio Manager would draw down on the Loan Facility when market conditions provide opportunities to attempt to increase the potential returns of the Trust. The aggregate amount of borrowings under any Loan 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.

As at December 31, 2006, the Manager had not yet entered into a revolving term credit facility.

Unitholder Activity

The Trust's annual redemption feature allows unitholders to redeem out of the Trust at the end of November in any given year starting in 2007.

The Trust is also required, subject to certain exceptions, under its mandatory repurchase program, to repurchase units of the Trust in the market if at any time the market price at which the units are then offered for sale is less than 95% of the net asset value per unit determined as of the close of business on the immediately preceding business day. For the period ended December 31, 2006, the Trust repurchased 30,322 units for cancellation under its mandatory repurchase program at a total cost of $262,575.

On July 12, 2006, the Manager issued a notice of intention to repurchase units of the Trust through a normal course issuer bid ("NCIB"). Under the NCIB, the Trust may repurchase up to approximately 10% of the public float of units for cancellation at a price not exceeding the net asset value of the Trust. All such purchases would be accretive and enhance returns to continuing unitholders. Purchases of units commenced on July 14, 2006 and must terminate on July 13, 2007, or on such earlier date as the Trust may complete its purchase limit. For the period ended December 31, 2006, the Trust repurchased 14,678 units for cancellation under the NCIB at a total cost of $131,114.

Recent Developments

In May 2006, Jovian Capital Corporation ("Jovian") through its wholly-owned subsidiary Jovian Asset Management Inc. acquired 100% of the Class A Shares and 49% of the Class C Shares in Fairway Asset Management Corp. (formerly, Impax Capital Corp.), parent company to Fairway Capital Management Corp., the parent of the Manager.

On November 1, 2006, Jovian announced that its subsidiary, Jovian Asset Management Inc., had given notice of its intention to exercise its option to acquire the remaining 51% of the issued and outstanding Class C Shares of Fairway Asset Management Corp. As part of this pending change of control, Fairway Asset Management Corp. has been renamed JovFunds Management Inc. This change of control is expected to close on or about March 31, 2007.

On November 30, 2006, the Manager announced that the investment advisor for the Trust was changing from Impax Funds Management Inc. ("IFMI") to Jove Investment Management Inc. (the "Investment Advisor" or "JIMI"). JIMI has assumed the responsibilities of being the Investment Advisor for the Trust. Both IFMI and JIMI are associated companies of JovFunds Management Inc. Lawrence continues in its role as Portfolio Manager for the Trust.

Jovian is a publicly-traded company listed on the TSX Venture Exchange (JVN). Jovian is a management and holding company with interests in a variety of financial service firms specializing in wealth and asset management. The Jovian group of companies operates as a national financial services organization with approximately $13.5 billion of client assets.

Related Party Transactions

The Manager provides all administrative services required by the Trust, including the appointment of the Portfolio Manager. The Manager receives a monthly fee at the annual rate of 1.1%, plus applicable taxes, of the net asset value of the Trust, calculated and accrued daily and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of the Trust to the Portfolio Manager out of its annual management fees. For additional information, see *Management Fees*.

Recommendations or Reports by the Advisory Board

The Fairway Advisory Board tabled no reports and made no material recommendations to management of the Trust in the period ending December 31, 2006.

Independent Review Committee

National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI 81-107"), came into force on November 1, 2006. NI 81-107 will require all publicly offered investment funds, such as the Trust, to establish an independent review committee (the "IRC"). The Manager must refer all conflict of interest matters for review or approval to the IRC. NI 81-107 will also impose obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, to maintain records in respect of these matters and to provide the IRC with guidance and assistance in carrying out its functions and duties.

According to NI 81-107, the IRC must be comprised of a minimum of three independent members, and will be subject to requirements to conduct regular assessments of its members and provide reports, at least annually, to the Trust and to its unitholders in respect of those functions. The report will be available on the Manager's website www.fairwaycapital.com, or at the unitholder's request at no cost, by contacting the Manager at 181 Bay Street, BCE Place, Suite 3740, Toronto, Ontario M5J 2T3 or by email at info@fairwaycapital.com.

While the initial members of the IRC will be required to be appointed by May 1, 2007, complete compliance with NI 81-107 will not be required until November 1, 2007. The Manager intends to implement the requirements of, and to comply with, NI 81-107, including appointing the members of the IRC.

The Fairway Advisory Board, which was established by the Manager to provide independent advice to the Manager on matters similar in nature to those now coming within the responsibility of the IRC, will cease to operate on the establishment of the IRC by the Manager.

Forward-Looking Statements

The matters discussed in this management report of fund performance (“MRFP”) include certain forward-looking statements. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements. Forward-looking statements may be identified, without limitation, by the use of such words as “anticipates”, “estimates”, “expects”, “intends”, “plans”, “predicts”, “projects”, “believes”, or words or phrases of similar meaning. Readers should not rely on forward-looking statements as they involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Market fluctuations and redemption levels are unpredictable and outside the control of the Trust. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. The Trust makes no commitment to disclose any revisions to forward-looking statements, or any facts, events or circumstances after the date of this MRFP that may bear upon forward-looking statements.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust’s financial performance since it’s inception on May 18, 2006. This information is derived from the Trust’s audited annual financial statements.

The Trust’s net asset value per unit for the period ended December 31,

	2006
Net asset value, beginning of period[1]	$10.00
Increase from operations:	
Total revenue	0.15
Total expenses	(0.13)
Realized gains for the period	0.22
Unrealized gains for the period	0.69
Total increase from operations[2]	0.93
Distributions:	
From capital gains	(0.24)
From return of capital	(0.05)
Total annual distributions[3]	(0.29)
Net asset value, end of period[4]	$10.06

[1] Net asset value, beginning of period for 2006 represents the original investment amount as at May 31, 2006, the date of the closing of the initial offering of the Trust.

[2] Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted average number of units outstanding over the financial period.

[3] Distributions were paid in cash.

[4] The Financial Highlights are not intended to act as a continuity of the opening and closing net asset value per unit.

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2006

Ratios and Supplemental Data

	2006
Net assets (000's)(1)	$21,178
Number of units outstanding(1)	2,105,635
Management expense ratio(2)	14.39%
Management expense ratio before waivers or absorptions(2)	14.99%
Management expense ratio excluding issue costs(2)	2.45%
Portfolio turnover rate(3)	170.75%
Trading expense ratio(4)	1.13%
Closing market price	$9.25

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

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. For the 2006 period, the management expense ratio is annualized from the date of inception to December 31, 2006. The expenses for the 2006 period contain one-time costs associated with the offering of the Trust as detailed in the prospectus. The Manager absorbed a portion of the costs associated with the offering of the Trust.

(3) The Trust's portfolio turnover rate indicates how actively the Portfolio Manager manages the Trust's portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher the Trust's portfolio turnover rate in a year, the greater the trading costs payable by the Trust in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Trust.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

MANAGEMENT FEES

The Trust's MER consists of all of its operating expenses such as custody, valuation, transfer agent, reporting, audit and legal fees. In addition to these operational and administrative expenses, other significant components of the MER are fees that are calculated as a percentage of the net asset value of the Trust. These are the Manager and Dealer Service fees. Highlights of the key components of the Trust's MER are listed in the table below:

Description – % of Net Asset Value (NAV)	2006 ($000's)
Manager – annual rate of 1.10% of NAV(1)	135
Dealer service – annual rate of 0.40% of NAV	49

(1) The Manager is responsible for the management and operational functions of the Trust. In addition, the Manager will monitor the Trust's investment strategy to ensure compliance with the investment guidelines. The Manager has retained the Portfolio Manager to provide investment advisory and portfolio management services to the Trust. The Manager is responsible for the payment of the investment management fees of the Portfolio Manager out of its fees.

PAST PERFORMANCE

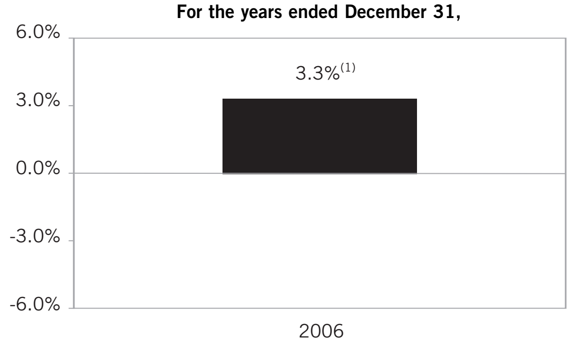
General

The performance information shown assumes that all distributions made by the Trust in the periods shown were reinvested in additional securities of the Trust. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The Trust's past performance is no guarantee of how it will perform in the future.

Year-by-Year Returns

The following bar chart shows the Trust's annual performance for the period shown, and illustrates how the Trust's performance has changed from inception. The chart shows in percentage terms how an investment made at inception would have increased or decreased by December 31 for the period.

For the years ended December 31,



(1) Return from May 31, 2006 to December 31, 2006.

Annual Compound Returns

The following table shows the Trust's annual compound return for the period ended December 31, 2006 as indicated. As a basis for comparison, the annual compound return is compared to the S&P/TSX Composite Index on the same compound basis.

Percentage Return:	Since Inception(1)
Long Reserve Life Resource Fund	3.3%
S&P/TSX Composite Index(2)	11.6%

(1) Return from May 31, 2006.
(2) Source: Bloomberg

The S&P/TSX Composite Index is a capitalization-weighted index that represents some of the largest float-adjusted stocks trading on the Toronto Stock Exchange. Company size and liquidity are the chief attributes determining index membership.

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2006

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Top 25 Investments	% of Net Assets
Long Positions	
UEX Corporation	10.61
UrAsia Energy Ltd.	5.07
Eastern Platinum Limited	4.80
Blue Pearl Mining Ltd.	4.56
Equinox Minerals Limited	3.57
Goldcorp Inc. Cl. A Sub. Voting	3.13
SXR Uranium One, Inc.	3.02
Yamana Gold Inc.	2.89
Harmony Gold Mining Company Limited ADR	2.69
First Quantum Minerals Ltd.	2.67
Cleveland-Cliffs Inc.	2.67
Crescent Point Energy Trust	2.49
Natural Resource Partners L.P.	2.45
Stillwater Mining Company	2.41
Southern Copper Corporation	2.37
Zargon Energy Trust	2.34
Shore Gold Inc.	2.32
Iluka Resources Ltd.	2.31
Cameco Corporation	2.23
Canadian Oil Sands Trust	2.16
Harvest Energy Trust	2.11
Baytex Energy Trust	2.10
Synenco Energy Inc. Cl. A	2.03
Peabody Energy Corporation	2.00
Xstrata PLC	1.83
Top 25 Investments (Long)	**76.83**
Short Option Positions	
Cameco Corporation – Jan 2007 Call @ $46	(0.10)
Teck Cominco Limited – Jan 2007 Put @ $88	(0.09)
Cleveland-Cliffs Inc. – Jan 2007 Call @ U.S. $50	(0.05)
Southern Copper Corporation – Jan 2007 Call @ U.S. $60	–
Top 4 Investments (Short)	**(0.24)**
Other Investments	21.60
Cash and Cash Equivalents	2.39
Liabilities less other assets	(0.58)
Total Net Assets	**100.00**

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end at www.fairwaycapital.com.

Portfolio Composition	% of Net Assets
Long Positions	
Equities	
Canada	47.10
United States	17.03
Australia	6.12
United Kingdom	5.96
South Africa	4.36
Total Equities	**80.57**
Income Trusts	
Canada	17.86
Total Income Trusts	**17.86**
Short Positions	
Options	
Written Call Options	(0.15)
Written Put Options	(0.09)
Total Options	**(0.24)**
Cash and Cash Equivalents	2.39
Liabilities less other assets	(0.58)
Total Net Assets	**100.00**
Total Net Asset Value	**$21,177,622**

Manager's Responsibility for Financial Reporting

The accompanying financial statements of Long Reserve Life Resource Fund (the "Trust") are the responsibility of the manager and trustee to the Trust, Fairway Advisors Inc. (the "Manager"). They have been prepared in accordance with Canadian generally accepted accounting principles using information available and include certain amounts that are based on the Manager's best estimates and judgments.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager and have been audited by Ernst & Young LLP, Chartered Accountants, on behalf of the unitholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

Steven J. Hawkins
Chief Executive Officer
Fairway Advisors Inc.

Peter Rizakos
Managing Partner
Fairway Advisors Inc.

March 12, 2007

Auditors' Report

TO THE UNITHOLDERS OF LONG RESERVE LIFE RESOURCE FUND

We have audited the statements of net assets and investments of Long Reserve Life Resource Fund [the "Trust"] as at December 31, 2006 and the statements of operations, changes in net assets and cash flows for the period from May 18, 2006 ("Date of Inception") to December 31, 2006. 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, 2006 and the results of its operations, changes in its net assets and cash flows for the period from the Date of Inception to December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada,
March 12, 2007.

Statement of Net Assets

As at December 31,		2006
Assets		
Investments, at market value *(cost – $19,320,933)*	$	20,793,696
Cash and cash equivalents		506,935
Accrued interest, dividends and distributions from trusts		43,082
		21,343,713
Liabilities		
Unit repurchases payable		2,784
Management fees payable		28,050
Accounts payable and accrued liabilities		47,503
Distributions payable		87,754
		166,091
Net assets, at market value	**$**	**21,177,622**
Number of units outstanding (Note 6)		**2,105,635**
Net asset value per unit	**$**	**10.06**

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

Peter Rizakos
Director

Steven J. Hawkins
Director

Statement of Operations

From May 18, 2006 (Date of Inception) to December 31, 2006		
Investment income		
Interest	$	175,363
Dividends and distributions		132,368
		307,731
Expenses		
Management fees (Note 4)		183,713
Administration fees		31,857
Audit fees		28,657
Custodian fees		5,840
Legal fees		1,725
Securityholder reporting costs		11,941
Transfer agency fees		18,686
Other		33
		282,452
Net investment income		**25,279**
Realized and unrealized gain on investments		
Net realized gain on sale of investments		494,242
Change in unrealized appreciation on investments		1,472,763
Realized foreign exchange loss		(20,586)
Change in unrealized appreciation on foreign currency		1,636
Net gain on investments		1,948,055
Increase in net assets from operations	**$**	**1,973,334**
Increase in net assets from operations per unit	**$**	**0.9313**

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

From May 18, 2006 (Date of Inception) to December 31, 2006		
Increase in net assets from operations	$	1,973,334
Distributions to unitholders		
Capital gains		(450,031)
Return of capital		(82,881)
		(532,912)
Capital unit transactions (Note 6)		
Proceeds from issuance of trust units		21,500,000
Issue costs		(1,375,000)
Reinvested trust units		5,889
Repurchase and cancellation of trust units (Notes 10, 11)		(393,689)
		19,737,200
Increase in net assets during the period		21,177,622
Net assets, beginning of period		–
Net assets, end of period	**$**	**21,177,622**

Statement of Cash Flows

From May 18, 2006 (Date of Inception) to December 31, 2006		
OPERATING ACTIVITIES		
Increase in net assets from operations	$	1,973,334
Deduct items not affecting cash:		
Gain on sale of investments		(494,242)
Change in unrealized appreciation on investments		(1,472,763)
		6,329
Net change in non-cash assets and liabilities		38,360
Cash provided by operating activities		44,689
FINANCING ACTIVITIES		
Distributions paid to unitholders		(445,158)
Net proceeds from issuance of trust units		20,125,000
Payments for redemption and/or repurchase of trust units		(390,905)
Cash provided by financing activities		19,288,937
INVESTING ACTIVITIES		
Proceeds from sale of investments		15,251,537
Purchases of investments		(34,078,228)
Cash used in investing activities		(18,826,691)
Net increase in cash during the period		506,935
Cash and cash equivalents, beginning of period		–
Cash and cash equivalents, end of period	**$**	**506,935**

The accompanying notes are an integral part of these financial statements

Statement of Investments

As at December 31, 2006

Number of Shares	Description	Average Cost ($)	Market Value ($)	% of Net Assets
EQUITIES				
	Australia			
8,000	BHP Billiton Limited	193,476	185,930	0.88
80,000	Iluka Resources Ltd.	474,263	488,709	2.31
5,000	Rio Tinto Limited	328,412	341,270	1.61
8,000	Woodside Petroleum Limited	308,617	280,071	1.32
		1,304,768	**1,295,980**	**6.12**
	Canada			
750	Alcan Inc.	40,943	42,585	0.20
97,900	Blue Pearl Mining Ltd.	885,339	966,273	4.56
10,000	Cameco Corporation	410,700	472,000	2.23
800,000	Eastern Platinum Limited	1,004,000	1,016,000	4.80
400,000	Equinox Minerals Limited	768,000	756,000	3.57
9,000	First Quantum Minerals Ltd.	485,764	564,750	2.67
20,000	Goldcorp Inc. Cl. A Sub. Voting	640,800	662,200	3.13
80,000	Shore Gold Inc.	444,400	492,000	2.32
40,000	SXR Uranium One, Inc.	356,000	640,000	3.02
30,000	Synenco Energy Inc. Cl. A	433,200	429,300	2.03
400,000	UEX Corporation	1,890,352	2,248,000	10.61
200,000	UrAsia Energy Ltd.	601,600	1,074,000	5.07
40,000	Yamana Gold Inc.	469,748	612,400	2.89
		8,430,846	**9,975,508**	**47.10**
	South Africa			
2,500	Anglo Platinum Limited ADR	307,806	353,727	1.67
31,000	Harmony Gold Mining Company Limited ADR	478,626	569,007	2.69
		786,432	**922,734**	**4.36**
	United Kingdom			
9,500	Anglo American PLC ADR	231,494	270,251	1.28
14,000	Antofagasta PLC ADR	254,536	328,759	1.55
4,000	Lonmin PLC ADR	231,251	273,869	1.30
6,666	Xstrata PLC	283,791	388,005	1.83
		1,001,072	**1,260,884**	**5.96**
	United States			
10,000	Alcoa Inc.	359,318	349,737	1.65
11,000	Arch Coal, Inc.	507,274	384,967	1.82
10,000	Cleveland-Cliffs Inc.	440,192	564,520	2.67
13,000	Massey Energy Co.	497,873	351,939	1.66
7,700	Natural Resource Partners L.P.	490,408	520,019	2.45
9,000	Peabody Energy Corporation	523,076	423,845	2.00
8,000	Southern Copper Corporation	414,106	502,427	2.37
35,000	Stillwater Mining Company	471,111	509,455	2.41
		3,703,358	**3,606,909**	**17.03**
Total Equities		**15,226,476**	**17,062,015**	**80.57**

The accompanying notes are an integral part of these financial statements

Statement of Investments

As at December 31, 2006

Number of Units	Description	Average Cost ($)	Market Value ($)	% of Net Assets
INCOME TRUSTS				
	Canada			
17,000	ARC Energy Trust	474,972	379,100	1.79
20,000	Baytex Energy Trust	446,260	445,600	2.10
14,000	Canadian Oil Sands Trust	479,687	456,540	2.16
30,000	Crescent Point Energy Trust	533,436	528,000	2.49
7,000	Enerplus Resources Fund	432,113	354,760	1.67
20,000	Focus Energy Trust	371,568	363,600	1.72
13,000	Fording Canadian Coal Trust	434,647	312,650	1.48
17,000	Harvest Energy Trust	431,327	445,910	2.11
20,000	Zargon Energy Trust	539,696	495,800	2.34
Total Income Trusts		**4,143,706**	**3,781,960**	**17.86**

Number of Contracts	(Name, Date of Expiry, Strike Price)	Proceeds ($)	Market Value ($)	% of Net Assets
OPTIONS (100 shares per contract unless otherwise indicated)				
	Written Call Options			
(100)	Cameco Corporation – Jan 2007@ $46	(17,800)	(20,250)	(0.10)
(100)	Cleveland-Cliffs Inc. – Jan 2007@ U.S. $50	(9,665)	(10,197)	(0.05)
(80)	Southern Copper Corporation – Jan 2007@ U.S. $60	(11,389)	(932)	0.00
		(38,854)	**(31,379)**	**(0.15)**
	Written Put Options			
(70)	Teck Cominco Limited – Jan 2007 @ $88	(10,395)	(18,900)	(0.09)
		(10,395)	**(18,900)**	**(0.09)**
Total Options		**(49,249)**	**(50,279)**	**(0.24)**
TOTAL INVESTMENTS		**19,320,933**	**20,793,696**	**98.19**
Liabilities less other assets			**383,926**	**1.81**
NET ASSETS, AT MARKET VALUE			**21,177,622**	**100.00**

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

December 31, 2006

1. **THE TRUST**

   Long Reserve Life Resource Fund (the "Trust") is a closed-end investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated May 18, 2006 ("Date of Inception").

   The Trust effectively began operations on May 31, 2006 when it completed an initial public offering of 2,000,000 units at $10.00 per unit for gross proceeds of $20.0 million. On June 27, 2006 an overallotment option granted to agents was exercised for an additional 150,000 units of the Trust at $10.00 per unit for gross proceeds of $1.5 million.

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

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

   These financial statements have been 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 approximates 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.

   Distributions from income trusts which are treated as dividend income, interest income or capital gains for tax purposes are included as dividend income, interest income or capital gains distributed from income trusts, as appropriate, in the statement of operations.

   Distributions from income trusts which are treated as return of capital for income tax purposes reduce the average cost of the investment in the Trust on the statement of investments.

   (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 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 the change in unrealized appreciation or depreciation on investments until the 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 and are included in net realized gain (loss) on investments in the Statement of Operations.

(g) Accounting estimates
Allocations of distributions received from income trusts among dividends, interest and other income, capital gains, or return of capital are based on estimates of the categorization of distribution provided by those income trusts. These allocations may change once final categorizations of the distributions are received from the respective income trusts.

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 total number of units outstanding on the valuation date.

3. TAXATION

The Trust qualifies as a "mutual fund trust" within the meaning of the Income Tax Act (Canada). The 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.

Capital losses realized over and above realized capital gains in the current taxation year can be carried forward indefinitely and may be applied against future years' capital gains. Non-capital losses arising in tax years ending after 2005 may be carried forward for a period of twenty years and applied against future years' taxable income. Previously the carryforward period was ten years. If the non-capital losses are not applied within the relevant time frame from the taxation year in which the non-capital loss arose, the non-capital loss will expire.

As at December 31, 2006, the Trust had no capital or non-capital losses to carry forward into future years.

4. 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.

In return, the Manager receives a monthly fee at the annual rate of 1.10%, 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 the Trust's investment advisors out of its annual management fees.

(b) Other expenses
The Trust is responsible for all other expenses incurred in connection with its operation and administration, such as custodian, valuation, transfer agent, 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. For the period ended December 31, 2006, brokerage commissions were $130,064.

The Trust will pay to registered dealers an annual service fee equal to 0.40% annually of the net asset value of units held by clients of the sales representatives of such dealers, calculated and payable quarterly in arrears. Dealer service fees for the period were $48,990 and are included in management fees in the Statement of Operations.

(c) Issue costs

Certain expenses such as agents' fees and other expenses of issue are payable by the Trust up to a maximum of 1.5% of the gross proceeds of the offering. The Trust paid $1.375 million and the Manager absorbed $68,971 of the issue costs in connection with the offering of the Trust.

5. UNITHOLDERS' EQUITY

The Trust is authorized to issue an unlimited number of voting, transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. On termination of the Trust, unitholders will be entitled to receive their pro rata share of all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses.

The Trust may be terminated at any time upon not less than 90 days' written notice to the Manager provided that the prior approval of unitholders has been obtained by a majority vote at a meeting of unitholders called for that purpose. In addition, the Manager may, in its discretion, terminate the Trust without the approval of unitholders if, in its opinion, it is no longer economically practical to continue the Trust or the Manager determines that it would be in the best interest of unitholders to terminate the Trust. In the case of where the Trust is terminated, the Trust shall, to the extent possible, convert its assets to cash and, after paying or making adequate provision for all of the Trust's liabilities, distribute the net assets of the Trust, on a pro rata basis, to the unitholders.

Beginning in 2007, units may be surrendered for redemption not more than 45 days, and at least 20 business days, prior to the second last business day of November in any year. Unitholders will receive a redemption price per unit equal to the net asset value per unit of the Trust determined as of the valuation date.

Additionally, and in accordance with the Declaration of Trust, unitholders are entitled to a monthly redemption at a redemption price equal to the lesser of:

(a) 95% of the average of the daily weighted unit trading price for the 10 business days prior to the second last business day of the month (the "Redemption Date"); and

(b) an amount equal to:

(i) the closing unit market price on the applicable Redemption Date, if there was trading on the applicable Redemption Date and the stock exchange provides a closing price;

(ii) an amount equal to the average of the highest and lowest prices of units on the applicable Redemption Date if there was trading on the applicable Redemption Date and the stock exchange provides only the highest and lowest trading prices of units on a particular day; or

(iii) the average of the last bid and ask prices on the applicable Redemption Date on the stock exchange if there was no trading on the applicable Redemption Date.

6. NET CAPITAL TRANSACTIONS

Net capital transactions for the Trust for the period from Date of Inception to December 31, 2006 consisted of the following:

	Units	$
Number of units outstanding, beginning of period	–	–
Subscriptions	2,150,000	21,500,000
Distribution Reinvestment Plan	635	5,889
Repurchase and cancellation of units (Notes 10, 11)	(45,000)	(393,689)
Issue costs (including agent's fees)	–	(1,375,000)
Number of units outstanding, end of period	**2,105,635**	**19,737,200**

7. SECURITIES LENDING

In order to generate additional returns, the Trust may enter into securities lending agreements with borrowers deemed acceptable to the Trust. Under a securities lending agreement, the borrower must pay the Trust a negotiated securities lending fee, provide compensation to the Trust equal to any distributions received by the borrower on the securities borrowed and the Trust must receive collateral security of 102% for the loaned security.

There were no securities lending transactions during the period.

8. DISTRIBUTIONS

The Trust endeavours to make monthly cash distributions to unitholders consisting primarily of distributions received on securities in the investment portfolio and, in certain circumstances, of net realized capital gains from the investment portfolio. These monthly distributions will be paid to unitholders on or about the last business day of each month. The monthly distribution declared to unitholders of record, at the end of each month in the year, was $0.04167 per unit.

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 directly. In addition to the risks of investing in equity, income trust, bond and option markets generally, the Trust is subject to other risks, including the following:

Currency risk

The Trust invests in securities denominated in currencies other than its 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 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 investment advisors 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.

10. MANDATORY REPURCHASE PROGRAM

If at any time the market price at which the units are then offered for sale is less than 95% of the net asset value per unit determined as of the close of business on the immediately preceding business day, subject to certain exceptions contained in the Declaration of Trust and compliance with any applicable regulatory requirements, the Trust will be obligated to purchase for cancellation any such units at the then prevailing market price up to a maximum amount in any three-month period of 1.25% of the number of units outstanding at the beginning of such period. During the period, the Trust repurchased 30,322 units for cancellation under its mandatory repurchase program at a total cost of $262,575. The units repurchased for cancellation under the mandatory repurchase program are included in repurchase and cancellation of trust units in the Statement of Changes in Net Assets.

11. NORMAL COURSE ISSUER BID

On July 12, 2006, the Manager issued a notice of intention (the "Notice") to repurchase units of the Trust through a normal course issuer bid (the "NCIB"). Under the NCIB, the Trust may purchase up to approximately 10% of the public float of units. Purchases of units commenced on July 14, 2006 and must terminate on July 13, 2007, or on such earlier date as the Trust may complete its purchases pursuant to the Notice. Purchases will be made in the open market through the facilities of the TSX in accordance with its rules and policies. The price that the Trust will pay for any such units may not exceed the net asset value per unit. Any units purchased by the Trust will be cancelled. All such purchases would be accretive and enhance returns to continuing unitholders. During the period, the Trust repurchased 14,678 units for cancellation via the NCIB at a cost of $131,114. The units repurchased for cancellation under the NCIB are included in repurchase and cancellation of trust units in the Statement of Changes in Net Assets.

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Listed
The Toronto Stock Exchange

Ticker Symbol
LRF.UN

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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