



NUVEEN SENIOR FLOATING RATE INCOME FUND
SENIOR FLOATING RATE INCOME TRUST



Annual Report

Period ended December 31, 2004

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SENIOR FLOATING RATE INCOME TRUST

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NUVEEN SENIOR FLOATING RATE INCOME FUND SENIOR FLOATING RATE INCOME TRUST

Market Commentary

MARKET UPDATE

The U.S. loan market maintained its upward momentum during the fourth quarter of 2004, capping off a strong performance for the year and achieving its twenty-sixth consecutive month of positive returns. Investor sentiment remained upbeat, sustained by a steady flow of positive macroeconomic data. Monthly employment reports, U.S. GDP growth, and inflation generally met analysts' expectations. However, volatile petroleum prices and commodity costs remained a central concern, pressuring profit margins and producing earnings shortfalls in certain sectors. The U.S. Federal Reserve Board hiked the benchmark interest rate by 25 basis points twice during the quarter to ensure that inflation remained benign. The U.S. CPI rose by just 0.2% each month during the quarter.

Overall, the U.S. economy continued its steady pace of growth throughout the year and credit fundamentals in the leveraged loan universe improved accordingly. The flexible nature and appealing risk profile of leveraged loans attracted investors, particularly in the context of the current interest rate environment. Leveraged loan assets as measured by the CSFB Leveraged Loan Index posted a 1.51% total quarterly return in the fourth quarter of 2004 versus a gain of 2.26% in the same period of 2003. The Index registered a 5.60% return for the year.

Institutional loan volume picked up during the fourth quarter and leveraged loan trading soared to U.S.\$153 billion for all of 2004, the busiest year on record. New issue volume totaled U.S.\$76 billion in the fourth quarter, the second-highest level on record. Strong inflows into the loan market were driven by investor appetite for adjustable-rate securities and improving credit metrics. The aggregate value of loans on the forward calendar increased 31% to U.S.\$22.7 billion at the end of the fourth quarter, indicating that leveraged loan volume will continue to be strong through the beginning of 2005.

Institutional M&A and LBO activity set new records during 2004. M&A-related institutional transactions climbed to U.S.\$65 billion for the year, more than double the 2003 level. Robust demand continued to drive loan re-pricings, compressing the average spread of institutional loans. Spreads for BB-rated loans tightened 72 basis points and those for B-rated loans tightened 77 basis points from 2003 levels to end the year at 220 basis points and 285 basis points respectively.

Secondary loans achieved record bid prices during the quarter. Investors were undeterred by tightening spreads and compressed yields. The average bid at the close of the fourth quarter was up 13 basis points from level in the third quarter to finish the year at 101.01, slightly lower than the record high of 101.12 attained in November 2004.

MARKET OUTLOOK 2005

Our outlook on the loan market remains optimistic. We believe loans should remain an attractive asset class for investors looking to diversify portfolios and leverage interest rate increases.

Symphony Asset Management, LLC

Portfolio Manager, Senior Floating Rate Income Trust

NUVEEN SENIOR FLOATING RATE INCOME FUND

Management's Discussion & Analysis

The inception date for the Fund was October 28, 2004. As at December 31, 2004, the Fund had net assets of \$73,381,328 or \$9.35 per unit.

The Fund declared a distribution of \$0.0525 per unit for the month of December, 2004.

The Fund provides its unitholders with economic exposure to the returns of Senior Floating Rate Income Trust through the use of a forward agreement. Senior Floating Rate Income Trust, in turn, has financial exposure to the total returns of a portfolio of senior loans and other debt securities through the use of a total return agreement. Accordingly, the financial statements of Senior Floating Rate Income Trust should be read in conjunction with those of the Fund. However, neither the Fund nor its unitholders has any ownership interest in Senior Floating Rate Income Trust.

Total expenses, inclusive of administration and investment management fees, forward agreement fees, general and administrative costs and interest expense, from inception to December 31, 2004, were \$122,046. Net investment loss for the period was \$106,517.

Units of the Fund trade on the Toronto Stock Exchange under the symbol FSL.UN. Closing value on December 31, 2004 was \$10.20 per unit. As at December 31, 2004 units were trading at a 9.1% premium to net asset value.

During the year, the Fund had \$78,500,000 in subscriptions and no redemptions. Unitholders are entitled to redeem their units outstanding annually at the end of November at a price calculated in reference to the Fund's net asset value.

The Fund has a mandatory purchase program under which the Fund is, subject to certain exceptions, obligated to purchase for cancellation any units offered in the market at the then prevailing market price if the price at which units are then offered for sale is less than 95% of the net asset value per unit determined as at the close of business the previous business day. During the year, the Fund did not repurchase any units for cancellation under its mandatory purchase program.

SENIOR FLOATING RATE INCOME TRUST

Management's Discussion & Analysis

The inception of the Trust was October 28, 2004. As at December 31, 2004, the Trust had net assets of \$73,380,067 or \$9.35 per unit.

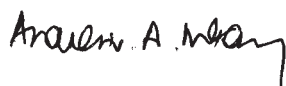
Total expenses, inclusive of administration and investment management fees, total return agreement fees, general and administrative costs and interest expense, from inception to December 31, 2004 were \$270,912. Net investment loss for the period was \$8,042.

During the year, the Trust had subscriptions of \$73,678,575 and no redemptions. The Trust also declared \$619,702 in distributions to unitholders in 2004. Unitholders are entitled to redeem their units at any time at a price calculated by reference to the Trust's net asset value.

Management's Responsibility

The accompanying financial statements have been prepared by Fairway Advisors Inc., the Manager of the Trusts, and approved by the Board of Directors of the Manager. The Trusts' 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 Trusts are described in Note 2 to the financial statements.

Ernst & Young LLP are the external auditors of the Trusts. 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.

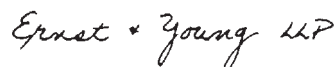
Auditors' Report

TO THE UNITHOLDERS OF NUVEEN SENIOR FLOATING RATE INCOME FUND AND SENIOR FLOATING RATE INCOME TRUST [THE "TRUSTS"]

We have audited the statements of net assets of the Trusts as at December 31, 2004 and the statements of operations and changes in net assets for the period from October 28, 2004 [date of inception] to December 31, 2004. These financial statements are the responsibility of the Trusts' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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



Chartered Accountants

Toronto, Canada,
April 15, 2005.

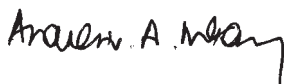
NUVEEN SENIOR FLOATING RATE INCOME FUND

Statement of Net Assets

As at December 31, 2004

Assets	
Common Share Portfolio, at market value (Note 6)	\$ 76,053,403
Cash and cash equivalents	431,857
Receivable for partial settlement of Forward Agreement (Note 7)	619,702
Accrued interest and dividends	24
	<hr/> 77,104,986
Liabilities	
Forward Agreement, at market value (Note 6)	2,673,336
Management fees payable (Note 4)	55,594
Accounts payable and accrued liabilities	582,603
Distributions payable	412,125
	<hr/> 3,723,658
Net assets, at market value	\$ 73,381,328
Number of units outstanding (Note 5)	7,850,000
Net asset value per unit	\$ 9.35

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



Andrew A. McKay
Director



Paul Perrow
Director

Statement of Operations

From October 28, 2004 (Date of Inception) to December 31, 2004

Investment income	
Interest	\$ 15,529
	<hr/> 15,529
Expenses (Note 4)	
Forward Agreement fees	56,959
Management fees	55,594
Administration	9,493
	<hr/> 122,046
Net investment loss	(106,517)
Realized and unrealized gain on investments	
Change in unrealized appreciation on Forward Agreement (Note 6)	321,220
Net gain on investments	321,220
Increase in net assets from operations	\$ 214,703
Increase in net assets from operations per unit	\$ 0.0277

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

From October 28, 2004 (Date of Inception) to December 31, 2004

Increase in net assets from operations	\$	214,703
Distributions to unitholders		
Return of capital		(412,125)
		(412,125)
Capital unit transactions (Note 5)		
Proceeds from issue of trust units		78,500,000
Issue costs		(4,921,250)
		73,578,750
Increase in net assets during the period		73,381,328
Net assets, beginning of period		-
Net assets, end of period	\$	73,381,328

The accompanying notes are an integral part of these financial statements

SENIOR FLOATING RATE INCOME TRUST

Statement of Net Assets

As at December 31, 2004

Assets (Note 9)	
Total Return Agreement, at market value	\$ 329,236
Cash and cash equivalents	73,749,445
	<u>74,078,681</u>
Liabilities	
Management fees payable (Note 4)	66,236
Accounts payable and accrued liabilities	12,676
Distributions payable	619,702
	<u>698,614</u>
Net assets, at market value	\$ 73,380,067
Number of units outstanding (Note 5)	7,850,000
Net asset value per unit	\$ 9.35

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



Andrew A. McKay
Director



Paul Perrow
Director

Statement of Operations

From October 28, 2004 (Date of Inception) to December 31, 2004

Investment income	
Interest	\$ 4,391
Income on Total Return Agreement (Note 9)	258,478
	<u>262,869</u>
Expenses	
Management fees (Note 4)	66,237
Administration	12,675
Total Return Agreement fees (Note 4)	191,999
	<u>270,911</u>
Net investment loss	(8,042)
Realized and unrealized gain on investments	
Change in unrealized appreciation on Total Return Agreement (Note 9)	329,236
Net gain on investments	329,236
Increase in net assets from operations	\$ 321,194
Increase in net assets from operations per unit	\$ 0.0414

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

From October 28, 2004 (Date of Inception) to December 31, 2004

Increase in net assets from operations	\$	321,194
Distributions to unitholders		
Other income		(388,125)
Return of capital		(231,577)
		(619,702)
Capital unit transactions (Note 5)		
Net proceeds from issue of trust units		73,678,575
		73,678,575
Increase in net assets during the period		73,380,067
Net assets, beginning of period		—
Net assets, end of period	\$	73,380,067

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

December 31, 2004

1. THE TRUSTS

Nuveen Senior Floating Rate Income Fund (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario by an Amended and Restated Declaration of Trust dated October 28, 2004.

Senior Floating Rate Income Trust (the "Trust") is an investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated October 28, 2004.

The Fund and the Trust (collectively, the "Trusts") were established on October 28, 2004 ("Date of Inception").

The manager and trustee of the Trusts 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 Trusts in the preparation of their 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 Agreement

The value of the Forward Agreement (see Note 6) is the gain or loss that would be realized if, on the valuation date, the position in the Forward Agreement was closed out in accordance with its terms. The unrealized gains or losses on the Forward Agreement are reported as part of change in unrealized appreciation or depreciation on Forward Agreement in the statement of operations until it is closed out or partially settled.

(f) Total Return Agreement

The value of the Total Return Agreement (see Note 9) is the gain or loss that would be realized if, on the valuation date, the position in the Total Return Agreement was closed out in accordance with its terms. The unrealized gains or losses on the Total Return Agreement are reported as part of change in unrealized appreciation or depreciation of the Total Return Agreement in the statement of operations until it is closed out or partially settled.

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 each of the Trusts by the corresponding total number of units outstanding of the respective Trust on the valuation date.

3. TAXATION

Nuveen Senior Floating Rate Income Fund qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada). A mutual fund 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.

Senior Floating Rate Income 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.

Nuveen Senior Floating Rate Income Fund has non-capital losses available to be carried forward as at December 31, 2004 of \$159,270. Non-capital losses may be applied against future taxable income. These non-capital losses will expire December 31, 2014 unless previously applied.

4. EXPENSES OF THE FUND AND THE TRUST

(a) Management fees

Pursuant to the Fund's Amended and Restated Declaration of Trust, the Manager provides all administrative and management services required by the Fund, including the appointment of investment advisors to the Fund.

Pursuant to the Fund's Amended and Restated Declaration of Trust, the Manager receives a fee payable monthly at the annual rate of 0.10%, plus applicable taxes, of the value of the reference portfolio (the “Senior Floating Rate Portfolio”) which is used for purposes of calculating payments under the Total Return Agreement (see Note 9). The management fee is calculated and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of the Fund's investment advisors out of the annual management fees.

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

Pursuant to the Declaration of Trust of the Trust, the Manager receives a fee payable monthly at the annual rate of 0.40%, plus applicable taxes, of the value of the Senior Floating Rate Portfolio. The management fee is calculated and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of the Trust's investment advisors and portfolio manager out of the annual management fees.

(b) Forward Agreement fees

Under the Forward Agreement (see Note 6), the Fund pays the counterparty an annual fee of approximately 0.50% of the net asset value of the corresponding number of units of the Trust, plus a fee which may vary based on hedging costs incurred in connection with the Common Share Portfolio, calculated and payable monthly in arrears.

Notes to Financial Statements (continued)

December 31, 2004

(c) Total Return Agreement fees

Under the Total Return Agreement (see Note 9), the Trust pays the counterparty monthly payments calculated on a floating rate basis of LIBOR plus a spread negotiated on commercial terms of the value of the Senior Floating Rate Portfolio minus the amount of the cash collateral pledged by the Trust to the counterparty to the Total Return Agreement.

(d) Other expenses

The Trusts are responsible for all other expenses incurred in connection with their operation and administration, such as custody, 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. The Fund will pay to registered dealers a Service Fee equal to 0.40% annually of the net asset value of units of the Fund held by clients of the sales representatives of such dealers, calculated and payable semi-annually in arrears.

5. UNITHOLDERS' EQUITY

The Fund is authorized to issue an unlimited number of transferable, redeemable units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. On termination of the Fund, which is expected to be November 30, 2014, holders of units will be entitled to receive their pro rata share of all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses.

On November 15, 2004 the Fund completed an initial public offering of 7,500,000 units at \$10 per unit for total gross cash proceeds of \$75,000,000. The Fund's units are listed on the Toronto Stock Exchange under the symbol FSL.UN. On November 29, 2004 an over-allotment option granted to agents was exercised for 350,000 units at \$10 per unit for total gross cash proceeds of \$3,500,000. Total issue costs were \$4,921,250, including expenses. As at December 31, 2004, there were 7,850,000 units outstanding.

The Fund will terminate operations on November 30, 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.

Units of the Fund may be surrendered for redemption not more than 60 days, and at least 20 business days, prior to the second last business day of November (the "Valuation Date"), in any year, commencing November 2005. Unitholders will receive a redemption price per unit equal to the net asset value per unit of the Fund determined as of the Valuation Date, less any expenses incurred by the Fund to partially settle the Forward Agreement in order to fund such redemption, not to exceed 1% of the Net Asset Value per unit.

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 November 15, 2004, Senior Floating Rate Income Trust completed a private placement of 7,500,000 units at \$9.42831 per unit for cash proceeds of \$70,712,325. On November 29, 2004, Senior Floating Rate Income Trust completed a further private placement of 350,000 units at \$8.475 per unit for additional cash proceeds of \$2,966,250. As at December 31, 2004, there were 7,850,000 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.

Notes to Financial Statements (continued)

December 31, 2004

6. FORWARD AGREEMENT

To provide the Fund with the means to meet its investment objectives, the Fund invested the net proceeds of its initial public offering in a portfolio of common shares (the "Common Share Portfolio") and entered into a forward purchase and sale agreement (the "Forward Agreement") with The Bank of Nova Scotia (the "Counterparty"). The Counterparty has agreed to pay to the Fund on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Trust. The Fund will partially settle the Forward Agreement prior to the Termination Date in order to fund monthly distributions as well as redemptions of units by unitholders from time to time and expenses of the Fund. The obligations of the Counterparty under the Forward Agreement are guaranteed by The Bank of Nova Scotia. As general and continuing collateral security for the Fund's obligations under the Forward Agreement, the Fund has granted the Counterparty a security interest over the securities held in the Common Share Portfolio.

As at December 31, 2004, the Common Share Portfolio of the Fund was comprised as follows:

Number of Shares	Description	Market Value (\$)
545,153	CoolBrands International Inc.	4,971,795
132,848	Hummingbird Ltd.	4,257,778
289,972	CanWest Global Communications Corp.	4,192,995
987,056	Nortel Networks Corporation	4,106,153
100,396	Gildan Activewear Inc.	4,096,157
334,734	The Forzani Group Ltd.	4,036,892
52,520	Precision Drilling Corporation	3,966,310
467,770	CGI Group Inc.	3,742,160
100,245	Shoppers Drug Mart Corporation	3,736,131
160,190	ATI Technologies Inc.	3,726,019
413,811	Geac Computer Corporation Limited	3,641,537
87,921	Dorel Industries Inc.	3,633,775
188,258	QLT Inc.	3,620,201
178,937	Biovail Corporation	3,541,163
1,154,838	Zarlink Semiconductor Inc.	3,533,804
79,623	Inco Limited	3,503,412
207,089	Celestica Inc.	3,499,804
117,155	Cott Corporation	3,477,160
153,065	Angiotech Pharmaceuticals, Inc.	3,401,104
467,275	Tembec Inc.	3,369,053
	Value of Common Share Portfolio	76,053,403

7. NET REALIZED GAIN ON PARTIAL SETTLEMENT OF FORWARD AGREEMENT

For the period from Date of Inception to December 31, 2004, the net realized gain on the partial settlement of the Forward Agreement for the Fund was as follows:

Proceeds from partial settlement of Forward Agreement	\$ 619,702
Cost of Forward Agreement, settled:	
Cost of Forward Agreement, beginning of period	-
Forward Agreement contracts entered into during the period	73,678,549
	73,678,549
Less: Cost of Forward Agreement, end of period	73,058,847
Cost of Forward Agreement settled during the period	619,702
Net realized gain on partial settlement of Forward Agreement	\$ -

8. DISTRIBUTIONS

The Fund endeavours to make monthly cash distributions to unitholders, consisting of capital gains and returns of capital, which will fluctuate with changes in short-term interest rates. These monthly distributions will be paid to unitholders of record on or about the last business day of each month. The monthly distribution was declared at period end to unitholders of record on December 31, 2004 in the amount of \$0.0525 per unit.

The Trust endeavours to make monthly distributions to its unitholders in accordance with its investment objectives.

9. TOTAL RETURN AGREEMENT

To provide the Trust with the means to meet its investment objectives, the Trust has entered into a total return swap agreement (the "Total Return Agreement") with The Bank of Nova Scotia which will provide the Trust with economic exposure to the total return on a portfolio comprised primarily of senior loans and other debt securities (the "Senior Floating Rate Portfolio"). Under the Total Return Agreement, The Bank of Nova Scotia will agree to make monthly payments to the Trust of all interest, fees and realized capital gains on the Senior Floating Rate Portfolio after deduction of a monthly fee calculated on a floating rate basis by reference to

Notes to Financial Statements (continued)

December 31, 2004

interest rates and any expenses associated with Senior Floating Rate Portfolio transactions. To the extent the fee payable to The Bank of Nova Scotia under the Total Return Agreement exceeds the amount of interest, fees and realized capital gains, the Trust will be required to make a payment to The Bank of Nova Scotia equal to the amount of the deficiency. In addition to monthly payments received by the Trust under the Total Return Agreement, the Trust may partially settle the Total Return Agreement prior to the Termination Date in order to fund monthly distributions by the Fund as well as redemptions of the Fund's units. The terms of the Total Return Agreement impose restrictions on the composition of the Senior Floating Rate Portfolio and failure to meet those restrictions may result in early termination of the Total Return Agreement.

The Trust is provided leverage through the Total Return Agreement at a floating rate based on LIBOR.

Through the Forward Agreement, the Fund will have exposure to any leverage incurred by the Trust.

As general and continuing collateral for its obligations under the Total Return Agreement, the Trust has granted the Counterparty a security interest in assets of the Trust, including cash and cash equivalents of \$70,787,804 collateral deposited with the Counterparty.

As at December 31, 2004, the Senior Floating Rate Portfolio was comprised as follows:

Securities	Description	Market Value
Senior Loans		
2,000,000	Affinia Group Inc. <i>Term Loan B</i>	2,447,106
7,182,322	Alderwoods Group, Inc. <i>Term Loan B2</i>	8,732,864
4,000,000	Allegheny Energy Supply Company <i>Term Loan</i>	4,900,227
1,995,081	Allied Waste North America, Inc. <i>Term Loan B</i>	2,438,661
2,900,000	Allied Waste North America, Inc. <i>Term Loan D</i>	3,538,490
3,035,740	American Commercial Lines, LLC <i>Term Loan B</i>	3,757,302

(Continued)		
Securities	Description	Market Value
Senior Loans		
997,000	American Commercial Lines, LLC <i>Term Loan C</i>	1,231,877
3,011,765	Amsted Industries Inc. <i>Term Loan B1</i>	3,681,203
5,984,962	Charter Communications Operating LLC <i>Tranche B Term Loan</i>	7,215,511
5,774,436	Conseco, Inc. <i>Term Loan</i>	7,081,827
4,000,000	Constellation Brands, Inc. <i>Term Loan B</i>	4,883,384
1,940,257	Dex Media East LLC <i>Term Loan B</i>	2,362,044
3,000,000	Dole Holding Company <i>Second Lien Term Loan</i>	3,698,405
3,990,000	Dresser Rand, Inc. <i>Term Loan B</i>	4,878,976
6,125,000	El Paso Corporation <i>Term Loan B</i>	7,443,190
2,000,000	Fitness Holdings Worldwide, Inc. <i>Term Loan B</i>	2,437,782
6,000,000	General Growth Properties (Ggp L.P. And Ggplp, LLC) <i>Term Loan B</i>	7,247,515
4,000,000	Graham Packaging Company, L.P. <i>Tranche C</i>	4,942,335
4,000,000	Huntsman LLC <i>Term Loan</i>	4,902,633
4,000,000	Jarden Corporation <i>Term Loan</i>	4,863,532
5,000,000	Jostens, Inc. <i>New Term Loan B</i>	6,070,287
6,000,000	K&F Industries, Inc. <i>Term Loan B</i>	7,344,176
3,424,789	Kinetic Concepts, Inc. <i>Term Loan B1</i>	4,154,699
4,000,000	LNR Property Corp. <i>Term Loan</i>	4,836,463
1,995,000	Loews Cineplex Entertainment Corp. <i>New Term Loan B</i>	2,434,875
3,990,000	Nortek, Inc. <i>Term Loan</i>	4,886,375
4,000,000	R.H. Donnelley, Inc. <i>Term Loan D</i>	4,867,043
3,989,950	Regal Cinemas, Inc. <i>Term Loan</i>	4,852,512
2,000,000	Reliant Energy Resources Corp. <i>Term Loan B</i>	2,439,537
6,000,000	Rockwood Specialties Group Inc. <i>Term Loan D</i>	7,274,433
99,710	Smurfit-Stone Container Corp. <i>Deposit Funded Loan</i>	121,935
1,263,818	Smurfit-Stone Container Corp. <i>Term Loan B</i>	1,544,638
636,472	Smurfit-Stone Container Corp. <i>Term Loan C</i>	778,063
2,000,000	Texas Genco LLC <i>Term Loan</i>	2,441,219
Total Senior Loans		146,731,119

Notes to Financial Statements (continued)

December 31, 2004

(Continued)		
Securities	Description	Market Value
Bonds		
4,000,000	Cablevision Systems Corp. <i>7.88% Dec 15/07</i>	5,185,362
2,000,000	Chesapeake Energy <i>8.13% Jan 04/11</i>	2,616,743
4,000,000	MGM Grand Inc. <i>9.75% Jun 01/07</i>	5,365,827
3,600,000	Navistar International <i>9.38% Jun 01/06</i>	4,655,998
4,000,000	Park Place Entertainment <i>9.38% Feb 15/07</i>	5,317,703
4,000,000	Solectron Corp. <i>9.63% Feb 15/09</i>	5,317,703
4,000,000	Tesoro Petroleum Corp. <i>8.00% Apr 15/08</i>	5,257,548
Total Bonds		33,716,884
Total Senior Floating Rate Portfolio		180,448,003

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's investment activities, through its exposure to the Trust via the Forward Agreement, expose it to various types of risk associated with the financial instruments in which the Trust has positions. In addition to the risks of investing in senior loan and other debt markets generally, the Trust is subject to other risks, including the following:

Currency risk

The Fund and the Trust invest in securities denominated in currencies other than their reporting currency, the Canadian dollar. Consequently, the Fund and the Trust are 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 Fund's and the Trust's assets. The Fund and the Trust manage a portion of their currency risk through foreign currency hedging strategies.

Interest rate risk

The Fund and the Trust invest in interest-bearing securities. The income of the Fund and 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 Fund and the Trust. Credit risk is managed by dealing with counterparties the Fund and the Trust believe to be creditworthy and by regular monitoring of credit exposures. The Fund's significant credit concentration is with The Bank of Nova Scotia under the Forward Agreement (see Note 6). The Trust's significant credit concentration is with The Bank of Nova Scotia under the Total Return Agreement (see Note 9).

11. 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 at the close of business on the immediately preceding business day, subject to certain exceptions contained in the Fund's Amended and Restated Declaration of Trust and compliance with any applicable regulatory requirements, the Fund 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 Fund did not repurchase any units for cancellation under its mandatory purchase program.

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Listed

The Toronto Stock Exchange

Ticker Symbol

FSL.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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