



NUVEEN SENIOR FLOATING RATE INCOME FUND
SENIOR FLOATING RATE INCOME TRUST



Annual Report

Year ended December 31, 2006

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SENIOR FLOATING RATE INCOME TRUST

Financial Statements

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Annual Management Report of Fund Performance

For the Year Ended December 31, 2006

This annual management report of fund performance for Nuveen Senior Floating Rate Income Fund (the “Fund”) and Senior Floating Rate Income Trust (the “Trust”) (together, the “Trusts”) contains financial highlights and is included with the annual audited financial statements in the annual report of the Trusts. You may request a copy of the Trusts’ 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 Trusts’ 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

Investment Objective and Strategies

Nuveen Senior Floating Rate Income Fund is a closed-end investment trust, the units of which are listed on the Toronto Stock Exchange under the symbol FSL.UN. Fairway Advisors Inc. is the manager (the “Manager”) and trustee (the “Trustee”) of the Trusts.

The Fund’s investment objective is to:

- (i) provide unitholders with a stable stream of tax efficient monthly distributions consisting of capital gains and return of capital, which fluctuate with short- term interest rates; and
- (ii) preserve and enhance the net asset value per unit of the Fund in order to return at least the initial subscription price of units to unitholders on or prior to the termination of the Fund.

In order to achieve the Fund’s investment objective, the Fund provides unitholders with exposure to the returns of Senior Floating Rate Income Trust. 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 purchased units of the Trust, the proceeds of which were pledged by the Trust as collateral to enter into a total return swap agreement (the Total Return Agreement) with the Bank of Nova Scotia. The Total Return Agreement 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 interest rates and any expenses associated with Senior Floating Rate Portfolio transactions. In addition, the Trust earns interest on the collateral held at The Bank of Nova Scotia calculated on a floating rate basis.

The nature of the Forward Agreement is such that the Counterparty will pay to the Fund, upon termination, the redemption proceeds of Senior Floating Rate Income Trust in exchange for the value of the Common Share Portfolio.

Any distributions paid to unitholders of the Fund are achieved through partial settlement of the Forward Agreement. A distribution is paid to the Counterparty from Senior Floating Rate Income Trust. With the distribution proceeds, the Counterparty in turn buys, from the Fund, an equivalent value of the Common Share Portfolio to partially settle the Forward Agreement. The Fund uses the proceeds of the sale of the Common Share Portfolio to pay the distributions to unitholders. The benefit to unitholders of having the Forward Agreement structure is that they receive the return of the Senior Floating Rate Portfolio without incurring the higher tax burden generally associated with the securities held in the Senior Floating Rate Portfolio. From the viewpoint of the unitholder, the distributions paid are of the nature of capital gains or return of capital from the partial sale of the Common Share Portfolio. These types of distributions are more tax efficient than distributions generated directly from income producing vehicles.

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

Risk

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
- Interest rate risk
- Credit risk

For a detailed disclosure of risks associated with an investment in the Fund's units, please refer to the Fund's most recent Annual Information Form.

Results of Operations

The net asset value per unit of the Fund as at December 31, 2006 was \$8.82 compared to \$9.03 at the end of 2005. Net assets decreased to \$28.6 million during 2006 from \$51.7 million at the end of 2005. The change in net assets 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 to Senior Floating Rate Income Trust – Symphony Asset Management, LLC (the “Portfolio Manager” or “Symphony”)

Market Review

Economic conditions throughout 2006 were favorable as a pronounced slowdown in the housing market was more than offset by stabilization in interest rates and energy prices combined with low unemployment and strong consumer confidence. These conditions contributed to robust market performance around the globe. The leveraged loan market was also a beneficiary of these macroeconomic conditions as it experienced a record year. The year was highlighted by record new issuance, record leveraged merger financing and record inflows into the leveraged loan asset class. Near historical low default rates contributed to continued spread tightening. The loan market's ability to efficiently digest record issuance surprised many skeptics.

A flurry of jumbo deals brought to market, including the largest leveraged buy-out (“LBO”) loan ever for HCA Inc., demonstrated significant liquidity and depth in the loan market. The large transactions were easily absorbed by the market and there was still some spread compression experienced at the end of the year. The CSFB Leveraged Loan Index returned 2.01% during the fourth quarter and 7.33% for the year. As of the end of December, the Index had registered 50 consecutive months of positive returns.

Total loan volume for the year stood at \$408 billion, up 62% percent from 2005's amount of \$295 billion. Volume during the fourth quarter grew 83% to \$148 billion from \$82 billion in the third quarter and up 106% from \$72 billion in the prior year. Mergers and acquisitions and leveraged buyouts were the driver of overall loan volume growth during the year. Increasingly large deals are being financed in the leveraged loan market, surpassing previous estimates of the maximum deal size thought possible. In 2006, total LBO lending topped \$122 billion, up from \$65 billion in 2005. Not only was the total LBO lending record surpassed, but HCA Inc. broke the record for the largest LBO loan ever at \$18 billion. Other notable transactions during the year and fourth quarter were the \$18.5 billion refinancing package for Ford and the \$24 billion package for the acquisition of Kerr-McGee by Anadarko Petroleum.

As default rates remain low and performance remains consistent, investors have been drawn to the loan asset class. The depth and variety of leveraged loan investors has expanded rapidly over the last few years. CLOs have come to represent a large portion of the loan market investor base. At the end of 2006 CLOs/CDOs comprised about 61% of the institutional investor base compared to about 45% in 1999. This increase can be reflected in CLO issuance during 2006. CLO issuance during the fourth quarter set a record, at \$31.6 billion, up from \$23.4 billion in the third quarter and \$25.3 billion in the second quarter. Total CLO issuance during 2006 set a new record with a total of \$92.9 billion, up 77% from 2005. As a reference, the number of institutional investors expanded during 2006, to 254 from 225 at year end at the end of 2005. The average institutional amount grew to a new high of \$353 million in 2006 from \$252 million in 2005.

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

Portfolio Strategy

During the year, the Portfolio Manager continued to manage the portfolio using fundamental analysis to select loans that it believes offers strong asset coverage and attractive risk adjusted returns. Given the strength of the economy and the overall loan market, Symphony has focused on avoiding loans it believes have not been structured properly as well as loans that might potentially have earnings volatility in a weakening economy. Given these views, the Portfolio Manager continues to position the portfolio in a more conservative manner. Symphony has also tried to focus the portfolio on larger capitalization companies as it is believed that these companies will perform better than smaller companies over the course of a credit cycle.

During the year, the loans of most automotive part suppliers as well as smaller homebuilders and land developers were avoided, even though many loans in those sectors traded at a discount throughout the year. Symphony also avoided many smaller loans that were done to finance leveraged buyouts. The Portfolio Manager does not believe that there is sufficient incremental spread in many small loans to compensate for potential illiquidity and volatility if earnings should become challenged. Throughout the year the focus was on adding high quality new-issue loans at par. Given the elevated trading levels of the marketplace, Symphony focused on the new issue market to buy loans.

The Portfolio Manager also continued to avoid the vast majority of second lien loans. Similar to smaller loans, it is Symphony's belief that second lien loans do not offer sufficient spread to compensate investors for potential volatility and lower recovery rates. Should the economy weaken, Symphony believes that second lien loans could see significant downside from current levels.

Income, Expenses and Distributions

For the year ended December 31, 2006, the Trust received cash flows from the Total Return Agreement in the form of interest and capital gains or losses in the amount \$6.6 million. This was down from the year ended December 31, 2005 when cash flows received under the Total Return Agreement were \$9.2 million. The Trust was required to pay to The Bank of Nova Scotia in the form of floating interest payments \$7.4 million (2005 – \$6.9 million). The Trust earned interest on the collateral held at The Bank of Nova Scotia under the Total Return Agreement of \$2.3 million (2005 – \$2.4 million).

The Fund paid management fees and operating expenses of \$0.8 million (2005 – \$1.1 million). The Trust paid management fees and operating expenses of \$0.7 million (2005 – \$0.9 million) exclusive of the interest payments described above. The effective management expense ratio (“MER”) to which the Fund had exposure when combining the expenses of the Trusts was 3.23% (3.05% excluding one-time costs associated with the offering of the Trust) (2005 – 2.83%; 2.74% excluding one-time costs associated with the offering of the Trust).

The Fund distributed \$3.5 million (2005 – \$4.8 million) to unitholders during the year.

The average daily net assets for the year were approximately \$22.0 million less than the comparative 2005 period due in large part to \$21.3 million in net redemptions for the year. Income generated from the portfolio of investments and any operating expenses calculated as a percentage of the net assets of the Trusts, such as management fees and some administration fees, have decreased accordingly.

Borrowings

Through the Forward Agreement, the Fund will have exposure to any leverage received by the Trust. The sole borrowings of the Trust are as described under the terms of the Total Return Agreement above.

Unitholder Activity

The Fund's annual redemption feature allows unitholders to redeem out of the Fund at the end of November in any given year. Unitholder redemptions for the year ended December 31, 2006 were in the amount of \$21.3 million (2005 – \$19.2 million).

The Fund also has a mandatory repurchase program, whereby 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, 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 year, the Fund repurchased 13,700 units (2005 – 14,300 units) for cancellation under its mandatory purchase program at a total cost of \$114,036 (2005 – \$121,899).

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

On July 12, 2006, the Manager issued a notice of intention to repurchase units of the Fund through a normal course issuer bid (“NCIB”). Under the NCIB, the Fund 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 Fund. 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 Fund may complete its purchase limit. For the year ended December 31, 2006, the Fund repurchased 42,900 units (2005 – nil) for cancellation under the NCIB at a total cost of \$366,720.

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 Trusts 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 Trusts. Both IFMI and JIMI are associated companies of JovFunds Management Inc. Symphony 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 and Investment Advisor are deemed to be related parties to the Trusts. The Manager provides all administrative services required by the Fund, including the appointment of the Investment Advisor. The Manager receives a monthly fee at the annual rate of 0.10%, plus applicable taxes, of the value of the Senior Floating Rate Portfolio, calculated and accrued daily and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of the Fund to the Investment Advisor out of its annual management fees.

The Manager also provides all administrative services required by the Trust, including the appointment of the Investment Advisor and the Portfolio Manager. The Manager receives a monthly fee at the annual rate of 0.40%, plus applicable taxes, of the Senior Floating Rate Portfolio, calculated and accrued daily and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of each of the Investment Advisor and 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 Trusts for the year ended 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 Fund, 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.

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

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 Trusts 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 Trusts. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. The Trusts make 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 Trusts and are intended to help you understand the Trusts' financial performance since their inception on October 28, 2004. This information is derived from the Trusts' audited annual financial statements.

Nuveen Senior Floating Rate Income Fund's net asset value per unit for the years ended December 31,

	2006	2005	2004
Net asset value,			
beginning of period ⁽¹⁾	\$9.03	\$9.35	\$10.00
Increase from operations:			
Total revenue	–	–	–
Total expenses	(0.15)	(0.14)	(0.02)
Realized gains for the period	0.34	0.28	–
Unrealized gains for the period	0.22	0.19	0.05
Total increase from operations⁽²⁾	0.41	0.33	0.03
Distributions:			
From return of capital	(0.63)	(0.63)	(0.05)
Total annual distributions⁽³⁾	(0.63)	(0.63)	(0.05)
Net asset value, end of period⁽⁴⁾	\$8.82	\$9.03	\$9.35

⁽¹⁾ Net asset value, beginning of year for 2004 represents the original investment amount as at November 15, 2004, the date of the closing of the initial offering of the Fund.

⁽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.

Nuveen Senior Floating Rate Income Fund's Ratios and Supplemental Data

	2006	2005	2004
Net assets (000's) ⁽¹⁾	\$28,597	\$51,711	\$73,381
Number of units			
outstanding ⁽¹⁾	3,242,044	5,723,494	7,850,000
Management expense ratio ⁽²⁾	1.89%	1.59%	53.29%
Management expense ratio			
before waivers or absorptions	1.89%	1.59%	53.29%
Management expense ratio			
excluding issue costs ⁽²⁾	1.71%	1.50%	1.29%
Portfolio turnover rate ⁽³⁾	51.46%	56.92%	6.51%
Trading expense ratio ⁽⁴⁾	0.00%	0.00%	0.00%
Closing market price	\$8.70	\$8.45	\$10.20

⁽¹⁾ This information is provided as at December 31 of the year 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 2004 period, the management expense ratio is annualized from the date of inception to December 31, 2004. The expenses for 2006, 2005 and for the 2004 period contain one-time costs associated with the offering of the Fund as detailed in the prospectus.

⁽³⁾ The Fund's portfolio turnover rate indicates how actively the Investment Advisor manages the Fund's portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund 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 Fund.

⁽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.

Senior Floating Rate Income Trust's net asset value per unit for the years ended December 31,

	2006	2005	2004
Net asset value,			
beginning of period ⁽¹⁾	\$9.01	\$9.35	\$9.43
Increase from operations:			
Total revenue	0.41	0.31	0.03
Total expenses	(1.45)	(1.01)	(0.03)
Realized gains for the period	1.20	1.20	–
Unrealized gains (losses) for the period	0.40	(0.04)	0.04
Total increase from operations⁽²⁾	0.56	0.46	0.04
Distributions:			
From income			
(excluding dividends)	(0.55)	(0.45)	(0.05)
From return of capital	(0.31)	(0.35)	(0.03)
Total annual distributions⁽³⁾	(0.86)	(0.80)	(0.08)
Net asset value, end of period⁽⁴⁾	\$8.70	\$9.01	\$9.35

⁽¹⁾ Net asset value, beginning of year for 2004 represents the original investment amount as at November 15, 2004, the date of the Forward Agreement entered into with the Fund.

⁽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.

Senior Floating Rate Income Trust's Ratios and Supplemental Data

	2006	2005	2004
Net assets (000's) ⁽¹⁾	\$28,592	\$51,712	\$73,380
Number of units			
outstanding ⁽¹⁾	3,285,750	5,737,794	7,850,000
Management expense ratio ⁽²⁾	1.35%	1.24%	0.83%
Management expense ratio			
before waivers or absorptions	1.35%	1.24%	0.83%
Portfolio turnover rate ⁽³⁾	0.00%	0.00%	0.00%
Trading expense ratio ⁽⁴⁾	0.00%	0.00%	0.00%

⁽¹⁾ This information is provided as at December 31 of the year 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 2004 period, the management expense ratio is annualized from the date of inception to December 31, 2004.

⁽³⁾ The 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 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 Fund's MER consists of all of its operating expenses such as custody, valuation, transfer agent, reporting, audit and legal fees and those it has exposure to through the Forward Agreement of Senior Floating Rate Income Trust. In addition to these operational and administrative expenses, other significant components of the MER are fees that are calculated as a percentage of the Senior Floating Rate Portfolio ("SFRP") or net asset value ("NAV") of the Fund. These are the Manager and Dealer Service fees. As well, under the Forward Agreement, 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. Highlights of the key components of the Fund's MER are listed in the table below:

Description – % of	2006	2005	2004
Net Asset Value (NAV)	(\$000's)	(\$000's)	(\$000's)
Manager of the Fund –			
annual rate of 0.10% of SFRP ⁽¹⁾	138	192	17
Manager of the Trust –			
annual rate of 0.40% of SFRP ⁽¹⁾	554	767	66
Dealer Service of the Fund –			
annual rate of 0.40% of NAV	209	304	39
Forward Agreement of the Fund	291	422	57

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

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

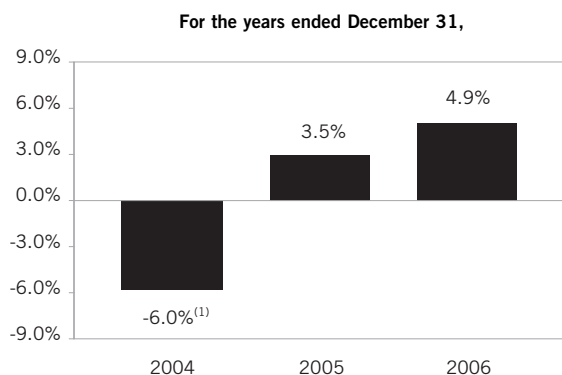
PAST PERFORMANCE

General

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

Year-by-Year Returns

The following bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The chart shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 for each year.



⁽¹⁾ Return from November 15, 2004 to December 31, 2004.

Annual Compound Returns

The following table shows the Fund's annual compound returns for the periods ended December 31, 2006 as indicated. As a basis for comparison, the annual compound returns are compared to a series of indices on the same compound basis.

Percentage Return:	1 Year	2 Year	Since Inception ⁽¹⁾
Nuveen Senior Floating Rate Income Fund	4.9%	4.2%	0.9%
Blended Index	7.5%	13.5%	N/A
CSFB Leveraged Loan Index ⁽²⁾	7.3%	13.4%	N/A
CSFB High Yield Index II ⁽²⁾	11.9%	14.5%	N/A

⁽¹⁾ Return from November 15, 2004.

⁽²⁾ Source: Credit Suisse Group

The Blended Index is comprised of 97% CSFB Leveraged Loan Index and 3% CSFB High Yield Index II which approximates the average position held in bonds during the year.

The CSFB Leveraged Loan Index is an unmanaged market capitalization-weighted index designed to mirror the U.S. dollar denominated leveraged loan market. Loans within the index must have a non-investment grade credit rating from either S&P or Moody's.

The CSFB High Yield Index II is designed to mirror the investible universe of the U.S. dollar denominated high yield debt market.

Annual Management Report of Fund Performance (continued)

For the Year Ended December 31, 2006

SUMMARY OF INVESTMENT PORTFOLIO*

as at December 31, 2006

Top 25 Investments	% of Net Assets
Fidelity National Information Solutions, Inc. <i>Term Loan B</i>	10.59
Jarden Corporation <i>Term Loan</i>	9.84
Visant Holding Corporation <i>Term Loan C</i>	8.68
K&F Industries, Inc. <i>Tranche C Term Loan</i>	8.68
Toys R Us, Inc. <i>Term Loan B</i>	8.40
NXP Semiconductor <i>8.12% Oct 15/2013</i>	8.31
CSK Automotive, Inc. <i>Term Loan</i>	8.26
Nielsen Finance LLC <i>Term Loan B</i>	8.22
Yell Group, Ltd. <i>Term Loan B</i>	8.21
LNR Property Corporation <i>Term Loan B</i>	8.19
Venetian Casino Resorts, LLC	8.19
Dealer Computer Services <i>Term Loan</i>	8.18
Lyondell Chemical Company <i>Term Loan</i>	8.18
MetroPCS Wireless, Inc. <i>Term Loan B</i>	8.17
24 Hour Fitness Worldwide, Inc. <i>Term Loan B</i>	8.16
Ineos U.S. Finance LLC	8.16
Hexion Specialty Chemicals, Inc.	8.13
Sungard Data Systems, Inc. <i>Term Loan B</i>	8.08
Rockwood Specialties Group, Inc. <i>Tranche E Term Loan</i>	7.95
Charter Communications Operating, LLC <i>Term Loan</i>	7.81
Regal Cinemas, Inc. <i>Term Loan</i>	7.79
Nortek, Inc. <i>Term Loan B</i>	7.78
Graham Packaging Company, L.P. <i>Tranche C</i>	7.64
Hanesbrands, Inc. <i>Term Loan B</i>	7.63
NRG Energy, Inc.	7.40
Top 25 Investments	206.63

Other Investments	58.03
Cash and Cash Equivalents	96.75
Liabilities less other assets	(261.41)
Total Net Assets	100.00

Portfolio Composition	% of Net Assets
Senior Loans	
United States	256.35
Total Senior Loans	256.35
Bonds	
United States	8.31
Total Bonds	8.31
Common Share Portfolio	95.36
Amounts due to Counterparty under Forward Agreement	(95.36)
Cash and Cash Equivalents	96.75
Liabilities less other assets	(261.41)
Total Net Assets	100.00
Total Net Asset Value	\$28,596,998

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.

* The investment portfolio represents the holdings of the Total Return Agreement held by Senior Floating Rate Income Trust to which Nuveen Senior Floating Rate Income Fund has exposure through the Forward Agreement. For a full listing of the Common Share Portfolio held by Nuveen Senior Floating Rate Income Fund and pledged under the Forward Agreement, please see Note 7 to the annual audited financial statements.

Manager's Responsibility for Financial Reporting

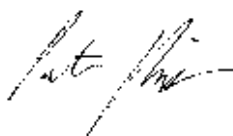
The accompanying financial statements of Nuveen Senior Floating Rate Income Fund and Senior Floating Rate Income Trust (together the "Trusts") are the responsibility of the manager and trustee to the Trusts, Fairway Advisors Inc. (the "Manager"). They have been prepared in accordance with Canadian generally 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

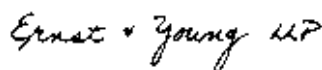
Auditors' Report

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

We have audited the statements of net assets of the Trusts as at December 31, 2006 and 2005 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Trusts' 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 investments of the Trusts as at December 31, 2006, the net assets of the Trusts as at December 31, 2006 and 2005 and the results of their operations and the changes in their net assets for the periods then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

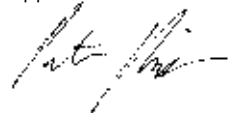
Toronto, Canada,
March 12, 2007

NUVEEN SENIOR FLOATING RATE INCOME FUND

Statement of Net Assets

As at December 31	2006		2005	
Assets				
Common Share Portfolio, at market value (Note 7)	\$	27,269,557	\$	47,745,730
Forward Agreement, at market value (Note 7)		1,322,407		3,966,520
Cash and cash equivalents		55,809		161,632
Receivable for partial settlement of Forward Agreement (Note 7)		304,983		372,784
Accrued interest and dividends		–		18
Prepaid expenses		10,691		–
		<u>28,963,447</u>		<u>52,246,684</u>
Liabilities				
Management fees payable		116,655		19,445
Accounts payable and accrued liabilities		73,453		215,730
Unit repurchases payable		6,097		–
Distributions payable		170,244		300,483
		<u>366,449</u>		<u>535,658</u>
Net assets, at market value	\$	28,596,998	\$	51,711,026
Number of units outstanding (Note 6)		3,242,044		5,723,494
Net asset value per unit	\$	8.82	\$	9.03

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



Peter Rizakos
Director



Steven J. Hawkins
Director

Statement of Operations

For the year ended December 31	2006		2005	
Investment income				
Interest	\$	2,357	\$	6,221
Expenses				
Management fees (Note 4)		347,414		496,477
Administration fees		65,350		41,045
Audit fees		50,579		24,999
Forward Agreement fees		290,995		421,577
Custodian fees		1,088		1,015
Legal fees		45,815		18,367
Securityholder reporting costs		23,519		36,483
Transfer agency fees		13,886		11,399
Other		–		17,486
		<u>838,646</u>		<u>1,068,848</u>
Net investment loss		(836,289)		(1,062,627)
Realized and unrealized gain on investments				
Net realized gain on partial settlement of Forward Agreement		1,893,577		2,119,037
Change in unrealized appreciation on Forward Agreement (Note 7)		1,206,928		1,446,383
Net gain on investments		3,100,505		3,565,420
Increase in net assets from operations	\$	2,264,216	\$	2,502,793
Increase in net assets from operations per unit	\$	\$0.4104	\$	\$0.3255

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

For the year ended December 31	2006	2005
Increase in net assets from operations	\$ 2,264,216	\$ 2,502,793
Distributions to unitholders		
Return of capital	(3,468,595)	(4,833,858)
Capital unit transactions (Note 6)		
Issue costs	(88,758)	(60,474)
Redeemed trust units	(21,340,135)	(19,156,864)
Repurchase and cancellation of trust units (Notes 11, 12)	(480,756)	(121,899)
	(21,909,649)	(19,339,237)
Decrease in net assets during the year	(23,114,028)	(21,670,302)
Net assets, beginning of year	51,711,026	73,381,328
Net assets, end of year	\$ 28,596,998	\$ 51,711,026

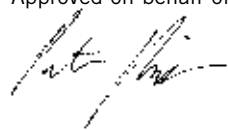
The accompanying notes are an integral part of these financial statements

SENIOR FLOATING RATE INCOME TRUST

Statement of Net Assets

As at December 31	2006		2005	
Assets				
Total Return Agreement, at market value (Note 9)	\$	1,193,178	\$	–
Cash and cash equivalents (Note 9)		27,613,057		52,502,268
Accrued interest		119,561		192,359
		28,925,796		52,694,627
Liabilities				
Total Return Agreement, at market value (Note 9)		–		595,506
Accounts payable and accrued liabilities		28,849		14,087
Distributions payable		304,983		372,784
		333,832		982,377
Net assets, at market value	\$	28,591,964	\$	51,712,250
Number of units outstanding (Note 6)		3,285,750		5,737,794
Net asset value per unit	\$	8.70	\$	9.01

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



Peter Rizakos
Director



Steven J. Hawkins
Director

Statement of Operations

For the year ended December 31	2006		2005	
Investment income				
Interest	\$	2,615	\$	2,921
Interest income on cash collateral (Note 9)		2,292,111		2,402,636
		2,294,726		2,405,557
Expenses				
Management fees (Note 4)		553,508		767,333
Administration fees		74,220		75,703
Audit fees		33,521		24,999
Custodian fees		638		950
Securityholders reporting costs		–		4,009
Other		56		5,771
Total Return Agreement fees (Note 9)		7,388,481		6,860,788
		8,050,424		7,739,553
Net investment loss		(5,755,698)		(5,333,996)
Realized and unrealized gain on investments				
Realized gain on Total Return Agreement (Note 9)		6,647,234		9,210,350
Change in unrealized appreciation (depreciation) on Total Return Agreement (Note 9)		2,208,969		(306,396)
Realized foreign exchange loss		–		(4,536)
Net gain on investments		8,856,203		8,899,418
Increase in net assets from operations	\$	3,100,505	\$	3,565,422
Net increase in net assets from operations per unit	\$	0.5594	\$	0.4642

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

For the year ended December 31	2006		2005	
Increase in net assets from operations	\$	3,100,505	\$	3,565,422
Distributions to unitholders				
Income		(3,115,268)		(3,406,750)
Return of capital		(1,765,388)		(2,670,470)
		(4,880,656)		(6,077,220)
Capital unit transactions (Note 6)				
Redeemed trust units		(21,340,135)		(19,156,019)
		(21,340,135)		(19,156,019)
Decrease in net assets during the year		(23,120,286)		(21,667,817)
Net assets, beginning of year		51,712,250		73,380,067
Net assets, end of year	\$	28,591,964	\$	51,712,250

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

December 31, 2006

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 have been 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 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.

(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 7) 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 unrealized appreciation or depreciation of the Forward Agreement 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 unrealized appreciation or depreciation of the Total Return Agreement in the statement of operations until it is closed out or partially settled.

(g) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the

Notes to Financial Statements (continued)

December 31, 2006

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

The 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 year, 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 year.

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 year, 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 year.

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 Fund's capital and non-capital losses, with the year of expiry, are as follows:

Capital Losses	Non-Capital Losses	Year of Expiry
–	\$489,960	2026
	\$591,693	2015
	\$159,270	2014

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

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.

In return, 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 advisor 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 advisor and portfolio manager to the Trust.

In return, 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 advisor and portfolio manager out of the annual management fees.

Notes to Financial Statements (continued)

December 31, 2006

(b) Forward Agreement fees

Under the Forward Agreement (see Note 7), 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.

(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. In return the Trust receives interest on 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. For the year ended December 31, 2006, for Senior Floating Rate Income Trust, brokerage commissions were nil (2005 – nil). The Fund will pay to registered dealers an annual Service Fee equal to 0.40% 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. Dealer service fees for the year were \$209,038 (2005 – \$304,644) and are included in management fees in the Statement of Operations.

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 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.

The Fund is expected to 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. 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. Units of the Trust may be surrendered for redemption at any time at a redemption price calculated in reference to the net asset value of the Trust.

6. NET CAPITAL TRANSACTIONS

Net capital transactions for the Fund for the year from January 1, 2006 to December 31, 2006 consisted of the following:

	Units	\$
Number of units outstanding, beginning of year	5,723,494	54,239,513
Redemptions	(2,424,850)	(21,340,135)
Repurchase and cancellation of units (Notes 11, 12)	(56,600)	(480,756)
Issue Costs (including agents' fees)	–	(88,758)
Number of units outstanding, end of year	3,242,044	32,329,864

Notes to Financial Statements (continued)

December 31, 2006

Net capital transactions for the Fund for the year from January 1, 2005 to December 31, 2005 consisted of the following:

	Units	\$
Number of units outstanding, beginning of year	7,850,000	73,578,750
Redemptions	(2,112,206)	(19,156,864)
Repurchase and cancellation of units (Note 11)	(14,300)	(121,899)
Issue costs (including agents' fees)	-	(60,474)
Number of units outstanding, end of year	5,723,494	54,239,513

Net capital transactions for the Trust for the year from January 1, 2006 to December 31, 2006 consisted of the following:

	Units	\$
Number of units outstanding, beginning of year	5,737,794	54,522,556
Redemptions	(2,452,044)	(21,340,135)
Number of units outstanding, end of year	3,285,750	33,182,421

Net capital transactions for the Trust for the year from January 1, 2005 to December 31, 2005 consisted of the following:

	Units	\$
Number of units outstanding, beginning of year	7,850,000	73,678,575
Redemptions	(2,112,206)	(19,156,019)
Number of units outstanding, end of year	5,737,794	54,522,556

7. FORWARD AGREEMENT

To provide the Trust 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, 2006, the Common Share Portfolio of the Fund was comprised as follows:

Number of Shares	Description	Market Value (\$)
Canada		
203,509	Cyries Energy Inc.	2,576,424
71,194	Meridian Gold Inc.	2,308,821
223,099	Sino-Forest Corporation	1,746,865
206,107	CGI Group Inc.	1,675,650
46,397	Aastra Technologies Limited	1,665,652
30,163	Gildan Activewear Inc.	1,643,582
145,977	Compton Petroleum Corp.	1,554,655
29,355	Cognos Inc.	1,454,540
28,589	Alliance Atlantis Communications Inc.	1,443,173
127,765	CanWest Global Communications Corp.	1,420,747
38,735	Dorel Industries Inc.	1,221,702
57,829	RONA Inc.	1,214,409
46,509	Stantec Inc.	1,174,352
41,808	FirstService Corporation	1,128,816
200,906	Emergis Inc.	1,060,784
74,366	Cardiome Pharma Corp.	968,245
57,085	Ivanhoe Mines Ltd.	656,478
57,490	ATS Automotation Tooling Systems, Inc.	641,588
86,004	TLC Vision Corp.	525,484
84,893	Patheon, Inc.	428,710
32,601	QLT Inc.	321,772
7,045	Nortel Networks Corporation	220,368
23,870	Celestica Inc.	216,740
Total Value of Common Share Portfolio		27,269,557

Notes to Financial Statements (continued)

December 31, 2006

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 declared to unitholders of record, at the end of each month of the period, was \$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 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 Counterparty.

As general and continuing collateral security for its obligations under the Total Return Agreement, the Trust has granted the Counterparty a security interest in the assets of the Trust, including cash collateral of \$27,388,408 (compared to \$52,489,562 as at December 31, 2005) deposited with the Counterparty. Interest earned on the collateral is paid to the Trust and is shown as interest income on cash collateral in the Statement of Operations of the Trust.

As at December 31, 2006, the Senior Floating Rate Portfolio was comprised as follows:

Senior Loans (\$)	Description	Market Value (\$)
1,985,000	24 Hour Fitness Worldwide, Inc. <i>Term Loan B</i>	2,333,563
992,500	AMC Entertainment, Inc. <i>Term Loan B</i>	1,165,335
1,509,698	Amsted Industries Inc. <i>Term Loan</i>	1,738,209
1,492,704	Celanese, AG Dollar <i>Term Loan</i>	1,746,439
1,902,436	Charter Communications Operating, LLC <i>Term Loan</i>	2,234,144
1,453,360	Conseco, Inc. <i>Term Loan</i>	1,701,157
2,000,000	CSK Automotive, Inc. <i>Term Loan</i>	2,361,393
1,719,082	Davita, Inc. <i>Term Loan B</i>	2,017,192
1,995,000	Dealer Computer Services <i>Term Loan</i>	2,339,712
842,838	Dresser Rand, Inc. <i>Term Loan B</i>	989,120
1,000,000	El Paso Corporation <i>Letter of Credit</i>	1,173,231
2,595,000	Fidelity National Information Solutions, Inc. <i>Term Loan B</i>	3,027,732
1,857,143	Graham Packaging Company, L.P. <i>Tranche C</i>	2,186,229
1,852,143	Hanesbrands, Inc. <i>Term Loan B</i>	2,181,558
1,638,969	Hexion Specialty Chemicals, Inc. <i>Term Loan C1</i>	1,909,923
355,138	Hexion Specialty Chemicals, Inc. <i>Term Loan C2</i>	413,850
990,000	Ineos US Finance LLC <i>Term Loan B2</i>	1,166,606
990,000	Ineos US Finance LLC <i>Term Loan C2</i>	1,166,606
2,407,826	Jarden Corporation <i>Term Loan</i>	2,813,535
2,120,104	K&F Industries, Inc. <i>Tranche C Term Loan</i>	2,482,739
1,094,631	Kinetic Concepts, Inc. <i>Term Loan B-2</i>	1,278,873

Notes to Financial Statements (continued)

December 31, 2006

(Continued)

Senior

Loans (\$)	Description	Market Value (\$)
1,126,534	Lifepoint Hospitals <i>Term Loan B</i>	1,309,500
2,000,000	LNR Property Corporation <i>Term Loan B</i>	2,342,941
1,473,511	Lucite International US Finco Limited <i>Term Loan B</i>	1,736,854
1,995,000	Lyondell Chemical Company <i>Term Loan</i>	2,338,052
1,995,000	MetroPCS Wireless, Inc. <i>Term Loan B</i>	2,335,873
2,000,000	Nielsen Finance LLC <i>Term Loan B</i>	2,349,901
1,910,000	Nortek, Inc. <i>Term Loan B</i>	2,224,524
371,326	NRG Energy, Inc. <i>Credit-Linked Deposit</i>	435,324
1,434,230	NRG Energy, Inc. <i>Term Loan</i>	1,682,139
7	R.H. Donnelley, Inc. <i>Term Loan D-2</i>	9
1,915,412	Regal Cinemas, Inc. <i>Term Loan</i>	2,228,934
1,940,000	Rockwood Specialties Group, Inc. <i>Tranche E Term Loan</i>	2,274,160
99,710	Smurfit-Stone Container Corporation <i>Deposit Funded Loan</i>	117,060
635,421	Smurfit-Stone Container Corporation <i>Term Loan B</i>	745,990
625,334	Smurfit-Stone Container Corporation <i>Term Loan C</i>	733,733
119,895	Smurfit-Stone Container Corporation <i>Term Loan C1</i>	140,679
1,962,500	Sungard Data Systems, Inc. <i>Term Loan B</i>	2,311,845
2,000,000	Toys R Us, Inc. <i>Term Loan B</i>	2,401,308
1,658,120	Venetian Casino Resorts, LLC <i>Term B Funded</i>	1,941,943
341,880	Venetian Casino Resorts, LLC <i>Term Loan B</i>	400,401
2,117,816	Visant Holding Corporation <i>Term Loan C</i>	2,483,015
2,000,000	Yell Group, Ltd. <i>Term Loan B</i>	2,348,152
Total Senior Loans		73,309,483

Bonds

(Par Value)	Description	Market Value (\$)
2,000,000	NXP Semiconductors 8.12% Oct 15/2013	2,377,417
Total Bonds		2,377,417
Total Senior Floating Rate Portfolio		75,686,900

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 Trusts are also subject to other risks, including the following:

Currency risk

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

Interest rate risk

The Trusts invest in interest-bearing securities. The income of the Trusts 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 Trusts. Credit risk is managed by dealing with counterparties the Trusts 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 7). The Trust's significant credit concentration is with The Bank of Nova Scotia under the Total Return Agreement (see Note 9), and indirectly to the securities held in the Senior Loan Portfolio.

Notes to Financial Statements (continued)

December 31, 2006

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 of 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 year, the Fund repurchased 13,700 units (2005 – 14,300 units) for cancellation under its mandatory purchase program at a total cost of \$114,036 (2005 – \$121,899). 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.

12. NORMAL COURSE ISSUER BID

On July 12, 2006, the Manager issued a notice of intention (the "Notice") to repurchase units of the Fund through a normal course issuer bid (the "NCIB"). Under the NCIB, the Fund 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 Fund 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 Fund will pay for any such units may not exceed the net asset value per unit. Any units purchased by the Fund will be cancelled. All such purchases would be accretive and enhance returns to continuing unitholders. During the year, the Fund repurchased 42,900 units (2005 – nil) for cancellation via the NCIB at a cost of \$366,720 (2005 – nil). 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.

13. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 financial statements.

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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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