



FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST



Annual Report

Period ended December 31, 2004

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FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

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Market Commentary

MARKET UPDATE

Buoyed by a strong second half, each of the asset classes held in the Trust's portfolio posted strong returns for the year. Income trusts out-performed other asset classes in 2004. The benchmark Scotia Capital Income Trust Index had a total return of 20.22% for the year, followed by the S&P/TSX Index at 14.48%. High yield bonds, as measured by the Merrill Lynch Master II Index, had a total return of 10.87% (in US\$) for the year.

There was a great deal of legislative activity in 2004 in respect of income trusts. Following Alberta's lead, Ontario passed legislation in the fourth quarter protecting investors from liabilities beyond their initial investment. The legislation pertains only to trusts that are domiciled in Ontario. However, now that unlimited liability is not an issue in Quebec, Alberta and Ontario, approximately 85% of the income trusts market is covered.

PORTFOLIO UPDATE

Our macroeconomic outlook and company-specific forecasts continued to drive the Trust's asset and sector allocations. The portfolio remains overweight in the following sectors: Industrials, Consumer Discretionary, and Financial Services. The largest underweight sector is Energy due to what we perceive to be excessive valuations, sector-wide. At the end of 2004, the Trust's three largest holdings were BCE Inc., Toronto-Dominion Bank, and ARC Energy Trust.

MARKET OUTLOOK 2005

We continue to see a stable environment for longer-term interest rates in Canada; indeed, we cannot foresee a situation that would cause them to ascend rapidly in the near future. The Bank of Canada seems ready to pause in raising interest rates during the first quarter of 2005. If the Bank does so, the yield curve should continue to flatten, which will be positive for interest-sensitive securities. In the U.S., a greater likelihood of rising interest rates, improving corporate earnings and lower default rates, should limit the downside risk in high yield bonds this year.

MFC Global Investment Management (Canada)
Investment Advisor, Fairway Diversified Income and Growth Trust

Management's Discussion & Analysis

The inception date for Fairway Diversified Income and Growth Trust (the "Trust") was February 26, 2004. As at December 31, 2004, the Trust had net assets of \$130,727,919 or \$10.47 per unit.

The Trust paid nine monthly distributions of \$0.0583 per unit for total distributions of \$0.5247 per unit from inception.

Total expenses, inclusive of administration and investment management fees, general and administrative costs and interest expense, from inception to December 31, 2004 were \$1,787,967. Net investment income for the period was \$3,985,501.

Units of the Trust trade on the Toronto Stock Exchange under the symbol FDT.UN. Closing value on December 31, 2004 was \$10.05 per unit. As at December 31, 2004, units were trading at a 4.00% discount to net asset value.

During the year, the Trust had subscriptions of \$125,000,000 and no redemptions. Unitholders are entitled to redeem their units outstanding annually at the end of March at a price calculated in reference to the Trust's net asset value and monthly at a price calculated in reference to the trading price of units.

The Trust has a mandatory purchase program under which the Trust 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 period, the Trust repurchased 26,932 units for cancellation under its mandatory purchase program.

Management's Responsibility

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

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



Chief Executive Officer
Fairway Advisors Inc.



Chief Financial Officer
Fairway Advisors Inc.

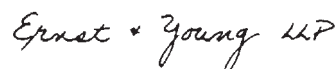
Auditors' Report

TO THE UNITHOLDERS OF FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

We have audited the statements of net assets and investments of Fairway Diversified Income and Growth Trust as at December 31, 2004 and the statements of operations, changes in net assets and cash flows for the period from February 26, 2004 [date of inception] to December 31, 2004. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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



Chartered Accountants

Toronto, Canada,
April 15, 2005.

FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

Statement of Net Assets

As at December 31, 2004

Assets (Note 9)	
Investments, at market value (<i>cost</i> - \$124,239,624)	\$ 137,773,163
Cash and cash equivalents (Note 3)	4,773,115
Accrued interest, dividends and distributions from trusts	1,284,415
Prepaid interest on loan	57,811
	<hr/> 143,888,504
Liabilities	
Loan facility payable (Note 9)	12,000,000
Management fees payable (Note 5)	263,497
Accounts payable and accrued liabilities	33,574
Due to brokers	135,499
Distributions payable	728,015
	<hr/> 13,160,585
Net assets, at market value	<hr/> \$ 130,727,919
Number of units outstanding (Note 7)	<hr/> 12,487,398
Net asset value per unit	<hr/> \$ 10.47

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



Andrew A. McKay
Director



Paul Perrow
Director

Statement of Operations

From February 26, 2004 (Date of Inception) to December 31, 2004

Investment income	
Interest	\$ 4,338,414
Capital gains distributed from income trusts	29,586
Dividends	1,405,468
	<hr/> 5,773,468
Expenses	
Management fees (Note 5)	1,513,683
Administration	167,039
Interest expense (Note 9)	107,245
	<hr/> 1,787,967
Net investment income	<hr/> 3,985,501
Realized and unrealized gain (loss) on investments	
Net realized gain on sale of investments (Note 8)	2,278,967
Change in unrealized appreciation on investments	13,533,539
Realized foreign exchange gain	34,962
Change in unrealized depreciation on foreign currency	(153,977)
Net gain on investments	<hr/> 15,693,491
Increase in net assets from operations	<hr/> \$ 19,678,992
Increase in net assets from operations per unit	<hr/> \$ 1.5811

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

From February 26, 2004 (Date of Inception) to December 31, 2004

Increase in net assets from operations	\$ 19,678,992
Distributions to unitholders	
Capital gains	(2,555,282)
Income	(2,671,372)
Return of capital	(1,324,047)
	(6,550,701)
Capital unit transactions (Note 7)	
Proceeds from issue of trust units	125,000,000
Issue costs	(7,297,380)
Reinvested trust units	133,039
Purchase and cancellation of trust units	(236,031)
	117,599,628
Increase in net assets during the period	130,727,919
Net assets, beginning of period	-
Net assets, end of period	\$ 130,727,919

Statement of Cash Flows

From February 26, 2004 (Date of Inception) to December 31, 2004

OPERATING ACTIVITIES

Increase in net assets from operations	\$ 19,678,992
Items not affecting cash:	
Loss on sale of investments	352,020
Change in unrealized appreciation of investments	(13,533,539)
	6,497,473
Net change in non-cash assets and liabilities	(909,656)
Cash flows provided by operating activities	5,587,817

FINANCING ACTIVITIES

Loan proceeds	12,000,000
Distributions paid to unitholders	(5,689,647)
Net proceeds from issuance of trust units	117,466,589
Cash flows provided by financing activities	123,776,942

INVESTING ACTIVITIES

Proceeds from sale of investments	15,942,281
Purchases of investments	(140,533,925)
Cash flows used in investing activities	(124,591,644)
Net increase in cash during the period	4,773,115
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$ 4,773,115

The accompanying notes are an integral part of these financial statements

Statement of Investments

As at December 31, 2004

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
EQUITIES				
Canada				
44,000	Alcan Inc.	2,578,948	2,587,200	1.98
15,000	Bank of Montreal	806,242	866,400	0.66
165,844	BCE Inc.	4,609,646	4,796,208	3.67
38,000	Brascan Corporation Cl. A Limited Voting	1,325,052	1,639,700	1.25
27,000	Canadian Imperial Bank of Commerce	1,879,144	1,950,210	1.49
63,250	Cinram International Inc.	1,561,354	1,399,722	1.07
23,000	Enbridge Inc.	1,250,909	1,373,100	1.05
20,000	Finning International Inc.	598,100	699,800	0.54
29,048	First Capital Realty Inc.	483,017	547,555	0.42
30,000	Gildan Activewear Inc. Cl. A Sub. Voting	1,119,000	1,224,000	0.94
20,000	IGM Financial Inc.	652,800	732,800	0.56
21,800	IPSCO Inc.	547,774	1,249,358	0.96
11,000	Magna International Inc. Cl. A Sub. Voting	1,140,556	1,084,270	0.83
17,000	Manitoba Telecom Services Inc.	725,730	833,000	0.64
12,000	Medical Facilities Corporation	120,000	145,200	0.11
40,500	Molson Inc. Cl. A Non-Voting	1,311,082	1,436,940	1.10
20,000	National Bank of Canada	885,475	991,200	0.76
50,000	Norbord Inc.	612,640	620,000	0.47
48,500	Petro-Canada	2,837,800	2,966,745	2.27
54,852	PetroKazakhstan Inc.	2,050,957	2,442,560	1.87
74,000	Power Corporation of Canada	1,907,350	2,294,000	1.75
49,000	Power Financial Corporation	1,359,651	1,567,510	1.20
30,500	Royal Bank of Canada	1,947,353	1,959,625	1.50
54,397	Sun Life Financial Inc.	1,956,920	2,184,040	1.67
57,000	Teck Cominco Limited Cl. B Sub. Voting	1,307,001	2,104,440	1.61
55,125	TELUS Corporation	1,304,112	1,996,627	1.53
80,000	The Bank of Nova Scotia	2,824,616	3,256,000	2.49
83,000	The Toronto-Dominion Bank	3,861,185	4,143,360	3.17
91,000	TimberWest Forest Corp.	1,132,780	1,372,280	1.05
47,000	TransCanada Corporation	1,365,425	1,400,600	1.07
Total Equities		46,062,619	51,864,450	39.68

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
Canada				
204,000	Abitibi - Consolidated Inc. 7.40% Apr 01/18	230,518	233,161	0.18
600,000	Avenor Inc. 10.85% Nov 30/14	708,000	725,853	0.56
500,000	Baytex Energy Ltd. 9.63% Jul 15/10	699,581	646,666	0.49
500,000	Cascades Inc. 7.25% Feb 15/13	699,676	640,651	0.49
100,000	Celestica Inc. 7.88% Jul 01/11	135,690	129,634	0.10
498,000	CP Ships Limited 10.38% Jul 15/12	781,721	694,258	0.53
500,000	Intrawest Corporation 7.50% Oct 15/13	690,196	642,906	0.49
500,000	Rogers Wireless Communications Inc. 10.50% Jun 01/06	536,875	539,857	0.41
563,000	The Jean Coutu Group (PJC) Inc. 8.50% Aug 01/14	738,536	697,666	0.53
500,000	Videotron Ltee 6.88% Jan 15/14	688,391	624,860	0.48
		5,909,184	5,575,512	4.26

Statement of Investments (continued)

As at December 31, 2004

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
United States				
40,000	Affinia Group Inc. 9.00% Nov 30/14	47,704	50,410	0.04
500,000	Allied Waste North America 7.88% Apr 15/13	718,945	619,597	0.47
500,000	Amkor Technology, Inc. 7.75% May 15/13	683,099	568,465	0.43
680,000	Brand Services, Inc. 12.00% Oct 15/12	1,048,494	920,372	0.70
500,000	Calpine Corporation 8.75% Jul 15/13	612,174	499,287	0.38
896,000	Charter Communications Holdings LLC 10.25% Sep 15/10	1,186,032	1,148,046	0.88
500,000	Chesapeake Energy Corporation 6.88% Jan 15/16	701,495	633,131	0.48
400,000	CSC Holdings Inc. Series B 7.63% Apr 01/11	569,647	520,942	0.40
500,000	Dex Media West LLC 9.88% Aug 15/13	741,891	696,294	0.53
550,000	Dollar Financial Group Inc. 9.75% Nov 15/11	781,885	721,259	0.55
25,000	Foot Locker, Inc. 8.50% Jan 15/22	34,784	33,236	0.03
500,000	FTD, Inc. 7.75% Feb 15/14	677,584	622,604	0.48
500,000	Georgia-Pacific Corp. 7.70% Jun 15/15	715,258	690,279	0.53
500,000	Giant Industries, Inc. 8.00% May 15/14	652,703	631,628	0.48
250,000	HCA, Inc. 6.30% Oct 01/12	320,332	305,511	0.23
600,000	HEALTHSOUTH Corporation 8.38% Oct 01/11	776,165	752,539	0.58
25,000	Ingram Micro Inc. 9.88% Aug 15/08	37,698	32,860	0.03
500,000	Iron Mountain Incorporated 7.75% Jan 15/15	712,805	613,581	0.47
750,000	Lyondell Chemical Company 11.13% Jul 15/12	1,095,630	1,076,023	0.82
500,000	Mandalay Resort Group 7.63% Jul 15/13	730,798	661,705	0.51
275,000	Mobile Mini, Inc. 9.50% Jul 01/13	403,726	387,097	0.30
170,000	Mueller Industries, Inc. 6.00% Nov 01/14	207,400	201,459	0.15
100,000	Offshore Logistics, Inc. 6.13% Jun 15/13	130,241	122,716	0.09
500,000	Owens-Illinois, Inc. 8.75% Nov 15/12	729,564	681,255	0.52
125,000	PanAmSat Corporation 9.00% Aug 15/14	166,125	168,622	0.13
500,000	Refco Finance Holdings LLC 9.00% Aug 01/12	663,664	661,705	0.51
150,000	Revlon Consumer Products Corp. 8.63% Feb 01/08	190,333	161,967	0.12
500,000	Rite Aid Corporation 8.13% May 01/10	718,713	639,147	0.49
250,000	Standard Commercial Corporation 8.00% Apr 15/12	332,738	310,550	0.24
500,000	Standard Pacific Corp. 7.75% Mar 15/13	720,192	652,682	0.50
500,000	Starwood Hotels & Resorts Worldwide, Inc. 7.88% May 01/12	756,141	690,279	0.53
500,000	Technical Olympic USA, Inc. 9.00% Jul 01/10	711,392	646,666	0.49
100,000	The AES Corporation 8.75% Jun 15/08	137,373	132,341	0.10
500,000	The AES Corporation 9.00% May 15/15	740,786	691,783	0.53
224,110	The FINOVA Group Inc. 7.50% Nov 15/09	185,682	133,465	0.10
16,000	The Pep Boys - Manny, Moe & Jack 7.50% Dec 15/14	19,602	19,610	0.02
200,000	Thornburg Mortgage, Inc. 8.00% May 15/13	256,699	256,862	0.20
1,000,000	Unisys Corporation 7.88% Apr 01/08	1,374,536	1,239,193	0.95
215,000	United Rentals North America Inc. 7.75% Nov 15/13	278,019	254,787	0.20
600,000	Western Financial Group Inc. 9.63% May 15/12	894,261	826,530	0.63
		22,462,310	20,676,485	15.82
Foreign				
250,000	Royal Caribbean Cruises Ltd. 6.88% Dec 01/13	331,778	326,341	0.25
500,000	Royal Caribbean Cruises Ltd. 7.25% Mar 15/18	702,993	664,713	0.51
		1,034,771	991,054	0.76
Total Bonds		29,406,265	27,243,051	20.84

Statement of Investments (continued)

As at December 31, 2004

Number of Units	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
INCOME TRUSTS				
Canada				
100,000	Algonquin Power Income Fund	1,034,624	1,062,000	0.81
229,650	ARC Energy Trust	3,524,075	4,110,735	3.14
53,735	Armtec Infrastructure Income Fund	545,840	738,856	0.57
158,900	BFI Canada Income Fund	2,820,862	3,891,461	2.98
93,000	Bonavista Energy Trust	1,974,035	2,520,300	1.93
75,000	Calloway REIT	1,217,291	1,406,250	1.08
50,000	Canadian Apartment Properties REIT	676,500	754,000	0.58
49,900	Chemtrade Logistics Income Fund	909,654	1,012,970	0.77
50,000	Cineplex Galaxy Income Fund	530,925	735,000	0.56
87,300	CML Healthcare Income Fund	1,016,426	1,165,455	0.89
160,000	Connors Bros. Income Fund	2,728,951	2,984,000	2.28
143,500	Davis + Henderson Income Fund	2,570,956	3,257,450	2.49
10,673	Enerplus Resources Fund	364,767	465,343	0.36
33,968	Fording Canadian Coal Trust	1,754,862	3,147,815	2.41
72,100	Gateway Casinos Income Fund	1,170,793	1,553,755	1.19
42,700	Great Lakes Carbon Income Fund	513,210	461,160	0.35
45,550	H&R REIT	764,016	864,994	0.66
64,000	Hardwoods Distribution Income Fund	639,500	758,400	0.58
23,000	IBI Income Fund	237,438	258,750	0.20
100,000	Innergex Power Income Fund	1,175,000	1,320,000	1.01
75,500	InnVest REIT	821,955	898,450	0.69
18,931	Inter Pipeline Fund Cl. A	157,240	173,408	0.13
118,700	Livingston International Income Fund	2,016,924	2,664,815	2.04
30,000	North West Company Fund	742,500	868,500	0.66
150,000	Northern Property REIT	2,171,904	2,439,000	1.87
160,400	O&Y REIT	2,015,145	2,261,640	1.73
120,000	Osprey Media Income Fund	1,204,920	1,134,000	0.87
46,200	Pembina Pipeline Income Fund	538,756	630,630	0.48
102,000	Richards Packaging Income Fund	1,032,402	1,111,800	0.85
156,285	RioCan REIT	2,262,364	2,774,059	2.12
139,000	Shiningbank Energy Income Fund	2,340,141	2,987,110	2.28
95,000	Summit REIT	1,706,456	1,711,900	1.31
100,800	Superior Plus Income Fund	2,612,886	3,026,016	2.31
115,200	The Data Group Income Fund	1,152,000	1,233,792	0.94
156,700	Yellow Pages Income Fund	1,825,422	2,113,883	1.62
Total Income Trusts		48,770,740	58,497,697	44.74
FUTURES				
United States				
297	Canadian Dollar Currency Future <i>expiry date Mar 15/05</i>	–	167,965	0.13
TOTAL INVESTMENTS		124,239,624	137,773,163	105.39
Liabilities less other assets			(7,045,244)	(5.39)
NET ASSETS, AT MARKET VALUE			130,727,919	100.00

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

December 31, 2004

1. THE TRUST

Fairway Diversified Income and Growth Trust (the "Trust") is a closed-end investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated February 26, 2004 ("Date of Inception") and amended May 31, 2004 (the "Declaration of Trust").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash and cash equivalents

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

(b) Valuation of Investments

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

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

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

(c) Investment transactions and income recognition

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

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

Dividend income is recognized on the ex-dividend date.

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

Distributions from income trusts which are treated as return of capital for income tax purposes reduce the average cost of the investment in the trust on the statement of investments and are included as a reduction of "investments purchased during the period" in Note 8.

(d) Foreign currency translation

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

(e) Forward foreign currency contracts

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

Notes to Financial Statements (continued)

December 31, 2004

(f) Futures contracts

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

(g) Accounting estimates

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

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

(h) Net asset value per unit

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include \$1,988,508 that represents cash margin held by brokers for futures contracts entered into by the Trust. Accordingly, the use of this cash is restricted.

4. TAXATION

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

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

5. EXPENSES OF THE TRUST

(a) Management fees

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

Pursuant to the Declaration of Trust the Manager receives a monthly fee at the annual rate of 1.10%, plus applicable taxes, of the net asset value of the Trust, calculated and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of the Trust's investment advisors out of its annual management fees.

(b) Other expenses

The Trust is responsible for all other expenses incurred in connection with its operation and administration, such as 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 Trust will pay to registered dealers an annual service fee equal to 0.40% annually of the net asset value of units held by clients of the sales representatives of such dealers, calculated and payable semi-annually in arrears.

Notes to Financial Statements (continued)

December 31, 2004

6. UNITHOLDERS' EQUITY

The Trust is authorized to issue an unlimited number of voting, transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. On termination of the Trust, which is expected to be March 31, 2014, holders of units will be entitled to receive their pro rata share of all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses.

On March 16, 2004 the Trust completed an initial public offering of 12,000,000 units at \$10 per unit for total gross proceeds of \$120,000,000 consisting of \$117,370,120 cash and \$2,629,880 in eligible securities deposited pursuant to the Trust's exchange option. The Trust's units are listed on the Toronto Stock Exchange under the symbol FDT.UN. On April 8, 2004 an over-allotment option granted to agents was exercised for 500,000 units at \$10 per unit for total gross cash proceeds of \$5,000,000. Agents' fees were \$6,300,000 for the initial offering of 12,000,000 units and \$262,500 for the over-allotment option. Total issue costs, including agents' fees and other expenses of the offering, were \$7,297,380.

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

Units may be surrendered for redemption not more than 45 days, and at least 10 business days, prior to the second last business day of March. Unitholders will receive a redemption price per unit equal to the net asset value per unit of the Trust determined as of the valuation date.

Additionally, and in accordance with the Declaration of Trust, unitholders are entitled to a monthly redemption at a redemption price equal to the lesser of: (a) 90% of the average of the daily weighted unit trading price for the 10 business days prior to the second last business day of the month and (b) the closing unit market price on the second last business day of the month. Such redemption right must be exercised at least seven business days before month-end.

7. NET CAPITAL TRANSACTIONS

Net capital transactions for the Trust, for the period from Date of Inception to December 31, 2004, consisted of the following:

	Units	\$
Balance, beginning of period	–	–
Subscriptions	12,500,000	125,000,000
Distribution		
Reinvestment Plan	14,330	133,039
Purchase and cancellation of units (Note 13)	(26,932)	(236,031)
Issue expenses (including agents' fees)	–	(7,297,380)
Balance, end of period	12,487,398	117,599,628

8. NET REALIZED GAIN ON SALE OF INVESTMENTS

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

Net realized gain on sale of investments	
Proceeds from sale of investments	\$ 15,942,281
Cost of Investments sold:	
Cost of investments, beginning of period	–
Investments purchased during the period	140,533,925
	140,533,925
Less: Cost of investments, end of period, excluding short-term investments	124,239,624
Cost of investments sold during the period	16,294,301
Loss on sale of investments	(352,020)
Gain on futures contracts	2,630,987
Net realized gain on sale of investments	\$ 2,278,967

Notes to Financial Statements (continued)

December 31, 2004

9. LOAN FACILITY

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

As at December 31, 2004, the Manager, on behalf of the Trust, has drawn down loans in the aggregate amount of \$12,000,000. The first loan was in the amount of \$2,000,000 with an interest rate of 2.77%, and maturing on February 3, 2005. The second loan was in the amount of \$10,000,000 with an interest rate of 2.79%, and maturing on February 22, 2005.

10. SECURITIES LENDING

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

There were no securities lending transactions during the period.

11. DISTRIBUTIONS

The Trust endeavours to make monthly cash distributions to unitholders, consisting primarily of distributions received on securities in the investment portfolio and, in certain circumstances, of net realized capital gains from the investment portfolio. These monthly distributions will be paid to unitholders of record on or about the last business day of each month. The monthly distribution was declared to unitholders of record at the end of each month, commencing April 30, 2004, in the amount of \$0.0583 per unit.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Currency risk

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

Interest rate risk

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

Credit risk

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

13. 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 Declaration of Trust and compliance with any applicable regulatory requirements, the Trust will be obligated to purchase for cancellation any such units at the then prevailing market price up to a maximum amount in any three-month period of 1.25% of the number of units outstanding at the beginning of such period. During the period, the Trust repurchased 26,932 units for cancellation under its mandatory purchase program.

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Listed

The Toronto Stock Exchange

Ticker Symbol

FDT.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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