



FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST



Second Quarter Report

(Unaudited)

Period ended June 30, 2004

To Our Unitholders

At the end of June, 2004, **Fairway Diversified Income and Growth Trust** successfully completed its first full three months of operation and paid three monthly distributions of \$0.0583 per unit.

Fairway Diversified Income and Growth Trust was launched in March 2004 following a successful initial public offering priced at \$10 per unit, which raised \$120 million along with an over-allotment option of \$5 million for a total of \$125 million. This strong market response reflects positive interest in the many benefits the trust offers to Canadian investors.

Fairway Diversified Income and Growth Trust has been structured to provide unitholders with tax-effective monthly distributions targeted at 7% for the current year, as well as to preserve and enhance the net asset value (NAV) of the trust. In order to accomplish these objectives, the trust's portfolio combines a diversified range of income-yielding investments along with equity market exposure managed by the proven investment expertise of MFC Global Investment Management (Canada), a division of Elliott & Page Limited. MFC Global is the institutional investment arm of Manulife Financial, Canada's leading insurance company.

In addition to helping investors meet their current income needs and enjoy a measure of capital growth, **Fairway Diversified Income and Growth Trust** provides a number of other key benefits. Through its active asset allocation strategy that seeks out value in fixed-income investments and equities, the trust portfolio offers broad diversification by type of security, industry sector, issuer and geographic market. The trust utilizes its leverage capability on a selective basis for enhanced returns and also employs active currency and interest rate risk management. Market support is provided through a mandatory purchase obligation whereby, subject to certain exceptions, the trust will purchase units selling for less than 95% of their NAV up to a maximum of 1.25% of the units outstanding in any three month period. Excellent liquidity is assured through our TSX listing (ticker: FDT.UN), and annual redemption privileges are available through the trust. The trust is also RRSP eligible as foreign content.

The second quarter of 2004 proved to be a very difficult environment for investors. While the net asset value of the trust has declined, underlying market fundamentals remain positive. Economic growth in the U.S. and Canada, while showing some signs of slowing late in the quarter, is still above trend and may prove resilient over the balance of the year. While interest rates are expected to increase in response to higher levels of economic activity in both countries, this rise should be measured and not pose an unmanageable obstacle to the fixed-income markets. The spectre of negative factors ranging from terrorism and Mideast unrest to spiraling oil prices has been omnipresent, and North American equity markets have been listless for most of this year as a result. Any enhanced perception of geopolitical stability, however, will be conducive to stronger market performance going forward. Investors are accordingly encouraged to view the current environment as an opportune time to benefit from carefully diversified, attractive-yielding and tax-efficient investment opportunities such as **Fairway Diversified Income and Growth Trust** provides.



Paul Perrow
President
Fairway Advisors Inc.

Market Commentary

April-June 2004 Review

The second quarter of 2004 proved to be a difficult one for investors. All of the asset classes held within the Trust posted negative total returns. Canadian equities, as measured by the S&P/TSX Composite Total Return Index, were the best-performing asset class with a total return of -0.03%. High yield bonds, as measured by the Merrill Lynch Master II Index, posted a total return of -0.80% (in U.S. dollars). The spread, on average, between high yield bonds and U.S. treasuries tightened by 28 basis points over the quarter. Income trusts, as measured by the Scotia Capital Income Trust Index (SCITI), followed with a total return of -2.61%. The downward pressure on asset prices started late in the first quarter as the market began to re-adjust to the reality that mid- to long-term interest rates were beginning to rise. As an example, the yield on the 10-year Government of Canada bond moved from a low of 4.17% on March 23 to 4.92% at the end of the second quarter. The initial market reaction placed selling pressure on all fixed-income securities as rising yields imply lower bond prices; however, by the middle of May, the market began to rally as much of the market was oversold. Following the buying in May, June proved to be a positive month for income trusts, equities and high yield bonds.

Performance Analysis

Fairway Diversified Income and Growth Trust benefited from a large cash position at the beginning of April, 2004 such that quarterly performance was essentially flat. Portfolio activity during the quarter principally involved putting that cash to work at more attractive valuation

levels. During this period of market turmoil, we took the opportunity to make selective purchases in securities that were being sold indiscriminately. Purchases were made within the REIT and power sectors as the market pendulum had swung too far away from trusts and, as a result, the interest-sensitive areas of the market offered the best values. Within the income trust segment, we are overweight business trusts and underweight oil and gas royalty trusts, and to a lesser extent, REITs. On a consolidated basis, the financial services and cyclical sectors have been emphasized at the expense of energy. Within the high yield component, we intend to maintain our overweight position in higher quality BB bonds, but selectively increase our single B bond holdings at the periphery to leverage the portfolio to broad economic recovery. At quarter-end, approximately 41% of the trust's assets were invested in income trusts, 35% in dividend-paying common equities and 20% in high yield bonds.

Outlook & Strategy

Shaking off the treasury market-fuelled volatility in the early part of the second quarter; the trust's targeted markets have continued to show signs of stability. Returns could be pressured, however, should the U.S. Federal Reserve Board raise interest rates another 75 basis points by year-end despite the improved economic environment that would accompany such an increase. As a result, returns could be choppy for the balance of the year and, as such, we believe our asset mix and higher-quality bias should boost performance. Going forward, we will look to adjust the asset mix and sector allocation within the trust's portfolio, and to employ the leverage available to us to best position Fairway Diversified Income and Growth Trust to benefit from a broad economic recovery.

MFC Global Investment Management (Canada)

Statement of Net Assets


(Unaudited)

As at June 30, 2004

(in Canadian dollars)

Assets	
Investments, at market value (cost - \$112,679,151)	\$ 112,414,520
Cash and short term investments	4,986,464
Due from brokers	-
Accrued interest, dividends and distributions from trusts	1,093,948
Prepaid listing fee	12,484
	<hr/> 118,507,416
Liabilities	
Due to brokers	1,158,674
Management fee payable	251,630
Accounts payable and accrued liabilities	410,081
Distributions payable	727,581
	<hr/> 2,547,966
Net assets	<hr/> \$ 115,959,450
Number of units outstanding (Note 5)	<hr/> 12,479,956
Net asset value per unit	<hr/> \$ 9.29

Approved on behalf of the Manager:



Andrew A. McKay
Director



Paul Perrow
Director

Statement of Operations

(Unaudited)

For the period from February 26, 2004 (date of inception)
to June 30, 2004

(in Canadian dollars)

Investment income	
Interest	\$ 1,460,248
Dividends	485,352
	<hr/> 1,945,600
Expenses (Note 4)	
Management fee	532,422
Administration	28,672
	<hr/> 561,094
Net investment income	<hr/> 1,384,506
Realized and unrealized gain (loss) on investments	
Net realized loss on investments (note)	(554,387)
Capital gains distributed from income trusts	9,602
Unrealized depreciation on investments	(264,631)
Realized foreign exchange gain	68,627
Unrealized depreciation on foreign currency	(37,677)
Net loss on investments	<hr/> (778,466)
Increase in net assets from operations	<hr/> \$ 606,040
Net investment loss per share	<hr/> \$ (0.0084)

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

(Unaudited)

For the period from February 26, 2004 (date of inception) to June 30, 2004

(in Canadian dollars except number of units)

Increase in net assets from operations	\$ 606,040
Distributions to unitholders	
From net investment income	(2,184,568)
From net realized gains on investments	-
From return of capital	-
	(2,184,568)
Capital unit transactions (Note 5)	
Proceeds from issue	125,000,000
Share issues costs	(6,562,500)
Reinvested units	15,762
Redeemed units	-
Purchase and cancellation of trust units	(190,284)
Expenses of issue	(725,000)
	117,537,978
Increase in net assets	115,959,450
Net assets, beginning of period	-
Net assets, end of period	\$ 115,959,450

Supplemental Information

Capital unit transactions (Note 5)

Number of units outstanding, beginning of period	-
Units from issue	12,500,000
Reinvested units	1,756
Redeemed units	-
Purchase and cancellation of trust units	(21,800)
Number of units outstanding, end of period	12,479,956

The accompanying notes are an integral part of these financial statements

Statement of Investments

(Unaudited)

As at June 30, 2004

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
EQUITIES				
Canada				
44,000	Alcan Inc.	2,578,948	2,428,800	2.09
80,000	Bank of Nova Scotia	2,824,616	2,865,600	2.47
120,844	BCE Inc.	3,375,873	3,226,535	2.78
38,000	Brascan Corporation Cl. A Limited Voting	1,325,052	1,421,960	1.23
27,000	Canadian Imperial Bank of Commerce	1,879,144	1,760,400	1.52
63,250	Cinram International Inc.	1,561,355	1,581,250	1.36
28,000	CP Ships Limited	613,282	662,200	0.57
23,000	Enbridge Inc.	1,250,909	1,120,330	0.97
20,000	Finning International Inc.	598,100	665,000	0.57
14,000	George Weston Limited	1,400,763	1,295,140	1.12
20,000	IGM Financial, Inc.	652,800	653,800	0.56
21,800	IPSCO, Inc.	547,774	655,744	0.57
11,000	Magna International Inc. Cl. A Sub. Voting	1,140,556	1,249,930	1.08
37,000	Medical Facilities Corporation	370,000	431,050	0.37
46,300	Molson Inc. Cl. A Non-Voting	1,498,842	1,573,274	1.36
15,000	National Bank of Canada	666,621	645,000	0.56
50,000	Nexfor Inc.	758,700	759,000	0.65
38,500	Petro-Canada	2,238,633	2,219,525	1.92
47,346	PetroKazakhstan Inc.	1,730,643	1,715,346	1.48
37,000	Power Corporation of Canada	1,907,350	1,955,450	1.69
22,000	Power Financial Corporation	1,214,915	1,206,700	1.04
30,500	Royal Bank of Canada	1,947,353	1,803,465	1.56
54,397	Sun Life Financial Inc.	1,956,920	2,089,389	1.80
57,000	Teck Cominco Limited Cl. B Sub. Voting	1,307,001	1,368,000	1.18
50,125	Telus Corporation	1,171,485	1,093,226	0.94
91,000	TimberWest Forest Corp.	1,132,780	1,221,220	1.05
78,000	The Toronto-Dominion Bank	3,637,925	3,344,640	2.88
47,000	TransCanada Corporation	1,365,425	1,240,800	1.07
Total Equities		42,653,765	42,252,774	36.44

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
Canada				
500,000	Baytex Energy Ltd. 9.63% Jul 15/10	699,581	705,490	0.61
500,000	Cascades Inc. 7.25% Feb 15/13	699,676	670,300	0.58
100,000	Celestica Inc. 7.88% Jul 01/11	135,690	137,411	0.12
498,000	CP Ships Limited 10.38% Jul 15/12	781,722	766,092	0.66
500,000	Intrawest Corporation 7.50% Oct 15/13	690,196	658,570	0.57
500,000	The Hockey Company 11.25% Apr 15/09	734,676	801,008	0.69
500,000	Videotron Ltee 6.88% Jan 15/14	688,391	655,218	0.56
		4,429,932	4,394,089	3.79

United States				
250,000	Alliance Imaging, Inc. 10.38% Apr 15/11	357,409	352,745	0.30
500,000	Allied Waste North America 7.88% Apr 15/13	718,945	703,815	0.61
500,000	Amkor Technology, Inc. 7.75% May 15/13	683,099	638,461	0.55
472,658	Avalon Cable LLC 11.88% Dec 01/08	672,715	674,831	0.58
300,000	Brand Services, Inc. 12.00% Oct 15/12	471,288	460,496	0.40

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Statement of Investments

(Unaudited)

As at June 30, 2004

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
United States (continued)				
500,000	Calpine Corporation 8.75% Jul 15/13	612,174	552,997	0.48
500,000	Chesapeake Energy Corporation 6.88% Jan 15/16	701,495	656,894	0.57
400,000	CSC Holdings Inc. 7.63% Series B Apr 01/11	569,647	540,262	0.47
500,000	Dex Media East LLC 12.13% Nov 15/12	785,480	785,926	0.68
400,000	Dollar Financial Group Inc. 9.75% Nov 15/11	580,992	563,052	0.49
250,000	Equistar Chemicals LP 10.63% May 01/11	362,272	373,692	0.32
25,000	Foot Locker, Inc. 8.50% Jan 15/22	34,784	35,610	0.03
500,000	FTD, Inc. 7.75% Feb 15/14	677,584	625,054	0.54
500,000	Georgia-Pacific Corp. 7.70% Jun 15/15	715,258	712,193	0.61
500,000	HEALTHSOUTH Corporation 10.75% Oct 01/08	672,533	693,760	0.60
25,000	Ingram Micro Inc. 9.88% Aug 15/08	37,698	36,867	0.03
500,000	Iron Mountain Incorporated 7.75% Jan 15/15	712,805	668,624	0.58
500,000	Lyondell Chemical Company 11.13% Jul 15/12	724,545	745,708	0.64
500,000	Mandalay Resort Group 7.63% Jul 15/13	730,798	671,975	0.58
100,000	Offshore Logistics, Inc. 6.13% Jun 15/13	130,241	128,027	0.11
500,000	Owens-Illinois, Inc. 8.75% Nov 15/12	729,564	730,627	0.63
300,000	Revlon Consumer Products Corp. 12.00% Dec 01/05	432,753	452,452	0.39
150,000	Revlon Consumer Products Corp. 8.63% Feb 01/08	190,333	178,970	0.15
500,000	Rite Aid Corporation 8.13% May 01/10	718,713	708,842	0.61
250,000	Standard Commercial Corporation 8.00% Apr 15/12	332,738	330,123	0.28
500,000	Standard Pacific Corp. 7.75% Mar 15/13	720,191	678,678	0.58
500,000	Starwood Hotels & Resorts Worldwide, Inc. 7.88% May 01/12	756,140	720,572	0.62
500,000	Technical Olympic USA, Inc. 9.00% Jul 01/10	711,392	690,409	0.60
500,000	The AES Corporation 9.00% May 15/15	740,786	721,410	0.62
367,991	The FINOVA Group Inc. 7.50% Nov 15/09	304,892	272,564	0.23
1,000,000	Unisys Corporation 7.88% Apr 01/08	1,374,536	1,377,466	1.19
500,000	United Rentals North America Inc. 7.75% Nov 15/13	646,556	636,785	0.55
600,000	Western Financial Group Inc. 9.63% May 15/12	894,261	888,817	0.77
		19,504,617	19,008,704	16.39
Foreign				
500,000	Royal Caribbean Cruises Ltd. 7.25% Mar 15/18	702,992	650,191	0.56
Total Bonds		24,637,541	24,052,984	20.74

Number of Units	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
INCOME TRUSTS				
Canada				
100,000	Algonquin Power Income Fund	1,064,249	948,000	0.82
229,650	ARC Energy Trust	3,555,077	3,525,127	3.04
158,900	BFI Canada Income Fund	2,832,988	2,947,595	2.54
93,000	Bonavista Energy Trust	1,981,359	2,142,720	1.85
75,000	Calloway Real Estate Investment Trust	1,243,173	1,116,000	0.96
510	Canadian Oil Sands Trust	21,829	22,516	0.02
39,900	Chemtrade Logistics Income Fund	733,961	737,352	0.64
50,000	Cineplex Galaxy Income Fund	534,570	559,500	0.48
52,300	CML Healthcare Income Fund	633,876	564,840	0.49
160,000	Connors Bros. Income Fund	2,743,350	2,640,000	2.28
143,500	Davis & Henderson Income Fund	2,580,286	2,583,000	2.23
10,000	Enerplus Resources Fund Subscription Receipts	343,000	380,000	0.33

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Statement of Investments

(Unaudited)

As at June 30, 2004

Number of Units	Security	Average Cost (\$)	Market Value (\$)	% of Net Assets
INCOME TRUSTS (continued)				
673	Enerplus Resources Fund	27,110	25,480	0.02
33,968	Fording Canadian Coal Trust	1,782,148	1,917,494	1.65
72,100	Gateway Casinos Income Fund	1,177,904	1,323,035	1.14
45,900	Great Lakes Carbon Income Fund	553,627	504,900	0.43
45,550	H&R Real Estate Investment Trust	768,830	743,376	0.64
64,000	Hardwoods Distribution Income Fund	639,500	657,920	0.57
100,000	Innergex Power Income Fund	1,175,000	1,119,000	0.96
75,500	InnVest Real Estate Investment Trust	844,251	853,150	0.73
18,931	Inter Pipeline Fund Cl. A	160,133	150,500	0.13
118,700	Livingston International Income Fund	2,027,756	2,111,673	1.82
135,000	Northern Property Real Estate Investment Trust	2,012,725	1,887,300	1.63
160,400	O&Y Real Estate Investment Trust	2,082,022	1,980,940	1.70
120,000	Osprey Media Income Fund	1,200,000	1,196,400	1.03
46,200	Pembina Pipeline Income Fund	540,587	540,540	0.47
102,000	Richards Packaging Income Fund	1,032,402	1,035,300	0.89
156,285	RioCan Real Estate Investment Trust	2,305,831	2,516,189	2.17
139,000	Shiningbank Energy Income Fund	2,407,652	2,661,850	2.30
95,000	Summit Real Estate Investment Trust	1,759,664	1,666,300	1.44
100,800	Superior Plus Income Fund	2,617,999	2,615,760	2.26
30,000	The North West Company Fund	742,500	762,600	0.66
106,700	Yellow Pages Income Fund	1,262,486	1,209,978	1.04
Total Income Trusts		45,387,845	45,646,335	39.36

Number of Contracts	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
FUTURES				
United States				
246	Canadian Dollar Currency Future expiry date Sep 14/04	–	462,427	0.40
TOTAL INVESTMENTS		112,679,151	112,414,520	96.94
Other assets less liabilities			3,544,930	3.06
NET ASSETS, AT MARKET VALUE			115,959,450	100.00

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

June 30, 2004 (*Unaudited*)

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

The statements of investments and net assets are as at June 30, 2004. The statements of operations, changes in net assets and cash flows are for the period February 26, 2004 (date of inception) to June 30, 2004.

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) Valuation of Investments

Investments in publicly traded securities are valued at quoted market value. Investments in securities for which market quotations 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 unrealized appreciation (depreciation) of the investment portfolio. Short-term investments are valued at cost plus accrued interest, which approximates market value.

(b) Investment transactions and income recognition

All investment transactions are accounted for on the business day the order to buy or sell is executed. 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.

Allocations of distributions received from income trusts among dividends, interest and other income, 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.

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 portfolio investments and are included as a reduction of "investments purchased during the period" in the statement of operations.

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

(c) 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.

(d) 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" in the statement of operations.

(e) 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 as part of other assets 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 gain 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 income.

(e) Accounting estimates

The preparation of financial statement 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 financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.

(f) Net asset value per unit

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

3. TAXATION

The Trust qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada). The Trust is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the 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.

4. EXPENSES OF THE TRUST

(a) Management fees

The Trust is party to a trust agreement (the “Trust Agreement”) dated February 26, 2004 with the Manager pursuant to which the Manager provides all administrative services required by the Trust, and investment advisory and management services to the Trust.

Pursuant to the Trust Agreement the Manager receives a monthly fee at the annual rate of 1.10% of the net asset value of the Trust, calculated daily and payable monthly in arrears, plus applicable taxes. The Manager is responsible for payment of the investment management fees of the Investment Advisor 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, payable semi-annually in arrears.

5. UNITHOLDERS' EQUITY

The Trust is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. On termination of the Fund, 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 Fund 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 cash proceeds of \$120,000,000. 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. Unit issue costs were \$6,300,000 for the initial offering of 12,000,000 units and \$262,500 for the over-allotment option. Total issue unit costs were \$6,562,500.

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 in any year, commencing March 2005. Unitholders will receive a redemption price per Unit equal to 100% of the net asset value per Unit of the Trust determined as of the valuation date.

Additionally, beginning in June 2004, 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 six business days before month-end.

6. LOAN FACILITY

The Trust will from time to time enter into leverage and borrowing transactions, which cannot exceed 25% of the total assets of the Trust at the time the transaction is entered into.

As at June 30, 2004, the Trust had not entered into any leverage and borrowing transactions.

7. NET REALIZED LOSS ON INVESTMENTS

The net realized loss on investments was as follows:

Proceeds from sale of investments	\$	5,438,277
Cost of investments sold:		
Investments purchased during period		118,150,842
Less: Cost of investments, end of period		(112,679,151)
Cost of investment sold		5,471,691
Loss on futures contracts		(520,973)
Net realized loss on investments	\$	(554,387)

8. 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 for the loaned security.

There were no outstanding securities on loan as at June 30, 2004.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Trust's investment activities expose it to various types of risk associated with the financial instruments in which it invests directly. In addition to the risks of investing in equity, income trust, bond and option markets generally, the Trust is also 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 to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities.

Credit risk

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

Corporate Information

Manager and Trustee

Fairway Advisors Inc.

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Fax: (416) 601-2434
Toll Free: (1-866) 299-7929
www.fairwaycapital.com
info@fairwaycapital.com

Custodian

State Street Trust Company Canada

30 Adelaide Street East
Suite 1100
Toronto, Ontario M5C 3G6

Auditors

Ernst & Young LLP

Ernst & Young Tower, 222 Bay Street
P.O. Box 251, Toronto-Dominion Centre
Toronto, Ontario M5K 1J7

Legal Counsel

McMillan Binch LLP

BCE Place, Suite 4400
Bay Wellington Tower
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Toronto, Ontario M5J 2T3

Registrar & Transfer Agent

Computershare Trust Company of Canada

100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Listed

The Toronto Stock Exchange

Ticker Symbol

FDT.UN

About Fairway

Founded in 2003, 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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