



FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST



Third Quarter Report

(Unaudited)

Period ended September 30, 2004

To Our Unitholders

At the end of September, 2004, Fairway Diversified Income and Growth Trust successfully completed its first full six months of operation. The Trust paid out monthly during each these six months, distributions of \$0.0583 per unit.

Fairway Diversified Income and Growth Trust has been structured to provide unitholders with monthly distributions targeted at 7% for the current year, as well as to preserve and enhance the net asset value of the Trust. In order to accomplish these objectives, the Trust's portfolio combines a diversified range of income-yielding investments along with dividend paying equities 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 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. Liquidity is provided through its TSX listing (ticker: FDT.UN), and annual redemption privileges are available through the Trust. The Trust is also RRSP eligible as foreign content.

During the third quarter, global markets were characterized by a number of countervailing forces. Energy prices rose dramatically as did many other commodity prices, including base metals and gold. Short-term interest rates in the U.S. and Canada rose, while longer-term rates declined. However, U.S. equity markets moved lower during September, as concerns about the economy persisted, geopolitical tensions lingered, oil prices were near record highs, and investors remained concerned about slower earnings growth. Bonds outperformed equities, and even the more stable, high-quality consumer products companies came under pressure. That said, commodity-driven companies (energy, materials and utilities) did well, interest rates remained relatively low, and the economy continued to expand.

In the U.S., GDP for the second quarter was revised upward to 3.3% from 2.8%, the employment report showed that 144,000 jobs had been added, while the unemployment rate fell to 5.1%. Producer prices dropped, showing that inflationary pressures are being contained, and U.S. industrial production increased. Home refinancing activity increased as longer-term interest rates fell. Despite the strong GDP and employment numbers, consumers were not as confident about the economy. The consumer confidence index dropped for the second month in succession and consumer spending was flat. Consumers continued to be concerned about the challenging job market and the effects of higher energy prices.

During the quarter, the U.S. Federal Reserve raised the Fed Funds rate to 1.75%. The Fed cited growth in productivity, benign inflation and improving labor markets as assisting the economy in its recovery. In Canada, the Bank of Canada also raised its key overnight rate in response to stronger economic growth and to deal preemptively with the perceived threat of increasing inflation.

While it is impossible to predict future market performance with any certainty, investors can take confidence that Fairway Diversified Income and Growth Trust has been structured to benefit from carefully diversified, attractive yielding and tax-efficient investment opportunities.



Paul Perrow
President
Fairway Advisors Inc.

Market Commentary

July-September 2004 Review

Investment performance was positive for the quarter. In a reversal of the pattern of the previous three months, longer-term interest rates unexpectedly declined in both Canada and the U.S. Long Government of Canada bond yields fell by 25 basis points (bps), while the 30-year U.S. Treasury rallied by 41 bps. All of the asset classes held within the Trust posted positive returns for the quarter. Income trusts, as measured by the Scotia Capital Income Trust Index, were the best performing asset class, with a total return of 10.78%. High yield bonds, as measured by the Merrill Lynch Master II Index, posted a total return of 4.63% (in U.S. dollars), reflecting a tightening of credit spreads by 20 bps on average versus U.S. treasuries. The S&P/TSX index was the laggard with a total return of 1.88%. Trust returns exceeded those of an appropriately weighted index benchmark.

Performance Analysis

Within the income trust, equity and high yield universes, the energy and materials sectors were among the best performing sectors for the quarter. However, the portfolio continues to underweight energy in all markets, and underweight materials in equities and income trusts. The decision to underweight these sectors is a result of high valuations in addition to our focus on preserving capital and producing income with lower volatility. Currently, it is very difficult to find investments in these sectors that satisfy these criteria. During the quarter, the Fairway Diversified Income and Growth Trust added Canadian Apartment REIT, an income trust that met all of the criteria discussed above, and added to existing positions such as BCE. The Trust also added to high yield positions in the retail, leisure and services sectors during the

quarter, and executed swaps in health care and chemicals to enhance returns. Although CP Ships, one of the larger convertible positions in the portfolio, has been under pressure due to accounting restatement issues, the convertible bonds have largely held their value. We remain comfortable with the credit quality of this issuer. Unlike last quarter, fund performance was boosted by the Trust's overweight position in BB bonds, as those issues slightly outperformed lower-rated bonds during this period. We expect that relationship to hold over the long term and have structured the portfolio accordingly. Additions to the Trust were funded using the leverage that the closed-end trust structure affords us. At quarter-end, approximately 41% of the Trust's assets were invested in income trusts, 37% in dividend-paying common equities and 19% in high yield bonds. This allocation remains unchanged from the second quarter.

Outlook & Strategy

It is anticipated that the U.S. Federal Reserve Board will continue to raise short-term interest rates at a measured pace and that the Bank of Canada will follow suit. Investors seem to have taken this in stride, and despite surging oil prices, there seems to be little volatility and a degree of complacency in the markets heading into earnings season. This suggests that our shorter duration stance and emphasis on higher credit quality will continue to support high yield returns going forward. Since we anticipate that income trust and equity total returns will be comprised primarily of distributions and dividends (not capital gains), our focus will remain on the preservation of capital.

MFC Global Investment Management (Canada)

Statement of Net Assets

(Unaudited)

As at September 30, 2004

(in Canadian dollars)

Assets	
Investments, at market value (cost - \$121,979,713)	\$ 126,365,895
Cash and short term investments	4,962,880
Accrued interest, dividends and distributions from trusts	1,184,096
Prepaid listing fee	6,243
	132,519,114
Liabilities	
Due to brokers	168,312
Management fee payable	383,961
Accounts payable and accrued liabilities	357,179
Loan facility payable (Note 6)	9,930,304
Distributions payable	727,617
	11,567,373
Net assets	\$ 120,951,741
Number of units outstanding (Note 5)	12,480,572
Net asset value per unit	\$ 9.69

Approved on behalf of the Manager:



Andrew A. McKay
Director



Paul Perrow
Director

Statements of Operations

(Unaudited)

(in Canadian dollars)	July 1, 2004 to September 30, 2004	February 26, 2004 (Date of Inception) to September 30, 2004
Investment income		
Interest	\$ 884,724	\$ 2,344,972
Dividends	1,163,717	1,649,069
	2,048,441	3,994,041
Expenses (Note 4)		
Management fee	474,177	1,006,599
Administration	47,125	75,797
	521,302	1,082,396
Net investment income	1,527,139	2,911,645
Realized and unrealized gain (loss) on investments		
Net realized loss on investments	1,094,938	540,551
Capital gains distributed from income trusts	7,256	16,858
Unrealized appreciation on investments	4,650,813	4,386,182
Realized foreign exchange gain (loss)	(52,631)	15,996
Unrealized depreciation on foreign currency	(58,931)	(96,608)
Net gain on investments	5,641,445	4,862,979
Increase in net assets from operations	\$ 7,168,584	\$ 7,774,624
Earnings per unit	\$ 0.5744	\$ 0.5660

The accompanying notes are an integral part of these financial statements

Statements of Operations (continued)

(Unaudited)

February 26, 2004
(Date of Inception) to
September 30, 2004

July 1, 2004 to
September 30, 2004

(in Canadian dollars)

Supplemental Information

Net realized gain on investments

Proceeds from sale of investments	\$ 7,140,734	\$ 12,579,011
Investments at cost, beginning of period	112,679,151	-
Investments purchased	16,699,833	134,850,675
	129,378,984	134,850,675
Investments at cost, end of period	121,979,713	121,979,713
Cost of investments sold	7,399,271	12,870,962
Gain on futures contracts	1,353,475	832,502
Net realized gain on investments	\$ 1,094,938	\$ 540,551

Statements of Changes in Net Assets

(Unaudited)

February 26, 2004
(Date of Inception) to
September 30, 2004

July 1, 2004 to
September 30, 2004

(in Canadian dollars except number of units)

Increase in net assets from operations	\$ 7,168,584	\$ 7,774,624
Distributions to unitholders		
From net investment income	(2,182,513)	(4,367,081)
From net realized gains on investment	-	-
From return of capital	-	-
	(2,182,513)	(4,367,081)
Capital unit transactions (Note 5)		
Proceeds from issue	-	125,000,000
Unit issues costs	-	(6,562,500)
Reinvested units	51,967	67,729
Redeemed units	-	-
Purchase and cancellation of trust units	(45,747)	(236,031)
Expenses of issue	-	(725,000)
	6,220	117,544,198
Increase in net assets	4,992,291	120,951,741
Net assets, beginning of period	115,959,450	-
Net assets, end of period	\$ 120,951,741	\$ 120,951,741

Supplemental Information

Capital unit transactions (Note 5)

Number of units outstanding, beginning of period	12,479,956	-
Units from issue	-	12,500,000
Reinvested units	5,748	7,504
Redeemed units	-	-
Purchase and cancellation of trust units	(5,132)	(26,932)
Number of units outstanding, end of period	12,480,572	12,480,572

The accompanying notes are an integral part of these financial statements

Statement of Investments

(Unaudited)

As at September 30, 2004

(in Canadian dollars)

Number of Units	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
EQUITIES				
Canada				
44,000	Alcan Inc.	2,578,948	2,662,000	2.20
15,000	Bank of Montreal	806,242	829,500	0.69
165,844	BCE Inc.	4,609,646	4,519,249	3.74
38,000	Brascan Corporation Cl. A Limited Voting	1,325,052	1,448,940	1.20
27,000	Canadian Imperial Bank of Commerce	1,879,144	1,827,090	1.51
63,250	Cinram International Inc.	1,561,355	1,340,900	1.11
23,000	Enbridge Inc.	1,250,909	1,213,250	1.00
20,000	Finning International Inc.	598,100	627,000	0.52
29,048	First Capital Realty Inc.	483,017	489,459	0.40
13,000	George Weston Limited	1,300,709	1,235,000	1.02
30,000	Gildan Activewear Inc. Cl. A Sub. Voting	1,119,000	1,068,000	0.88
20,000	IGM Financial Inc.	652,800	672,000	0.56
21,800	IPSCO Inc.	547,774	768,886	0.64
11,000	Magna International Inc. Cl. A Sub. Voting	1,140,556	1,030,480	0.85
17,000	Manitoba Telecom Services Inc.	725,730	721,480	0.60
37,000	Medical Facilities Corporation	370,000	442,150	0.37
40,500	Molson Inc. Cl. A Non-Voting	1,311,082	1,300,050	1.07
20,000	National Bank of Canada	885,475	877,400	0.73
50,000	Norbord Inc.	612,640	614,500	0.51
48,500	Petro-Canada	2,837,800	3,188,390	2.64
54,852	PetroKazakhstan Inc.	2,050,957	2,353,699	1.95
74,000	Power Corporation of Canada	1,907,350	2,138,600	1.77
49,000	Power Financial Corporation	1,359,651	1,448,930	1.20
30,500	Royal Bank of Canada	1,947,353	1,828,475	1.51
54,397	Sun Life Financial Inc.	1,956,920	2,077,421	1.72
57,000	Teck Cominco Limited Cl. B Sub. Voting	1,307,001	1,550,970	1.28
55,125	TELUS Corporation	1,304,113	1,444,275	1.19
80,000	The Bank of Nova Scotia	2,824,616	2,956,000	2.44
83,000	The Toronto-Dominion Bank	3,861,185	3,825,470	3.16
91,000	TimberWest Forest Corp.	1,132,780	1,274,000	1.05
47,000	TransCanada Corporation	1,365,425	1,299,550	1.07
Total Equities		47,613,330	49,073,114	40.58

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
Canada				
500,000	Baytex Energy Ltd. 9.63% Jul 15/10	699,581	683,235	0.56
500,000	Cascades Inc. 7.25% Feb 15/13	699,676	665,838	0.55
100,000	Celestica Inc. 7.88% Jul 01/11	135,690	131,902	0.11
498,000	CP Ships Limited 10.38% Jul 15/12	781,721	724,608	0.60
500,000	Intrawest Corporation 7.50% Oct 15/13	690,197	658,721	0.54
563,000	The Jean Coutu Group (PJC) Inc. 8.50% Aug 01/14	738,536	710,555	0.59
500,000	Videotron Ltee 6.88% Jan 15/14	688,391	651,603	0.54
		4,433,792	4,226,462	3.49

United States				
250,000	Alliance Imaging, Inc. 10.38% Apr 15/11	357,409	345,176	0.29
500,000	Allied Waste North America 7.88% Apr 15/13	718,945	670,582	0.55
500,000	Amkor Technology, Inc. 7.75% May 15/13	683,099	521,915	0.43
680,000	Brand Services, Inc. 12.00% Oct 15/12	1,048,494	980,821	0.81

The accompanying notes are an integral part of these financial statements

Statement of Investments

(Unaudited)

As at September 30, 2004

(in Canadian dollars)

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
United States (continued)				
500,000	Calpine Corporation 8.75% Jul 15/13	612,174	480,795	0.40
546,000	Charter Communications Holdings LLC 10.25% Sep 15/10	731,928	708,960	0.59
500,000	Chesapeake Energy Corporation 6.88% Jan 15/16	701,495	664,256	0.55
400,000	CSC Holdings Inc. Series B 7.63% Apr 01/11	569,647	535,833	0.44
325,000	Dex Media East LLC 12.13% Nov 15/12	510,562	514,008	0.43
400,000	Dollar Financial Group Inc. 9.75% Nov 15/11	580,992	538,996	0.45
25,000	Foot Locker, Inc. 8.50% Jan 15/22	34,784	33,845	0.03
500,000	FTD, Inc. 7.75% Feb 15/14	677,584	634,206	0.52
500,000	Georgia-Pacific Corp. 7.70% Jun 15/15	715,258	724,355	0.60
500,000	Giant Industries, Inc. 8.00% May 15/14	652,703	648,440	0.54
600,000	HEALTHSOUTH Corporation 8.38% Oct 01/11	776,165	758,201	0.63
25,000	Ingram Micro Inc. 9.88% Aug 15/08	37,698	34,755	0.03
500,000	Iron Mountain Incorporated 7.75% Jan 15/15	712,805	673,745	0.56
750,000	Lyondell Chemical Company 11.13% Jul 15/12	1,095,630	1,105,512	0.91
500,000	Mandalay Resort Group 7.63% Jul 15/13	730,798	673,745	0.56
275,000	Mobile Mini, Inc. 9.50% Jul 01/13	403,726	387,957	0.32
100,000	Offshore Logistics, Inc. 6.13% Jun 15/13	130,241	129,056	0.11
500,000	Owens-Illinois, Inc. 8.75% Nov 15/12	729,564	705,377	0.58
125,000	PanAmSat Corporation 9.00% Aug 15/14	166,125	165,273	0.14
400,000	Refco Finance Holdings LLC 9.00% Aug 01/12	530,013	542,792	0.45
150,000	Revlon Consumer Products Corp. 8.63% Feb 01/08	190,333	162,268	0.13
500,000	Rite Aid Corporation 8.13% May 01/10	718,713	667,419	0.55
250,000	Standard Commercial Corporation 8.00% Apr 15/12	332,738	325,802	0.27
500,000	Standard Pacific Corp. 7.75% Mar 15/13	720,191	691,143	0.57
500,000	Starwood Hotels & Resorts Worldwide, Inc. 7.88% May 01/12	756,141	718,820	0.59
500,000	Technical Olympic USA, Inc. 9.00% Jul 01/10	711,392	695,887	0.58
500,000	The AES Corporation 9.00% May 15/15	740,786	716,448	0.59
324,000	The FINOVA Group Inc. 7.50% Nov 15/09	268,444	206,508	0.17
1,000,000	Unisys Corporation 7.88% Apr 01/08	1,374,536	1,306,370	1.08
215,000	United Rentals North America Inc. 7.75% Nov 15/13	278,019	256,387	0.21
600,000	Western Financial Group Inc. 9.63% May 15/12	894,261	861,635	0.71
		20,893,393	19,787,288	16.37
Foreign				
500,000	Royal Caribbean Cruises Ltd. 7.25% Mar 15/18	702,992	670,582	0.55
250,000	Royal Caribbean Cruises Ltd. 6.88% Dec 01/13	331,778	338,454	0.28
		1,034,770	1,009,036	0.83
Total Bonds		26,361,955	25,022,786	20.69
Number of Units	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
INCOME TRUSTS				
Canada				
100,000	Algonquin Power Income Fund	1,054,374	971,000	0.80
229,650	ARC Energy Trust	3,544,742	3,869,602	3.20
50,735	Armtec Infrastructure Income Fund	507,350	578,379	0.48
158,900	BFI Canada Income Fund	2,829,071	3,471,965	2.87
93,000	Bonavista Energy Trust	1,979,034	2,407,770	1.99
75,000	Calloway Real Estate Investment Trust	1,234,545	1,278,750	1.06
50,000	Canadian Apartment Properties Real Estate Investment Trust	676,500	687,500	0.57
510	Canadian Oil Sands Trust	21,829	27,872	0.02

The accompanying notes are an integral part of these financial statements

Statement of Investments

(Unaudited)

As at September 30, 2004

(in Canadian dollars)

Number of Units	Security	Average Cost (\$)	Market Value (\$)	% of Net Assets
INCOME TRUSTS				
Canada (continued)				
49,900	Chemtrade Logistics Income Fund	912,502	963,070	0.80
50,000	Cineplex Galaxy Income Fund	533,355	635,000	0.52
87,300	CML Healthcare Income Fund	1,016,426	1,021,410	0.84
160,000	Connors Bros. Income Fund	2,739,286	2,600,000	2.15
143,500	Davis + Henderson Income Fund	2,576,578	2,791,075	2.31
10,673	Enerplus Resources Fund	370,110	439,621	0.36
33,968	Fording Canadian Coal Trust	1,782,148	2,396,442	1.98
72,100	Gateway Casinos Income Fund	1,175,633	1,250,214	1.03
45,900	Great Lakes Carbon Income Fund	552,975	457,623	0.38
45,550	H&R Real Estate Investment Trust	768,830	797,125	0.66
64,000	Hardwoods Distribution Income Fund	639,500	697,600	0.58
23,000	IBI Income Fund	237,438	231,150	0.19
100,000	Innergex Power Income Fund	1,175,000	1,250,000	1.03
75,500	InnVest Real Estate Investment Trust	836,819	853,150	0.70
18,931	Inter Pipeline Fund Cl. A	159,195	155,424	0.13
118,700	Livingston International Income Fund	2,024,209	2,207,820	1.83
30,000	North West Company Fund	742,500	750,000	0.62
150,000	Northern Property Real Estate Investment Trust	2,219,506	2,100,000	1.74
160,400	O&Y Real Estate Investment Trust	2,057,709	2,053,120	1.70
120,000	Osprey Media Income Fund	1,200,000	1,164,000	0.96
46,200	Pembina Pipeline Income Fund	539,977	576,114	0.48
102,000	Richards Packaging Income Fund	1,032,402	1,030,200	0.85
156,285	RioCan Real Estate Investment Trust	2,292,139	2,578,703	2.13
139,000	Shiningbank Energy Income Fund	2,388,363	3,038,540	2.51
95,000	Summit Real Estate Investment Trust	1,741,928	1,681,500	1.39
100,800	Superior Plus Income Fund	2,616,323	2,768,976	2.29
156,700	Yellow Pages Income Fund	1,826,132	1,897,636	1.57
Total Income Trusts		48,004,428	51,678,351	42.72
FUTURES				
United States				
285	Canadian Dollar Currency Future expiry date Dec 14/04	–	591,644	0.49
TOTAL INVESTMENTS		121,979,713	126,365,895	104.48
Liabilities less other assets			(5,414,154)	(4.48)
NET ASSETS, AT MARKET VALUE			120,951,741	100.00

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

September 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 September 30, 2004. The statements of operations and changes in net assets are for the periods July 1, 2004 to September 30, 2004 and February 26, 2004 (date of inception) to September 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, 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.

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, 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.

(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 (loss)" 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 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 income.

(f) 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 financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.

(g) 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 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 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 September 30, 2004, the amount of the loan facility outstanding in the Trust was \$9,930,304, with an interest rate of 2.39%, and maturing on November 24, 2004.

7. SECURITIES LENDING

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

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

8. 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.

BCE Place
181 Bay Street, Suite 840
Toronto, Ontario M5J 2T3
Phone: (416) 507-4110
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
181 Bay Street
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

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.

BCE Place, 181 Bay Street
Suite 840, P.O. Box 750
Toronto, ON M5J 2T3

www.fairwaycapital.com