



FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST



Third Quarter Report

(Unaudited)

Period ended September 30, 2005

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FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

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Market Commentary

REVIEW

The third quarter proved, once again, to be a strong quarter for investors. Income Trusts, as measured by the Scotia Capital Income Trust Index Overall (SCITI), were the best performing asset class, posting a total return of +14.44%. The S&P TSX, a broad measure of Canadian equity performance, posted a total return of +11.63%. Despite the tumultuous events of the third quarter, including further ratings pressure on Ford, GM and auto suppliers, hurricanes, and the Chapter 11 filings of Delta Air Lines and Northwest Air, the quarter was remarkably calm for high yield investors. The market, as measured by the Merrill Lynch Master II Index, returned +0.92% (in U.S. dollars), tightening 22 bps on average to U.S. Treasuries.

Two inter-locking themes dominated the financial markets in the third quarter: soaring energy prices and a lack of insight into the U.S. Federal Reserve Board's intention on future rate direction. Hurricanes Katrina and Rita devastated the U.S. Gulf Coast, lifting oil and gas prices to record levels. Investors tried to handicap the economic impact of this disaster against the broader inflationary effects of higher energy prices. The Fed raised interest rates twice for a total of 50 bps. The Bank of Canada in turn, resumed its tightening after a one-year hiatus, and increased the bank rate by 25 bps in September. The yield curve for Government of Canada bonds significantly flattened with the 2-30 spread narrowed by 42 bps. Rates rose across the entire U.S. yield curve on concerns about inflation and strong economic conditions.

OUTLOOK & STRATEGY

Early economic data since Katrina suggests economic activity has remained strong, lowering the likelihood the Bank of Canada and Fed will pause raising rates. Market consensus is for the Fed to raise rates 25 basis points at each of its two remaining meetings this year and futures rates are suggesting the potential for further rate hikes early next year. Canadian central bankers are also in the tightening mode. Markets expect that the Bank of Canada will also continue to raise rates for the balance of the year. In Canada, higher energy prices are a boon for Alberta but eastern manufacturers will be negatively impacted, pressuring valuations. U.S. manufacturers will also be squeezed and bigger issues make us especially cautious on the automakers and automotive suppliers. More risk is anticipated though from the long end of the yield curve as higher inflation rates and additional debt issuance to fund U.S. Gulf Coast reconstruction push yields higher. The Fund is positioned defensively on both a credit quality and duration basis to weather the expected volatility.

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

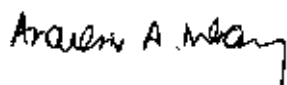
FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

Statement of Net Assets

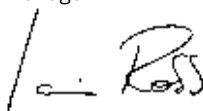
(Unaudited)

	As at	
	September 30, 2005	December 31, 2004
Assets (Note 9)		
Investments, at market value (<i>cost - \$89,340,356; 2004 - \$124,239,624</i>) \$	106,653,503	\$ 137,773,163
Cash and cash equivalents (Note 3)	2,826,839	4,773,115
Accrued interest, dividends and distributions from trusts	1,064,732	1,284,415
Prepaid interest on loan	17,858	57,811
	110,562,932	143,888,504
Liabilities		
Loan facility payable (Note 9)	10,000,000	12,000,000
Due to brokers	351,051	135,499
Management fees payable (Note 5)	298,684	263,497
Accounts payable and accrued liabilities	4,134	33,574
Distributions payable	506,669	728,015
	11,160,538	13,160,585
Net assets, at market value	\$ 99,402,394	\$ 130,727,919
Number of units outstanding (Note 7)	8,690,727	12,487,398
Net asset value per unit	\$ 11.44	\$ 10.47

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



Andrew A. McKay
Director



Iain A. Robb
Director

Statement of Operations

(Unaudited)

	July 1, 2005 to September 30, 2005	January 1, 2005 to September 30, 2005	July 1, 2004 to September 30, 2004	February 26, 2004 to September 30, 2004 (Date of Inception)
Investment income				
Interest	\$ 1,057,303	\$ 3,589,302	\$ 937,807	\$ 2,396,627
Dividends and distributions	294,009	1,156,751	1,170,973	1,665,927
	1,351,312	4,746,053	2,108,780	4,062,554
Expenses				
Management fees (Note 5)	393,831	1,285,839	474,177	1,006,599
Administration	55,352	205,956	47,125	75,797
Interest expense (Note 9)	79,125	261,753	24,428	24,428
	528,308	1,753,548	545,730	1,106,824
Net investment income	823,004	2,992,505	1,563,050	2,955,730
Realized and unrealized gain (loss) on investments				
Net realized gain on sale of investments (Note 8)	301,974	4,528,419	1,066,283	513,324
Change in unrealized appreciation on investments	5,091,857	3,779,608	4,650,813	4,386,182
Realized foreign exchange gain (loss)	1,256,336	1,893,662	(52,631)	15,996
Change in unrealized appreciation (depreciation) on foreign currency	4,032	139,607	(58,931)	(96,608)
Net gain on investments	6,654,199	10,341,296	5,605,534	4,818,894
Increase in net assets from operations	\$ 7,477,203	\$ 13,333,801	\$ 7,168,584	\$ 7,774,624
Increase in net assets from operations per unit	\$ 0.8607	\$ 1.3433	\$ 0.5744	\$ 0.6255

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

(Unaudited)

	July 1, 2005 to September 30, 2005	January 1, 2005 to September 30, 2005	July 1, 2004 to September 30, 2004	February 26, 2004 to (Date of Inception) September 30, 2004
Increase in net assets from operations	\$ 7,477,203	\$ 13,333,801	\$ 7,168,584	\$ 7,774,624
Distributions to unitholders				
Income	(1,519,685)	(5,223,251)	(2,182,513)	(4,367,081)
	(1,519,685)	(5,223,251)	(2,182,513)	(4,367,081)
Capital unit transactions (Note 7)				
Proceeds from issue of trust units	–	–	–	125,000,000
Issue costs	–	–	–	(7,287,500)
Reinvested trust units	60,130	195,787	51,967	67,729
Redeemed trust units	–	(39,631,862)	–	–
Purchase and cancellation of trust units	–	–	(45,747)	(236,031)
	60,130	(39,436,075)	6,220	117,544,198
Increase (decrease) in net assets during the period	6,017,648	(31,325,525)	4,992,291	120,951,741
Net assets, beginning of period	93,384,746	130,727,919	115,959,450	–
Net assets, end of period	\$ 99,402,394	\$ 99,402,394	\$ 120,951,741	\$ 120,951,741

Statement of Cash Flows

(Unaudited)

	July 1, 2005 to September 30, 2005	January 1, 2005 to September 30, 2005	July 1, 2004 to September 30, 2005	February 26, 2004 to (Date of Inception) September 30, 2004
OPERATING ACTIVITIES				
Increase in net assets from operations	\$ 7,477,203	\$ 13,333,801	\$ 7,168,584	\$ 7,774,624
Items not affecting cash:				
(Gain) loss on sale of investments	(360,439)	(5,728,810)	287,192	319,178
Change in unrealized appreciation on investments	(5,091,857)	(3,779,608)	(4,650,813)	(4,386,182)
	2,024,907	3,825,383	2,804,963	3,707,620
Net change in non-cash assets and liabilities	124,858	461,170	47,489	(381,470)
Cash flows provided by operating activities	2,149,765	4,286,553	2,852,452	3,326,150
FINANCING ACTIVITIES				
Borrowing (repayment) of loan indebtedness	–	(2,000,000)	9,930,304	9,930,304
Distributions paid to unitholders	(1,519,354)	(5,444,597)	(2,182,477)	(3,639,464)
Net proceeds from issuance (redemptions) of trust units	–	(39,631,862)	(45,747)	117,476,469
Cash flows provided by (used in) financing activities	(1,519,354)	(47,076,459)	7,702,080	123,767,309
INVESTING ACTIVITIES				
Proceeds from sale of investments	4,478,762	65,447,740	7,112,079	12,551,784
Purchases of investments	(8,607,081)	(24,604,110)	(17,690,195)	(134,682,363)
Cash flows provided by (used in) investing activities	(4,128,319)	40,843,630	(10,578,116)	(122,130,579)
Net increase (decrease) in cash during the period	(3,497,908)	(1,946,276)	(23,584)	4,962,880
Cash and cash equivalents, beginning of period	6,324,747	4,773,115	4,986,464	–
Cash and cash equivalents, end of period	\$ 2,826,839	\$ 2,826,839	\$ 4,962,880	\$ 4,962,880

The accompanying notes are an integral part of these financial statements

Statement of Investments

(Unaudited)

As at September 30, 2005

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
EQUITIES				
Canada				
150,844	BCE Inc.	4,208,241	4,804,381	4.83
33,000	Brascan Corporation Cl. A Limited Voting	1,150,702	1,786,620	1.80
24,200	Canadian Imperial Bank of Commerce	1,684,270	1,756,920	1.77
26,000	Enbridge Inc.	707,036	968,760	0.97
3,300	EnCana Corporation	168,976	223,905	0.23
20,000	Finning International Inc.	598,100	800,800	0.81
29,048	First Capital Realty Inc.	483,017	618,142	0.62
34,800	Gildan Activewear Inc. Cl. A Sub. Voting	649,020	1,541,988	1.55
20,000	IGM Financial Inc.	652,800	855,000	0.86
16,800	IPSCO Inc.	422,138	1,388,688	1.40
12,000	Magna International Inc. Cl. A Sub. Voting	1,228,052	1,049,040	1.06
17,000	Manitoba Telecom Services Inc.	725,730	823,820	0.83
20,000	National Bank of Canada	885,475	1,203,800	1.21
20,000	North West Company Fund	495,000	617,800	0.62
83,000	Petro-Canada	2,450,206	4,038,780	4.06
11,006	PetroKazakhstan Inc.	411,522	692,277	0.70
74,000	Power Corporation of Canada	1,907,350	2,356,160	2.37
49,000	Power Financial Corporation	1,359,651	1,652,280	1.66
7,010	Precision Drilling Corporation	369,944	401,042	0.40
27,700	Royal Bank of Canada	1,768,580	2,345,913	2.36
49,097	Sun Life Financial Inc.	1,766,253	2,143,084	2.16
7,600	Talisman Energy Inc.	426,233	432,288	0.43
32,000	Teck Cominco Limited Cl. B Sub. Voting	733,755	1,668,800	1.68
45,125	TELUS Corporation	1,067,539	2,189,014	2.20
54,700	The Bank of Nova Scotia	1,931,331	2,374,527	2.39
62,400	The Toronto-Dominion Bank	2,902,866	3,576,768	3.60
37,000	TransCanada Corporation	1,074,909	1,313,500	1.32
Total Equities		32,228,696	43,624,097	43.89

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
Bermuda				
15,000	Intelsat Ltd. 7.63% Apr 15/12	16,522	14,671	0.01
450,000	Intelsat Ltd. 8.70% Jan 15/12	547,711	534,182	0.54
		564,233	548,853	0.55

Canada				
204,000	Abitibi – Consolidated Inc. 7.40% Apr 01/18	231,539	213,150	0.21
600,000	Avenor Inc. 10.85% Nov 30/14	708,000	693,000	0.70
500,000	Baytex Energy Ltd. 9.63% Jul 15/10	699,581	610,950	0.62
240,000	Bowater Canada Finance 7.95% Nov 15/11	294,734	282,111	0.28
300,000	CanWest Media Inc 10.63% May 15/11	387,023	380,501	0.38
520,000	Cascades Inc. 7.25% Feb 15/13	725,353	590,111	0.59
100,000	Celestica Inc. 7.88% Jul 01/11	135,690	118,997	0.12
498,000	CP Ships Limited 10.38% Jul 15/12	781,721	659,094	0.66
600,000	Dollarama Group LP 8.88% Aug 15/12	724,315	682,638	0.69
300,000	General Motors Nova Scotia Finance Company 6.85% Oct 15/08	377,699	326,463	0.33
545,000	Intrawest Corporation 7.50% Oct 15/13	745,262	650,908	0.66
325,000	Rogers Wireless Communications Inc. 7.63% Dec 15/11	333,531	348,919	0.35
563,000	The Jean Coutu Group (PJC) Inc. 8.50% Aug 01/14	738,536	653,615	0.66
500,000	Videotron Ltee 6.88% Jan 15/14	688,391	598,615	0.60
		7,571,375	6,809,072	6.85

Statement of Investments (continued)

(Unaudited)

As at September 30, 2005

Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
BONDS				
United States				
113,000	Alliance Imaging, Inc. 7.25% Dec 15/12	130,285	120,692	0.12
500,000	Allied Waste North America 7.88% Apr 15/13	718,945	594,987	0.60
500,000	Armor Holdings Inc. 8.25% Aug 15/13	647,714	628,364	0.63
680,000	Brand Services, Inc. 12.00% Oct 15/12	1,048,494	840,759	0.85
500,000	Calpine Corporation 8.75% Jul 15/13	612,174	413,588	0.42
896,000	Charter Communications Holdings LLC 10.25% Sep 15/10	1,186,032	1,071,417	1.08
200,000	Chemed Corporation 8.75% Feb 24/11	269,312	251,926	0.25
150,000	Cincinnati Bell Inc. 7.00% Feb 15/15	187,135	168,918	0.17
15,000	Cincinnati Bell Inc. 8.38% Jan 15/14	18,977	17,240	0.02
400,000	CSC Holdings Inc. Series B 7.63% Apr 01/11	569,647	458,575	0.46
150,000	Del Monte Corporation 6.75% Feb 15/15	186,989	175,884	0.18
500,000	Dex Media West LLC 9.88% Aug 15/13	741,891	643,601	0.65
550,000	Dollar Financial Group Inc. 9.75% Nov 15/11	781,885	667,256	0.67
275,000	Foot Locker, Inc. 8.50% Jan 15/22	383,798	348,793	0.35
486,000	FTD, Inc. 7.75% Feb 15/14	658,612	568,453	0.57
150,000	Georgia-Pacific Corp. 8.00% Jan 15/24	210,108	192,863	0.19
500,000	Giant Industries, Inc. 8.00% May 15/14	652,703	609,498	0.61
130,000	Global Cash Access Inc. 8.75% Mar 15/12	165,784	162,997	0.16
200,000	Gregg Appliances Inc. 9.00% Feb 01/13	247,360	219,419	0.22
292,000	HEALTHSOUTH Corporation 7.63% Jun 01/12	354,324	318,657	0.32
308,000	HEALTHSOUTH Corporation 8.38% Oct 01/11	349,114	342,376	0.34
211,000	Herbst Gaming, Inc. 8.13% Jun 01/12	262,606	257,208	0.26
500,000	Iron Mountain Incorporated 7.75% Jan 15/15	712,805	592,084	0.59
180,000	Lamar Media Corp. 7.25% Jan 01/13	231,008	219,419	0.22
500,000	Mandalay Resort Group 7.63% Jul 15/13	730,798	606,596	0.61
125,000	Meritor Automotive, Inc. 6.80% Feb 15/09	145,929	139,314	0.14
275,000	Mobile Mini, Inc. 9.50% Jul 01/13	403,726	354,380	0.36
515,000	Mueller Group Inc. 10.00% May 01/12	656,139	636,752	0.64
170,000	Mueller Industries, Inc. 6.00% Nov 01/14	207,400	192,427	0.19
600,000	Noble Group Limited 6.63% Mar 17/15	715,870	644,354	0.65
100,000	Offshore Logistics, Inc. 6.13% Jun 15/13	130,241	114,934	0.11
81,000	PanAmSat Corporation 9.00% Aug 15/14	107,649	99,679	0.10
312,000	Refco Finance Holdings LLC. 9.00% Aug 01/12	414,127	395,721	0.40
500,000	Rite Aid Corporation 8.13% May 01/10	718,713	594,987	0.60
500,000	Starwood Hotels & Resorts Worldwide, Inc. 7.88% May 01/12	756,141	635,620	0.64
500,000	Technical Olympic USA, Inc. 9.00% Jul 01/10	711,392	603,694	0.61
100,000	The AES Corporation 8.75% Jun 15/08	137,373	123,351	0.12
178,060	The FINOVA Group Inc. 7.50% Nov 15/09	147,528	81,654	0.08
350,000	Thornburg Mortgage, Inc. 8.00% May 15/13	451,765	404,301	0.41
714,000	Unisys Corporation 7.88% Apr 01/08	981,418	841,352	0.85
50,000	Unisys Corporation 8.00% Oct 15/12	58,785	57,322	0.06
350,000	United Rentals North America Inc. 6.50% Feb 15/12	419,536	394,142	0.40
1,449,000	Western Financial Group Inc. 9.63% May 15/12	2,042,632	1,934,548	1.95
		21,264,864	18,740,102	18.85
Total Bonds		29,400,472	26,098,027	26.25

Statement of Investments (continued)

(Unaudited)

As at September 30, 2005

Number of Units	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
INCOME TRUSTS				
Canada				
89,650	ARC Energy Trust	1,371,573	2,160,565	2.17
53,735	Armtec Infrastructure Income Fund	536,874	808,712	0.81
98,900	BFI Canada Income Fund	1,687,774	2,866,122	2.88
49,000	Bonavista Energy Trust	1,040,679	1,822,800	1.83
49,900	Chemtrade Logistics Income Fund	899,799	749,997	0.76
50,000	Cineplex Galaxy Income Fund	517,155	769,500	0.78
47,300	CML Healthcare Income Fund	547,603	700,986	0.71
45,000	Connors Bros. Income Fund	763,352	649,800	0.65
88,500	Davis + Henderson Income Fund	1,575,411	1,875,315	1.89
25,404	Fording Canadian Coal Trust	450,081	1,259,276	1.27
47,100	Gateway Casinos Income Fund	766,632	812,475	0.82
45,550	H&R REIT	712,038	945,618	0.95
473,000	Huntingdon REIT	1,300,750	1,385,332	1.39
75,000	Innergex Power Income Fund	818,432	1,027,500	1.03
75,500	InnVest REIT	796,702	961,115	0.97
93,700	Livingston International Income Fund	1,580,135	2,097,943	2.11
90,000	Northern Property REIT	1,262,419	1,629,000	1.64
111,600	O&Y REIT	1,302,790	1,802,340	1.81
102,000	Richards Packaging Income Fund	1,014,297	1,015,920	1.02
86,285	RioCan REIT	1,199,599	1,942,276	1.95
114,000	Shiningbank Energy Income Fund	1,862,098	2,948,040	2.97
60,000	SIR Royalty Income Fund	511,800	509,400	0.51
95,000	Summit REIT	1,597,977	2,166,000	2.18
50,800	Superior Plus Income Fund	1,315,100	1,335,024	1.34
104,600	The Data Group Income Fund	1,046,000	1,148,508	1.16
106,700	Yellow Pages Income Fund	1,234,118	1,541,815	1.55
Total Income Trusts		27,711,188	36,931,379	37.15
TOTAL INVESTMENTS		89,340,356	106,653,503	107.29
Liabilities less other assets			(7,251,109)	(7.29)
NET ASSETS, AT MARKET VALUE			99,402,394	100.00

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

September 30, 2005 (*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 "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.

(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

Notes to Financial Statements (continued)

September 30, 2005 (Unaudited)

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 \$1099 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.

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, unitholders 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. The Trust's units are listed on the Toronto Stock Exchange under the symbol FDT.UN.

Notes to Financial Statements (continued)

September 30, 2005 (Unaudited)

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. 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 January 1, 2005 to September 30, 2005, consisted of the following:

	Units	\$
Number of units outstanding, beginning of period	12,487,398	117,599,628
Distribution		
Reinvestment Plan	19,038	195,787
Redemptions	(3,815,709)	(39,631,862)
Purchase and cancellation of units (Note 13)	-	-
Number of units outstanding, end of period	8,690,727	78,163,553

Net capital transactions for the Trust for the period from Date of Inception to September 30, 2004, consisted of the following:

	Units	\$
Number of units outstanding, beginning of period	-	-
Subscriptions	12,500,000	125,000,000
Distribution Reinvestment Plan	7,504	67,729
Redemptions	-	-
Purchase and cancellation of units (Note 13)	(26,932)	(236,031)
Issue expenses (including agents' fees)	-	(7,287,500)
Number of units outstanding, end of period	12,480,572	117,544,198

8. NET REALIZED GAIN ON SALE OF INVESTMENTS

For the period from January 1, 2005 to September 30, 2005, the net realized gain on the sale of investments for the Trust was as follows:

Proceeds from sale of investments	\$ 65,447,740
Cost of Investments sold:	
Cost of investments, beginning of period	124,239,624
Investments purchased during the period	24,819,662
	149,059,286
Less: Cost of investments, end of period, excluding short-term investments	89,340,356
Cost of investments sold during the period	59,718,930
Loss on futures contracts	(1,200,391)
Net realized gain on sale of investments	\$ 4,528,419

For the period from Date of Inception to September 30, 2004, the net realized gain on the sale of investments for the Trust was as follows:

Proceeds from sale of investments	\$ 12,551,784
Cost of Investments sold:	
Cost of investments, beginning of period	-
Investments purchased during the period	134,850,675
	134,850,675
Less: Cost of investments, end of period, excluding short-term investments	121,979,713
Cost of investments sold during the period	12,870,962
Gain on futures contracts	832,502
Net realized gain on sale of investments	\$ 513,324

Notes to Financial Statements (continued)

September 30, 2005 (*Unaudited*)

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 a 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 September 30, 2005, the Manager, on behalf of the Trust has drawn down a loan in the amount of \$10,000,000 with an interest rate of 2.86%, and maturing on October 21, 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 on or about the last business day of each month. The monthly distribution declared to unitholders of record, at the end of each month in the period, was \$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 did not repurchase 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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