



FAIRWAY INVESTMENT GRADE INCOME FUND



Third Quarter Report

(Unaudited)

Period ended September 30, 2005

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FAIRWAY INVESTMENT GRADE INCOME FUND

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Market Commentary

PORTFOLIO REVIEW

Although markets for the most part climbed a wall of worry during the quarter ended September 30, 2005 – high oil prices, a rising Federal budget deficit, inflationary fears, falling consumer sentiment, and escalating hurricane damage costs from two major storms hitting the U.S. Gulf Coast – Treasuries rose and preferreds performed very well for the quarter. Preferreds generally move in the same direction as long-term Treasuries.

While preferreds and treasuries did well during the quarter, our short Treasury future hedge also aided performance. Interest rates rose across all maturities and the yield curve flattened, as the two-year Treasury yield rose to 4.17%, and the yield on the 30-year Treasury bond rose to 4.57%. With a difference of 40 basis points between the two- and thirty-year Treasuries, the yield curve is at its flattest point since early 2001.

The Fed, despite pressures for a break, again raised short-term interest rates twice – at its “measured” pace – from 3.25% to 3.75%. This last rate hike marked the 11th consecutive increase. The Fed also indicated it would continue its measured increases, despite core inflation remaining low. The central bank remained concerned that higher energy prices and other costs could add to inflationary pressures.

While new issuances of preferreds dried up as the summer doldrums set in, they did pick up in September; however, we did not participate in them, given they were not fully taxable and/or carried a higher risk premium.

During the quarter, our GM and Ford holdings continued to hurt performance, as they continued to lose market share. At this time, management challenges include decisions regarding their product line and benefit packages. Both companies need to determine how to rebalance their product line in lieu of higher gas prices,

given they both have a large/big vehicle bias. They also need to renegotiate with the unions regarding pension and health care benefits, given these are both huge expense items.

In general, higher coupon preferreds (6-7% or more) continued to perform better than current coupon preferreds (less than 6%).

Companies Positively Impacting Performance

- **Hawaiian Electric**, a diversified utility holding company that supplies electricity to 93% of Hawaii’s residents, performed well as higher coupon utility preferreds outperformed the rest of the industry.
- **Morgan Stanley**, a major financial services company, advanced as the marketplace applauded the latest senior management changes, and reported strong financial results.
- **Telephone & Data**, a local phone company, performed well as current coupon telecom preferreds were strong for the quarter.

Companies Negatively Impacting Performance

- **Renaissance Re**, a Bermuda-based reinsurer, retreated as investors worried about unknown liabilities in the wake of hurricanes Katrina and Rita.
- **General Motors**, one of the world’s largest producers of cars and trucks, detracted from performance due to aggressive price discounting and lower than expected sales during September.
- **Ford Motor Company**, one of the world’s largest producers of cars and trucks, detracted from performance due to pricing pressures, due to discounts, and lower vehicles sales during September.

Market Commentary (continued)

CURRENT MARKET OUTLOOK & PORTFOLIO STRATEGY

With the amount of economic uncertainty in the market today, given high oil prices and a slowing economy, we remain optimistic about preferreds, as investors historically have favored preferreds and treasuries during ambiguous times.

We also believe the long-term demographics for the preferred marketplace are favorable, given the potential demand for preferred type securities by the number of aging baby boomers about to retire. Typically, retired investors have favored preferreds, given their income stream. In addition, new issuances of preferreds have been reasonable.

John Hancock Advisers LLC

Investment Sub-Advisor, Global Preferred Trust

PORTFOLIO REVIEW

The Canadian bond market, as measured by the Scotia Capital Market Universe (SCMU), posted a positive return of 0.12% in the third quarter. The yield curve for Government of Canada bonds flattened. The Canadian bond market outperformed its U.S. counterpart, most notably at the long end of the yield curve. In the Canadian equity market, the S&P/TSX Index rose 11.63%. The best-performing sectors were Energy, returning 26.04%, and Utilities, advancing 16.85%. The worst performers were Consumer Staples, returning 0.47%, and Information Technology, returning 2.61%.

The Fed continued its measured rate increases, bringing the rate to 3.75 at the end of the quarter. The Bank of Canada resumed tightening, with a 25-basis-point increase taking the rate to 2.75%. This pushed up short-term bond yields, but the longer end of the Canadian yield curve remained stable. The Canadian equity component outperformed the S&P/TSX Index for the quarter, primarily as a result of stock selection in Energy, Consumer Discretionary, and Financials. Sector allocation adjustments left the Canadian equity portfolio overweight in Resources, at market weight in interest-sensitives, and underweight in consumer-related and industrial sectors.

Extreme weather in the southern United States boosted oil and gas prices to record levels. In Canada, higher energy prices are favourable for Alberta, but Ontario and Quebec will suffer, contributing to wider bond spreads. The equity portfolio managers remain comfortable with the S&P/TSX fundamentals and valuations, but consider a market correction long overdue. The Fund continues to compare favourably to the benchmark in a number of key terms.

MFC Global Investment Management (Canada)

Investment Advisor, Fairway Diversified Income and Growth Trust

FAIRWAY INVESTMENT GRADE INCOME FUND

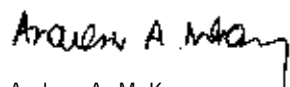
Statement of Net Assets

(Unaudited)

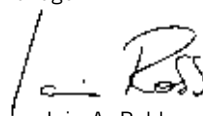
As at
September 30, 2005

| | |
|--|----------------------|
| Assets (Note 9) | |
| Investments, at market value (<i>cost</i> – \$73,977,661) | \$ 72,063,586 |
| Cash and cash equivalents (Note 3) | 3,473,476 |
| Due from brokers | 371,833 |
| Accrued interest, dividends and distributions from trusts | 331,732 |
| Prepaid interest on loan | 15,731 |
| | <u>76,256,358</u> |
| Liabilities | |
| Loan facility payable (Note 9) | 24,825,190 |
| Management fees payable (Note 5) | 132,709 |
| Accounts payable and accrued liabilities | 55,395 |
| Distributions payable | 265,797 |
| | <u>25,279,091</u> |
| Net assets, at market value | \$ 50,977,267 |
| Number of units outstanding (Note 7) | 5,315,933 |
| Net asset value per unit | \$ 9.59 |

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

February 25, 2005
(Date of Inception)
to September 30, 2005

| | |
|---|---------------------|
| Investment income | |
| Interest | \$ 295,561 |
| Dividends and distributions | 856,288 |
| | <u>1,151,849</u> |
| Expenses | |
| Management fees (Note 5) | 179,765 |
| Administration | 47,710 |
| Interest expense (Note 9) | 242,648 |
| | <u>470,123</u> |
| Net investment income | 681,726 |
| Realized and unrealized gain (loss) on investments | |
| Net realized gain on sale of investments (Note 8) | 26,351 |
| Change in unrealized depreciation on investments | (3,840,030) |
| Realized foreign exchange gain | 3,652,944 |
| Change in unrealized appreciation on foreign currency | 312,543 |
| Net gain on investments | 151,808 |
| Increase in net assets from operations | \$ 833,534 |
| Increase in net assets from operations per unit | \$ 0.1569 |
| | <u>\$ 681,726</u> |
| | <u>\$ 1,471,312</u> |

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 | February 25, 2005 (Date of Inception) to September 30, 2005 |
|---|---------------------------------------|---|
| Increase in net assets from operations | \$ 833,534 | \$ 2,768,908 |
| Distributions to unitholders | | |
| Income | (797,180) | (1,593,796) |
| | (797,180) | (1,593,796) |
| Capital unit transactions (Note 7) | | |
| Proceeds from issue of trust units | – | 53,100,000 |
| Trust units issued under the Annual Management Fee (Note 5) | 38,516 | 68,845 |
| Issue costs | – | (3,355,000) |
| Reinvested trust units | 910 | 910 |
| Redeemed trust units | – | (12,600) |
| | 39,426 | 49,802,155 |
| Increase in net assets during the period | 75,780 | 50,977,267 |
| Net assets, beginning of period | 50,901,487 | – |
| Net assets, end of period | \$ 50,977,267 | \$ 50,977,267 |

Statement of Cash Flows

(Unaudited)

| | July 1, 2005 to September 30, 2005 | February 25, 2005 (Date of Inception) to September 30, 2005 |
|--|---------------------------------------|---|
| OPERATING ACTIVITIES | | |
| Increase in net assets from operations | \$ 833,534 | \$ 2,768,908 |
| Items not affecting cash: | | |
| Gain on sale of investments | (11,383) | (895,994) |
| Change in unrealized depreciation on investments | 3,840,030 | 1,934,075 |
| | 4,662,181 | 3,806,989 |
| Net change in non-cash assets and liabilities | 32,215 | (158,449) |
| Cash flows provided by operating activities | 4,694,396 | 3,648,540 |
| FINANCING ACTIVITIES | | |
| Borrowing (repayment) of loan indebtedness | (1,036,018) | 24,825,190 |
| Distributions paid to unitholders | (796,974) | (1,327,999) |
| Net proceeds from issuance of trust units | 38,516 | 49,801,245 |
| Cash flows provided by (used in) financing activities | (1,794,476) | 73,298,436 |
| INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 900,359 | 2,683,746 |
| Purchases of investments | (1,412,265) | (76,157,246) |
| Cash flows used in investing activities | (511,906) | (73,473,500) |
| Net increase in cash during the period | 2,388,014 | 3,473,476 |
| Cash and cash equivalents, beginning of period | 1,085,462 | – |
| Cash and cash equivalents, end of period | \$ 3,473,476 | \$ 3,473,476 |

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 |
|-----------------------------|---|-------------------|-------------------|-----------------|
| PREFERRED SECURITIES | | | | |
| Bermuda | | | | |
| 46,100 | Renaissancere Holdings Limited 6.08% Series C | 1,325,120 | 1,201,519 | 2.36 |
| | | 1,325,120 | 1,201,519 | 2.36 |
| Canada | | | | |
| 42,500 | Nexen Inc. 7.35% Nov 01/43 | 1,361,685 | 1,293,210 | 2.54 |
| | | 1,361,685 | 1,293,210 | 2.54 |
| Netherlands | | | | |
| 20,000 | ABN Amro Capital Funding Trust V 5.90% | 584,800 | 567,472 | 1.11 |
| 33,000 | ABN Amro Capital Funding Trust VII 6.08% | 974,347 | 955,101 | 1.87 |
| 6,000 | Aegon NV 6.38% | 189,615 | 177,556 | 0.35 |
| 10,000 | ING Groep NV 6.20% | 301,878 | 292,211 | 0.57 |
| 41,000 | ING Groep NV 7.05% | 1,275,481 | 1,232,812 | 2.42 |
| | | 3,326,121 | 3,225,152 | 6.32 |
| United Kingdom | | | | |
| 15,900 | Abbey National PLC 7.25% | 495,544 | 473,291 | 0.93 |
| 5,000 | Abbey National PLC ADR 7.38% Series B | 159,843 | 154,987 | 0.30 |
| 20,000 | Prudential PLC 6.75% | 618,865 | 597,657 | 1.17 |
| 15,000 | Royal Bank of Scotland Group PLC ADR 5.75% Series L | 434,912 | 421,424 | 0.83 |
| 36,200 | Royal Bank of Scotland Group PLC 6.40% Series M | 1,113,436 | 1,070,832 | 2.10 |
| | | 2,822,600 | 2,718,191 | 5.33 |
| United States | | | | |
| 16,000 | BAC Capital Trust I 7.00% Dec 15/31 | 492,410 | 476,082 | 0.93 |
| 5,000 | BAC Capital Trust II 7.00% Feb 01/32 | 155,445 | 149,879 | 0.29 |
| 10,000 | BAC Capital Trust IV 5.88% May 03/33 | 293,550 | 285,942 | 0.56 |
| 10,000 | BAC Capital Trust V 6.00% Nov 03/09 | 298,225 | 287,915 | 0.57 |
| 10,900 | BGE Capital Trust III 6.20% Oct 15/43 | 343,192 | 320,155 | 0.63 |
| 34,100 | BNY Capital V 5.95% May 01/33 Series F | 1,026,258 | 981,792 | 1.93 |
| 6,200 | Citigroup Capital VII 7.13% Jul 31/31 | 192,726 | 183,978 | 0.36 |
| 16,300 | Citigroup Capital IX 6.00% Feb 14/33 | 488,627 | 473,087 | 0.93 |
| 8,600 | Citigroup Capital X 6.10% Sep 30/33 | 259,071 | 248,007 | 0.49 |
| 9,000 | Citigroup Capital XI 6.00% Sep 27/34 | 270,641 | 259,542 | 0.51 |
| 600 | Comerica Capital Trust 7.60% Jul 01/50 | 18,958 | 17,742 | 0.04 |
| 15,000 | Corporate Backed Trust Certificates 6.25% Jul 15/97 | 449,185 | 433,963 | 0.85 |
| 18,000 | Corporate Backed Trust Certificates 6.00% Feb 15/34 Series GS | 531,313 | 505,710 | 0.99 |
| 7,400 | DTE Energy Trust II 7.50% Jun 01/44 | 239,078 | 225,085 | 0.44 |
| 5,700 | Duke Realty Corporation 6.63% Aug 25/08 Series J | 167,930 | 165,700 | 0.33 |
| 7,600 | Duke Realty Corporation 6.50% Series K | 222,029 | 220,757 | 0.43 |
| 30,000 | Duke Realty Corporation 6.60% Series L | 887,511 | 872,802 | 1.71 |
| 5,000 | Energy East Capital Trust I 8.25% Jul 31/31 | 158,674 | 150,343 | 0.30 |
| 27,600 | Entergy Mississippi Inc. 7.25% Dec 01/32 | 885,239 | 821,882 | 1.61 |
| 7,300 | Enterprise Capital Trust I 7.44% Mar 31/47 Series A | 223,181 | 211,449 | 0.42 |
| 16,100 | Enterprise Capital Trust III 7.25% Jun 30/47 Series C | 493,141 | 466,161 | 0.91 |
| 11,000 | Fleet Capital Trust IX 6.00% Aug 01/33 | 332,394 | 317,473 | 0.62 |
| 30,000 | Ford Motor Company 7.50% Jun 10/43 | 850,509 | 680,200 | 1.33 |
| 10,000 | Ford Motor Credit Company 7.38% Oct 15/31 | 288,270 | 230,448 | 0.45 |
| 68,800 | FPC Capital I 7.10% May 13/39 Series A | 2,106,336 | 2,010,411 | 3.94 |
| 49,300 | FPL Group Capital Trust I 5.88% Mar 15/44 | 1,462,120 | 1,422,285 | 2.79 |
| 5,000 | General Electric Capital Corporation 6.10% Nov 15/32 | 152,914 | 147,789 | 0.29 |
| 15,000 | General Electric Capital Corporation 5.88% Feb 18/33 | 460,580 | 437,097 | 0.86 |
| 10,000 | General Motors Corporation 7.25% Jul 15/41 | 254,271 | 203,282 | 0.40 |

Statement of Investments (continued)

(Unaudited)

As at September 30, 2005

| Number of Shares | Description | Average Cost (\$) | Market Value (\$) | % of Net Assets |
|-----------------------------------|--|----------------------|----------------------|--------------------|
| PREFERRED SECURITIES | | | | |
| United States (continued) | | | | |
| 30,000 | General Motors Corporation 7.38% Oct 01/51 | 750,816 | 630,047 | 1.24 |
| 10,600 | Georgia Power Capital Trust V 7.13% Mar 31/42 | 336,556 | 317,004 | 0.62 |
| 41,200 | Georgia Power Capital Trust VII 5.88% Jan 15/44 | 1,237,595 | 1,193,386 | 2.34 |
| 39,000 | Great Plains Energy Incorporated 8.00% Feb 16/07 | 1,284,324 | 1,260,060 | 2.47 |
| 19,900 | Heco Capital Trust III 6.50% Mar 18/34 | 621,327 | 621,237 | 1.22 |
| 30,000 | Household Finance Corporation 6.88% | 943,572 | 911,461 | 1.79 |
| 15,000 | HSBC Finance Corporation 6.00% Nov 30/33 | 449,403 | 432,744 | 0.85 |
| 41,500 | J.P. Morgan Chase Capital X 7.00% Feb 15/32 | 1,285,574 | 1,238,692 | 2.43 |
| 10,000 | J.P. Morgan Chase Capital XIV 6.20% Oct 15/34 | 305,322 | 293,024 | 0.58 |
| 24,200 | KeyCorp Capital V 5.88% Jul 30/33 | 713,967 | 692,822 | 1.36 |
| 4,100 | KeyCorp Capital VI 6.13% Dec 15/33 | 125,758 | 119,235 | 0.23 |
| 20,000 | Kimco Realty Corp. 6.65% Series F | 612,794 | 592,549 | 1.16 |
| 21,900 | Lehman Brothers Holdings Capital Trust III 6.38% Series K | 651,729 | 634,348 | 1.24 |
| 30,000 | Lehman Brothers Holdings Capital Trust V 6.00% Apr 22/53 | 871,026 | 852,253 | 1.67 |
| 9,300 | Lincoln National Capital VI 6.75% Sept 11/52 Series F | 291,870 | 277,802 | 0.54 |
| 16,400 | Merrill Lynch Preferred Capital Trust III 7.00% | 514,722 | 492,934 | 0.97 |
| 40,000 | Merrill Lynch Preferred Capital Trust V 7.28% | 1,284,243 | 1,221,319 | 2.40 |
| 8,700 | Morgan Stanley Capital Trust III 6.25% Mar 01/33 | 258,812 | 252,910 | 0.49 |
| 10,000 | Morgan Stanley Capital Trust IV 6.25% Apr 01/33 | 301,087 | 289,657 | 0.57 |
| 35,000 | Morgan Stanley Capital Trust V 5.75% Jul 15/33 | 1,001,983 | 978,042 | 1.92 |
| 40,000 | National Rural Utilities Cooperative Finance Corporation 5.95% Feb 15/45 | 1,134,001 | 1,134,015 | 2.23 |
| 22,700 | PLC Capital Trust V 6.13% Jan 27/34 | 678,340 | 649,615 | 1.27 |
| 40,000 | Provident Financial Group, Inc. 7.75% | 1,340,293 | 1,265,435 | 2.48 |
| 35,000 | Public Storage, Inc. 6.50% Series W | 1,048,056 | 1,019,488 | 2.00 |
| 15,000 | Public Storage, Inc. 6.45% Series X | 442,241 | 430,132 | 0.84 |
| 34,300 | SLM Corporation 6.00% Dec 15/43 | 1,034,980 | 984,364 | 1.93 |
| 4,400 | Southern Company Capital Trust VI 7.13% Jun 30/42 | 139,656 | 131,638 | 0.26 |
| 19,500 | Southwest Gas Capital II 7.70% Sep 15/43 | 639,668 | 595,393 | 1.17 |
| 25,000 | Structured Repackaged Asset-Backed Trust Securities for Dominion Resources, Inc. 5.90% Dec 15/32 Series D | 747,390 | 714,855 | 1.40 |
| 2,700 | Telephone & Data Systems, Inc. 7.60% Dec 01/41 | 84,242 | 80,088 | 0.16 |
| 40,900 | Telephone & Data Systems, Inc. 6.63% Mar 31/45 | 1,248,718 | 1,190,869 | 2.34 |
| 45,600 | The Phoenix Companies, Inc. 7.45% Jan 15/32 | 1,428,396 | 1,341,482 | 2.63 |
| 3,900 | United States Cellular Corporation 7.50% Jun 15/34 | 126,299 | 119,079 | 0.23 |
| 60,000 | USB Capital VI 5.75% Mar 09/35 | 1,739,754 | 1,652,264 | 3.24 |
| 2,200 | Vectren Utility Holdings Inc. 7.25% Oct 15/31 | 68,399 | 64,312 | 0.13 |
| 25,000 | Verizon New England Inc. 7.00% May 15/42 Series B | 793,573 | 747,942 | 1.47 |
| 49,600 | Virginia Power Capital Trust 7.38% Jul 30/42 | 1,592,296 | 1,504,070 | 2.95 |
| 30,000 | Wachovia Preferred Funding Corp. 7.25% Series A | 1,019,690 | 982,163 | 1.93 |
| 5,000 | Wells Fargo Capital Trust IV 7.00% Sep 01/31 | 155,782 | 147,905 | 0.29 |
| 10,700 | Wells Fargo Capital Trust VI 6.95% Apr 15/32 | 335,708 | 317,883 | 0.62 |
| 30,000 | Wells Fargo Capital Trust VII 5.85% May 01/33 | 887,302 | 856,781 | 1.68 |
| 10,000 | Wells Fargo Capital Trust IX 5.63% Apr 08/34 | 285,370 | 278,628 | 0.55 |
| | | 44,816,412 | 42,716,885 | 83.80 |
| Total Preferred Securities | | 53,651,938 | 51,154,957 | 100.35 |

Statement of Investments (continued)

(Unaudited)

As at September 30, 2005

| Par Value (\$) | Description | Average Cost (\$) | Market Value (\$) | % of Net Assets |
|--------------------------------------|---|-------------------|---------------------|-----------------|
| BONDS | | | | |
| Canada | | | | |
| 1,509,000 | Bell Canada 5.00% Feb 15/17 | 1,465,871 | 1,540,459 | 3.02 |
| 998,000 | BMO Capital Trust 5.47% Dec 31/14 | 1,018,290 | 1,063,448 | 2.09 |
| 1,454,000 | CU Inc. 5.10% Nov 18/14 | 1,470,292 | 1,525,899 | 2.99 |
| 1,007,000 | Enbridge Gas Distribution Inc. 5.16% Sep 24/14 | 1,023,045 | 1,062,410 | 2.09 |
| 536,000 | Great-West Life Capital Trust 6.00% Dec 31/12 | 571,577 | 592,574 | 1.16 |
| 1,077,000 | Hydro One Inc. 5.77% Nov 15/12 | 1,149,722 | 1,185,965 | 2.33 |
| 683,000 | Loblaw Companies Limited 7.10% Jun 01/16 | 796,534 | 830,760 | 1.63 |
| 1,001,000 | Manitoba Telecom Services Inc. 5.20% Sep 27/11 | 1,025,182 | 1,046,717 | 2.05 |
| 245,000 | Molson Breweries Co. Ltd. 5.00% Sep 22/15 | 244,390 | 243,609 | 0.48 |
| 972,000 | RBC Capital Trust II 5.81% Dec 31/53 | 1,017,183 | 1,058,539 | 2.07 |
| 529,000 | Scotiabank Capital Trust 6.28% Jun 30/13 | 571,891 | 592,128 | 1.16 |
| 1,292,000 | Sun Life Assurance of Canada 6.15% Jun 30/22 | 1,394,604 | 1,438,598 | 2.82 |
| 529,000 | The Greater Toronto Airports Authority 6.25% Dec 13/12 | 571,471 | 591,960 | 1.16 |
| 1,449,000 | The Thomson Corporation 5.20% Dec 01/14 | 1,498,791 | 1,530,629 | 3.00 |
| 543,000 | The Toronto-Dominion Bank 5.69% Jun 03/18 | 570,623 | 592,460 | 1.16 |
| 975,000 | Trans Canada PipeLines 5.65% Jan 15/14 | 1,019,532 | 1,059,158 | 2.08 |
| 1,121,000 | Westcoast Energy 8.30% Dec 20/13 | 1,372,440 | 1,406,504 | 2.76 |
| 1,433,000 | YPG Holdings Inc. 5.71% Apr 21/14 | 1,466,574 | 1,500,999 | 2.95 |
| | | 18,248,012 | 18,862,816 | 37.00 |
| United Kingdom | | | | |
| 1,200,000 | HBOS Capital Funding L.P. 6.85% Mar 23/09 | 1,499,691 | 1,434,143 | 2.81 |
| 500,000 | Prudential PLC 6.50% Dec 23/08 | 598,020 | 585,549 | 1.15 |
| | | 2,097,711 | 2,019,692 | 3.96 |
| Total Bonds | | 20,345,723 | 20,882,508 | 40.96 |
| FUTURES | | | | |
| United States | | | | |
| 36 | U.S. 10 Year Treasury Note Future expiry date Dec 20/05 | – | 26,121 | 0.05 |
| TOTAL INVESTMENTS | | 73,997,661 | 72,063,586 | 141.36 |
| Liabilities less other assets | | | (21,086,319) | (41.36) |
| NET ASSETS, AT MARKET VALUE | | | 50,977,267 | 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 Investment Grade Income Fund (the "Trust") is a closed-end investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated February 25, 2005 ("Date of Inception").

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 futures contracts are reported as part of unrealized

Notes to Financial Statements (continued)

September 30, 2005 (*Unaudited*)

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 \$18,938 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 1.00%, plus applicable taxes, of the net asset value of the Trust (the “Annual Management Fee”), calculated and payable monthly in arrears. For the first three years of the life of the Trust, 30% of the Annual Management Fee, excluding applicable taxes, will be paid in units and 70% of the Annual Management Fee will be paid in cash. After the first three years, the Annual Management Fee may be paid in cash and/or units at the option of the Manager. The Trust has reserved 105,000 units to be issued from treasury to the Manager as payment for the Annual Management Fee for a period of 10 years.

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 0.30% annually of the net asset value of units held by clients of the sales representatives of such dealers, calculated and payable semi-annually in arrears.

Notes to Financial Statements (continued)

September 30, 2005 (Unaudited)

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 August 31, 2015, 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 FGF.UN.

The Trust will terminate operations on August 31, 2015 (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 20 business days, prior to the second last business day of August 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) 95% of the average of the daily weighted unit trading price for the 10 business days prior to the second last business day of the month and (b) the closing unit market price on the second last business day of the month. Such redemption right must be exercised at least seven business days before month-end.

7. NET CAPITAL TRANSACTIONS

Net capital transactions for the Trust for the period from Date of Inception to September 30, 2005, consisted of the following:

| | Units | \$ |
|---|------------------|-------------------|
| Number of units outstanding, beginning of period | – | – |
| Subscriptions | 5,310,000 | 53,100,000 |
| Units issued under the Annual Management Fee (Note 5) | 7,239 | 68,845 |
| Distribution Reinvestment Plan | 94 | 910 |
| Redemptions | (1,400) | (12,600) |
| Issue Expense (including agents' fees) | – | (3,355,000) |
| Number of units outstanding, end of period | 5,315,933 | 49,802,155 |

8. NET REALIZED GAIN (LOSS) ON SALE OF INVESTMENTS

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

| | |
|--|-------------------|
| Proceeds from sale of investments | \$ 3,055,579 |
| Cost of Investments sold: | |
| Cost of investments, beginning of period | – |
| Investments purchased during the period | 76,157,246 |
| | 76,157,246 |
| Less: Cost of investments, end of period, excluding short-term investments | 73,997,661 |
| Cost of investments sold during the period | 2,159,585 |
| Loss on futures contracts | (73,801) |
| Net realized gain on sale of investments | \$ 822,193 |

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 35% 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 loans in the aggregate principal amount of \$6,250,000 CAD and \$16,000,000 USD. The first loan was in the amount of \$4,125,000 CAD with an interest rate of 2.83%, and maturing on October 19, 2005. The second loan was in the amount of \$2,125,000 CAD with an interest rate of 2.90%, and maturing on November 18, 2005. The third loan was in the amount of \$5,500,000 USD with an interest rate of 4.29%, and maturing on November 18, 2005. The fourth loan was in the amount of \$10,000,000 USD with an interest rate of 4.19%, and maturing on October 19, 2005. The fifth loan was in the amount of \$500,000 USD with an interest rate of 4.24%, and maturing on October 31, 2005.

Notes to Financial Statements (continued)

September 30, 2005 (*Unaudited*)

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 \$0.05 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 preferred securities 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.

Corporate Information

Manager and Trustee

Fairway Advisors Inc.

BCE Place

181 Bay Street, Suite 3740

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 Mendelsohn

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

FGF.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 3740, P.O. Box 750
Toronto, ON M5J 2T3

www.fairwaycapital.com