



FAIRWAY INVESTMENT GRADE INCOME FUND



Annual Report

Period ended December 31, 2005

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FAIRWAY INVESTMENT GRADE INCOME FUND

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Annual Management Report of Fund Performance

For the Period Ended December 31, 2005

This annual management report of the fund performance for Fairway Investment Grade Income Fund (the “Trust”) contains financial highlights and is included with the annual financial statements in the annual report of the Trust. You may request a copy of the Trust’s current proxy voting policies and procedures, or quarterly portfolio disclosure at no cost from Fairway Advisors Inc., by calling toll free (1-866) 299-7929, or locally (416) 507-4110, by writing to us at: BCE Place, 181 Bay Street, Suite 3740 P.O. Box 750, Toronto, ON M5J 2T3, or by visiting our website at www.fairwaycapital.com or SEDAR at www.sedar.com.

The Trust’s proxy voting disclosure record for the period ending June 30, 2006 will be available free of charge upon request at any time after August 31, 2006, by visiting our website at www.fairwaycapital.com.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

Fairway Investment Grade Income Fund is a closed-end investment trust, the units of which are listed on the Toronto Stock Exchange under the symbol FGF.UN. Fairway Advisors Inc. is the manager (the “Manager”) and trustee (the “Trustee”) to the Trust.

The Trust’s investment objectives are to:

- (i) provide unitholders with monthly distributions;
- (ii) mitigate the impact of significant interest rate increases on the value of the Trust; and
- (iii) preserve and enhance the net asset value per unit of the Trust.

In order to achieve the Trust’s investment objectives, the Trust, including the borrowings under the Trust’s Loan Facility see (*Borrowings*), will be invested in a portfolio (the “Investment Grade Portfolio”) consisting primarily of investment grade corporate bonds and investment grade hybrid preferred securities of principally United States and Canadian issuers. The corporate bond portion of the Investment Grade Portfolio is managed by MFC Global Investment Management (Canada) (“MFC Global”). The hybrid preferred securities portion of the Investment Grade Portfolio is managed by John Hancock Advisers, LLC (“John Hancock”)(MFC Global and John Hancock, collectively, the “Investment Advisor”). The initial allocation of the managed assets of the Investment Grade Portfolio between MFC Global and John Hancock was approximately 25% and 75%, respectively.

Risk

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 corporate 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.

Results of Operations

The net asset value per unit of the Trust as at December 31, 2005 was \$9.07 compared to the initial offering price of \$10.00 at March 16, 2005. Net assets were \$48 million at the end of 2005. The change in net assets is attributed to the various components of the net asset value as outlined below. For a further analysis as to the impact to the net asset value on a per unit basis, please see the section on *Financial Highlights*.

Managed Portfolio

A discussion by the Investment Advisors to the Trust:
Corporate Bonds – MFC Global Investment Management (Canada)

Market Review

The Canadian bond market, as measured by the Scotia Capital Universe Bond Index, returned 6.5% in 2005 (5.3% from the closing of the initial offering of the Trust). The yield curve for Government of Canada bonds flattened significantly; the yield on two-year bonds rose to 3.85%, while thirty-year bond yields fell to 4.04%.

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2005

Over the year, the Federal Reserve continued to raise rates, to 4.25% at year-end. However, longer-maturity bonds rallied considerably, in what was attributed in part to a glut in global savings. The Bank of Canada resumed tightening in September, raising the bank rate to 3.25% by year-end.

Portfolio

The Trust's bond component benefited from a flattening bias in yield curve positioning; the contribution from duration was mixed. Credit exposure was added to enhance portfolio yield.

Outlook & Strategy

Growth in the North American economy is expected to be slower in 2006, with the housing market leading the slowdown, and the central banks have hinted their tightening cycles will soon end. MFC Global is reviewing yield curve and duration strategies to position the bond portfolio for such an occurrence. Given the continued pace of profitability and current market valuations, MFC Global foresees no need to radically change sector exposures in the equity portfolio.

Preferred Securities – John Hancock Advisers, LLC

Market Review

The Treasury market was volatile in 2005 due to inflation and interest rate concerns, creating a difficult environment for preferreds, as their prices generally move in the same direction as long-term treasuries. By year end, the yield curve was flat or even slightly inverted, with the yield on the ten-year treasury slightly ahead of the two-year. However, we anticipate that the ten-year treasury could move somewhat lower, and that short-term rates could also move somewhat lower, and return the curve to its traditional slope in the next few months.

The Federal Reserve raised rates eight times in 2005, ending the year at 4.25%. We anticipate that the rate increases are at or very close to their end. It is possible that rates may have to be reduced in the latter half of the year. The most important factors driving interest rate decisions will likely be employment data and the status of the housing market.

In volatile markets, investors tend to look to utilities as a "safe harbor." For most of the period, utilities were a very resilient group of stocks. The strong performance for the sector was due to its improving financial condition. A number of utilities began regular dividend

increases in their common stock and engaged in stock repurchases. Towards the end of 2005, utilities began to weaken due to falling energy prices and a robust round of profit taking.

Automotive preferreds faltered over the past year, as General Motors and Ford were downgraded to below investment grade. We feel comfortable with our small level of exposure to the auto preferreds because of their high coupons. It is important to note that GMAC (the financing subsidiary of GM) and Ford Motor Credit were not downgraded to below investment grade: only the operating companies were.

The three major hurricanes that affected the Gulf Coast of the U.S. this year had a major impact on reinsurance preferreds, of which we hold several issues. Investors were concerned about liabilities due to damage from the storms.

New supply of preferreds was low in the first half of the year, but increased toward the second half. As interest rates rose, new preferreds came to market with higher yields than the older securities, making them less desirable and putting downward pressure on their prices, especially among REITs. Therefore, the best performing preferreds were the higher coupon (6-7% or more), shorter duration securities.

Portfolio

As of December 31, 2005, John Hancock's sector allocation for its portion of the Investment Grade Portfolio was as follows: approximately 62% in financial companies, 18% in industrials, and 15% in utilities. On a country allocation basis, over three-quarters of these assets were invested in North America and the balance primarily in European countries.

Outlook & Strategy

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

John Hancock also believes the long-term demographics for the preferred marketplace are favorable, given the potential demand for income generating securities among the first wave of baby boomers about to retire over the next fifteen to twenty years. This desire for lower risk, income oriented investments will drive demand for bonds and preferred stocks.

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2005

Income, Expenses and Distributions

For the period from February 25, 2005 (“Date of Inception”) to December 31, 2005, the Trust generated income from investments in the form of interest and dividends in the amount \$3.6 million.

The Trust paid management fees and operating expenses of \$0.7 million and had interest carrying charges of \$0.8 million on its Loan Facility. The management expense ratio (“MER”) for the Trust was 10.29% (1.79% excluding one-time costs associated with the offering of the Trust).

The Trust distributed \$2.9 million to unitholders during the year.

The 2005 calendar year was the first year of operations for the Trust.

Borrowings

The Manager, on behalf of the Trust, has entered into a revolving term credit facility (the “Loan 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 December 31, 2005, the Manager, on behalf of the Trust had drawn down loans in the aggregate principal amount of CAD \$6,250,000 and U.S. \$16,000,000 (CAD \$18,655,194 equivalent). The combined loans when reflected in Canadian dollars represented approximately 33.6% of the total assets of the Trust. Both the CAD and U.S. balances represent the maximum amounts drawn down on the loan facility during the period. The minimum drawn down on the loan facility during the period for both currencies was nil. Proceeds from the draw down of the Loan Facility are used to purchase investments for the Trust.

Unitholder Activity

The Trust's annual redemption feature allows unitholders to redeem out of the Trust at the end of August in any given year starting in 2006.

The Trust has a unique feature whereby 30% of the management fees paid to the Manager are in the form of units of the Trust in lieu of cash. This is done in order

to keep more cash in the Trust for investment purposes. The Trust issued 11,261 units with a value of 106,219 as part of the management fees paid to the Manager.

The Trust also has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase (in the open market or by invitation for tenders) units for cancellation up to a maximum in any twelve month period of up to 10% of the number of units outstanding at the commencement of such period, in all cases at prices not exceeding the net asset value per unit of the Trust on the valuation date immediately prior to the date of any such purchase. During the year, the Trust repurchased 32,700 units for cancellation under the repurchase program, at a total cost of \$276,461.

Recent Developments

In December 2005, Impax Capital Corp. (“Impax”) acquired all of the issued and outstanding shares of Fairway Capital Management Corp., the parent company of the Manager. Fairway Advisors Inc. continues in its role as manager and trustee of the Trust. MFC Global continues in its role as Investment Advisor for the corporate bond portion of the Investment Grade Portfolio. Impax plans to continue the Fairway business and brand with a focus on creating new and innovative investment products in both traditional and alternative asset classes.

Effective December 31, 2005, John Hancock had its investment management and support teams reorganized into its sister company Sovereign Asset Management LLC. Both companies along with MFC Global are subsidiaries of Manulife Financial Corporation. Effective December 31, 2005, Sovereign Asset Management LLC has assumed the Investment Advisor responsibilities previously performed by John Hancock for the Trust. The portfolio management professionals and support staff previously with John Hancock have assumed the same roles with Sovereign Asset Management LLC and continue to manage the hybrid preferred securities portion of the Investment Grade Portfolio.

Related Party Transactions

The Manager provides all administrative services required by the Trust, including the appointment of the Investment Advisor. The Manager receives a monthly fee at the annual rate of 1.0%, plus applicable taxes, of the net asset value of the Trust, calculated and payable monthly in arrears. The Manager is responsible

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2005

for payment of the investment management fees of the Trust to the Investment Advisors out of its annual management fees. For additional information, see *Management Fees*.

Forward Looking Statements

The matters discussed in this management report of fund performance ("MRFP") include certain forward looking statements. Forward looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements. Forward looking statements may be identified, without limitation, by the use of such words as "anticipates", "estimates", "expects", "intends", "plans", "predicts", "projects", "believes", or words or phrases of similar meaning. Readers should not rely on forward looking statements as they involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward looking statements. Market fluctuations and redemption levels are unpredictable and outside the control of the Trust. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors. The Trust makes no commitment to disclose any revisions to forward looking statements, or any facts, events or circumstances after the date of this MRFP that may bear upon forward looking statements.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance since its inception on February 25, 2005. This information is derived from the Trust's audited annual financial statements.

The Trust's net asset value per unit for the period ended December 31,

	2005
Net asset value, beginning of period ⁽²⁾	\$10.00
Increase from operations:	
Total revenue	0.68
Total expenses	(0.28)
Realized gains for the period	0.27
Unrealized loss for the period	(0.41)
Total increase from operations⁽¹⁾	0.26
Distributions:	
From income (excluding dividends)	(0.55)
Total annual distributions⁽³⁾	(0.55)
Net asset value at December 31,	\$9.07

⁽¹⁾ Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted average number of units outstanding over the financial period.

⁽²⁾ Net asset value, beginning of period for 2005 represents the original investment amount as at March 16, 2005, the date of the closing of the initial offering of the Trust.

⁽³⁾ Distributions were paid in cash, reinvested in additional units of the Trust, or both.

Ratios and Supplemental Data

	2005
Net assets (000's) ⁽¹⁾	\$47,981
Number of Units outstanding ⁽¹⁾	5,287,738
Management expense ratio ⁽²⁾	10.29%
Management expense ratio before waivers or absorptions	10.29%
Management expense ratio excluding issue costs ⁽²⁾	1.79%
Portfolio turnover rate ⁽³⁾	31.45%
Trading expense ratio ⁽⁴⁾	0.16%
Closing market price	\$8.50

⁽¹⁾ This information is provided as at December 31 of the year shown.

⁽²⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. For the 2005 period, the management expense ratio is annualized from the date of inception to December 31. The expenses for the 2005 period contain one-time costs associated with the offering of the Trust as detailed in the prospectus.

⁽³⁾ The Trust's portfolio turnover rate indicates how actively the Trust's Investment Advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher the Trust's portfolio turnover rate in a year, the greater the trading costs payable by the Trust in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Trust.

⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2005

MANAGEMENT FEES

The Trust's MER consists of all of its operating expenses such as custody, valuation, transfer agent, reporting, audit and legal fees. In addition to these operational and administrative expenses, other significant components of the MER are fees that are calculated as a percentage of the net asset value of the Trust. These are the Manager, and Dealer Service fees. Highlights of the key components of the Fund's MER are listed in the table below:

Description – % of Net Asset Value (NAV)	2005 (000's)
Manager – annual rate of 1.10% of NAV ⁽¹⁾	423
Dealer service – annual rate of 0.30% of NAV	127

⁽¹⁾ The Manager is responsible for payment of the investment management fees of the Trust to the Investment Advisor out of its annual management fees. These fees are not additional expenses incurred by the Trust.

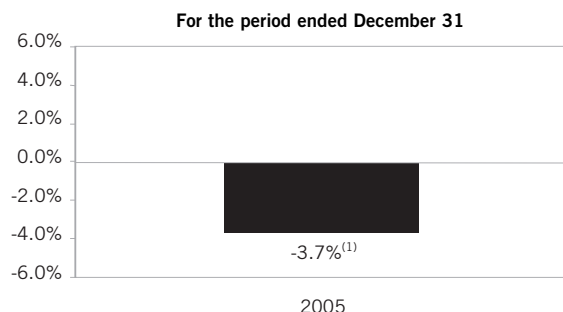
PAST PERFORMANCE

General

The performance information shown assumes that all distributions made by the Trust in the periods shown were reinvested in additional securities of the Trust. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The Trust's past performance is no guarantee of how it will perform in the future.

Year-by-Year Returns

The following bar chart shows the Trust's annual performance for the year shown, and illustrates how the Trust's performance has changed from inception. The chart shows in percentage terms how an investment made at inception would have increased or decreased by December 31 for the period.



⁽¹⁾ Return from March 16, 2005 to December 31, 2005

Annual Compound Returns

The following table shows the Trust's annual compound return for the periods shown. The annual compound return is also compared to a series of indices on the same compound basis.

Percentage Return:	Since Inception ⁽¹⁾
Fairway Investment Grade Income Fund	-3.7%
Blended Index	2.3%
Scotia Capital Universe Bond Index	5.3%
Merrill Lynch Preferred Stock Hybrid Securities Index	1.4%

⁽¹⁾ Return from March 16, 2005.

The Blended Index is comprised of 25% Scotia Capital Universe Index and 75% Merrill Lynch Preferred Stock Hybrid Securities Index, which approximates the respective portions of the Investment Grade Portfolio managed by MFC Global and John Hancock.

The Scotia Capital Universe Bond Index consists of a broadly diversified selection of investment-grade Government of Canada, provincial, corporate and municipal bonds issued domestically in Canada and denominated in Canadian dollars.

The Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index of investment-grade, exchange-traded preferred stocks with outstanding market values of at least U.S. \$30 million and at least one year to maturity.

Annual Management Report of Fund Performance (continued)

For the Period Ended December 31, 2005

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2005

Top 25 Investments	% of Net Assets	Portfolio Composition	% of Net Assets
FPC Capital I 7.10% May 13/39 Series A	4.58	Preferred Securities	
FPL Group Capital Trust I 5.88% Mar 15/44	4.34	United States	91.82
Great Plains Energy Incorporated 8.00% Feb 16/07	3.66	Netherlands	8.35
Nexen Inc. 7.35% Nov 01/43	3.44	United Kingdom	5.72
Virginia Power Capital Trust 7.38% Jul 30/42	3.18	Canada	3.44
The Thomson Corporation 5.20% Dec 01/14	3.17	Total Preferred Securities	109.33
CU Inc. 5.10% Nov 18/14	3.17	Bonds	
Bell Canada 5.00% Feb 15/17	3.17	Canada	38.93
YPG Holdings Inc. 5.71% Apr 21/14	3.12	Total Bonds	38.93
Aegon NV 6.38%	3.09	Cash and Cash Equivalents	5.61
Telephone & Data Systems, Inc. 6.63% Mar 31/45	3.02	Liabilities less other assets	(53.87)
Sun Life Assurance of Canada 6.15% Jun 30/22	2.95	Total Net Assets	100.00
Westcoast Energy 8.30% Dec 20/13	2.90	Total Net Asset Value	\$47,980,578
The Phoenix Companies, Inc. 7.45% Jan 15/32	2.78		
Morgan Stanley Capital Trust V 5.75% Jul 15/33	2.76		
BNY Capital V 5.95% May 01/33 Series F	2.70		
Provident Financial Group Inc. 7.75%	2.63		
PLC Capital Trust V 6.13% Jan 27/34	2.61		
J.P. Morgan Chase Capital X 7.00% Feb 15/32	2.56		
Merrill Lynch Capital Trust V 7.28%	2.54		
Hydro One Inc. 5.77% Nov 15/12	2.44		
Duke Realty Corporation 6.60% Series L	2.35		
The Royal Bank of Scotland Group PLC 6.40% Series M	2.24		
BGE Capital Trust III 6.20% Oct 15/43	2.23		
BMO Capital Trust 5.47% Dec 31/14	2.20		
Top 25 Investments	73.83		
Other Investments	74.43		
Cash and Cash Equivalents	5.61		
Liabilities less other assets	(53.87)		
Total Net Assets	100.00		

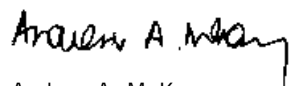
The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Fairway Investment Grade Income Fund (the "Trust") are the responsibility of the manager and trustee to the Trust, Fairway Advisors Inc. (the "Manager"). They have been prepared in accordance with Canadian generally accepted accounting principles using information available and include certain amounts that are based on the Manager's best estimates and judgments.

The Manager has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

These financial statements have been approved by the Board of Directors of the Manager and have been audited by Ernst & Young LLP, Chartered Accountants, on behalf of the unitholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.



Andrew A. McKay
Chief Executive Officer
Fairway Advisors Inc.



Steven J. Hawkins
President & Chief Operating Officer
Fairway Advisors Inc.

April 21, 2006

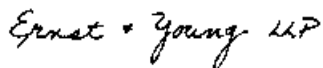
Auditors' Report

TO THE UNITHOLDERS OF FAIRWAY INVESTMENT GRADE INCOME FUND

We have audited the statements of net assets and investments of Fairway Investment Grade Income Fund [the "Trust"] as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the period from February 25, 2005 to December 31, 2005. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Trust as at December 31, 2005 and the results of its operations, changes in its net assets and cash flows for the period from February 25, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada,
March 17, 2006.

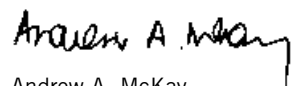
FAIRWAY INVESTMENT GRADE INCOME FUND

Statement of Net Assets

As at December 31, 2005

Assets (Note 7)	
Investments, at market value (<i>cost - \$73,110,635</i>)	\$ 71,134,151
Cash and cash equivalents	2,691,561
Accrued interest, dividends and distributions from trusts	330,640
Prepaid interest on loan	10,636
	<hr/> 74,166,988
Liabilities	
Loan facility payable (Note 7)	24,905,194
Due to brokers	67,213
Payable for open forward contracts	289,238
Management fees payable (Note 4)	52,184
Accounts payable and accrued liabilities	62,542
Distributions payable	810,039
	<hr/> 26,186,410
Net assets, at market value	<hr/> \$ 47,980,578
Number of units outstanding (Note 6)	<hr/> 5,287,738
Net asset value per unit	<hr/> \$ 9.07

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



Andrew A. McKay
Director



Steven J. Hawkins
Director

Statement of Operations

From February 25, 2005 (Date of Inception) to December 31, 2005

Investment income	
Interest	\$ 984,251
Dividends and distributions	2,618,151
	<hr/> 3,602,402
Expenses	
Management fees (Note 4)	550,272
Administration	46,300
Audit	19,862
Custodian	24,726
Legal	13,424
Securityholders	30,860
Transfer agency	13,557
Other	9,501
Interest (Note 7)	759,835
	<hr/> 1,468,337
Net investment income	<hr/> 2,134,065
Realized and unrealized loss on investments	
Net realized loss on sale of investments	(798,265)
Change in unrealized depreciation on investments	(1,976,484)
Realized foreign exchange gain	2,166,975
Change in unrealized depreciation on foreign currency	(177,602)
Net loss on investments	<hr/> (785,376)
Increase in net assets from operations	<hr/> \$ 1,348,689
Increase in net assets from operations per unit	<hr/> \$ 0.2553

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets

From February 25, 2005 (Date of Inception) to December 31, 2005

Increase in net assets from operations	\$ 1,348,689
Distributions to unitholders	
Income	(2,935,648)
Capital unit transactions (Note 6)	
Proceeds of issuance of trust units	53,100,000
Trust units issued under the Annual Management Fee (Note 4)	106,219
Issue costs	(3,355,000)
Reinvested trust units	5,379
Redeemed trust units	(12,600)
Purchase and cancellation of trust units (Note 11)	(276,461)
	<u>49,567,537</u>
Increase in net assets during the period	47,980,578
Net assets, beginning of period	-
Net assets, end of period	\$ 47,980,578

Statement of Cash Flows

From February 25, 2005 (Date of Inception) to December 31, 2005

OPERATING ACTIVITIES

Increase in net assets from operations	\$ 1,348,689
Add items not affecting cash:	
Loss on sale of investments	790,234
Change in unrealized depreciation on investments	1,976,484
Issuance of units for management fees	106,219
	<u>4,221,626</u>
Net change in non-cash assets and liabilities	(221,171)
Cash provided by operating activities	4,000,455

FINANCING ACTIVITIES

Borrowing of loan indebtedness	24,905,194
Distributions paid to unitholders	(2,125,609)
Net proceeds from issuance of trust units	49,745,000
Payments for redemption and/or repurchase of trust units	(289,061)
Cash provided by financing activities	72,235,524

INVESTING ACTIVITIES

Proceeds from sale of investments	15,821,974
Purchases of investments	(89,366,392)
Cash used in investing activities	(73,544,418)
Net increase in cash during the period	2,691,561
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$ 2,691,561

The accompanying notes are an integral part of these financial statements

Statement of Investments

As at December 31, 2005

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
PREFERRED SECURITIES				
Canada				
54,900	Nexen Inc. 7.35% Nov 01/43	1,730,254	1,652,755	3.44
		1,730,254	1,652,755	3.44
Netherlands				
33,000	ABN Amro Capital Funding Trust VII 6.08%	974,347	938,823	1.95
50,300	Aegon NV 6.38%	1,473,397	1,481,430	3.09
22,900	ING Groep NV 6.20%	673,102	662,166	1.38
31,000	ING Groep NV 7.05%	964,388	924,936	1.93
		4,085,234	4,007,355	8.35
United Kingdom				
15,900	Abbey National PLC 7.25%	495,544	470,880	0.98
17,600	Prudential PLC 6.75%	544,601	528,819	1.10
25,000	The Royal Bank of Scotland Group PLC ADR 5.75% Series L	709,125	671,878	1.40
36,200	The Royal Bank of Scotland Group PLC 6.40% Series M	1,113,436	1,072,912	2.24
		2,862,706	2,744,489	5.72
United States				
16,000	BAC Capital Trust I 7.00% Dec 15/31	492,410	473,096	0.99
34,100	BAC Capital Trust IV 5.88% May 03/33	960,739	950,237	1.98
35,800	BGE Capital Trust III 6.20% Oct 15/43	1,068,102	1,068,569	2.23
45,800	BNY Capital V 5.95% May 01/33 Series F	1,355,310	1,293,894	2.70
6,200	Citigroup Capital VII 7.13% Jul 31/31	192,726	183,397	0.38
23,800	Citigroup Capital IX 6.00% Feb 14/33	699,127	672,095	1.40
8,600	Citigroup Capital X 6.10% Sep 30/33	259,071	244,563	0.51
9,000	Citigroup Capital XI 6.00% Sep 27/34	270,641	256,147	0.53
600	Comerica Capital Trust 7.60% Jul 01/50	18,958	17,664	0.04
15,000	Corporate Backed Trust Certificates 6.25% Jul 15/97	449,185	431,635	0.90
18,000	Corporate Backed Trust Certificates 6.00% Feb 15/34 Series GS	531,313	487,950	1.02
7,400	DTE Energy Trust II 7.50% June 01/44	239,078	226,486	0.47
5,700	Duke Realty Corporation 6.63% Aug 25/08 Series J	167,930	163,689	0.34
7,600	Duke Realty Corporation 6.50% Series K	222,029	215,416	0.45
40,000	Duke Realty Corporation 6.60% Series L	1,168,290	1,129,572	2.35
15,000	Energy East Capital Trust I 8.25% Jul 31/31	455,139	448,774	0.94
28,800	Entergy Mississippi Inc. 7.25% Dec 01/32	920,546	870,377	1.81
11,000	Fleet Capital Trust IX 6.00% Aug 01/33	332,394	311,145	0.65
74,800	FPC Capital I 7.10% May 13/39 Series A	2,280,815	2,199,513	4.58
73,900	FPL Group Capital Trust I 5.88% Mar 15/44	2,141,383	2,081,714	4.34
25,000	General Electric Capital Corporation 6.10% Nov 15/32	731,934	735,423	1.53
10,600	Georgia Power Capital Trust V 7.13% Mar 31/42	336,556	311,819	0.65
36,200	Georgia Power Capital Trust VII 5.88% Jan 15/44	1,087,401	1,023,529	2.13
10,000	Georgia Power Company 6.00% Oct 15/33 Series R	288,149	291,604	0.61
60,500	Great Plains Energy Incorporated 8.00% Feb 16/07	1,932,842	1,755,739	3.66
22,000	Heco Capital Trust III 6.50% Mar 18/34	684,308	661,665	1.38
30,000	Household Finance Corporation 6.88%	943,572	908,741	1.89
20,000	HSBC Finance Corp. 6.00% Nov 30/33	585,914	568,051	1.18
41,500	J.P. Morgan Chase Capital X 7.00% Feb 15/32	1,285,574	1,230,479	2.56
10,000	J.P. Morgan Chase Capital XI 5.88% Jan 15/33	274,064	269,917	0.56
14,400	J.P. Morgan Chase Capital XIV 6.20% Oct 15/09	430,621	417,559	0.87
11,200	KeyCorp Capital VI 6.13% Dec 15/33	326,461	316,019	0.66
20,000	Kimco Realty Corp. 6.65% Series F	612,794	599,298	1.25
21,900	Lehman Brothers Holdings Capital Trust III 6.38% Series K	651,729	640,656	1.34
35,000	Lehman Brothers Holdings Capital Trust V 6.00% Apr 22/53	1,009,821	976,133	2.03
9,400	Lincoln National Capital VI 6.75% Sept 11/52 Series F	294,829	277,286	0.58
16,400	Merrill Lynch Capital Trust III 7.00%	514,722	489,895	1.02
40,000	Merrill Lynch Capital Trust V 7.28%	1,284,243	1,218,184	2.54
9,500	Metlife Inc. 5.88% Nov 21/33	272,384	266,058	0.55
8,700	Morgan Stanley Capital Trust III 6.25% Mar 01/33	258,812	247,406	0.52
10,000	Morgan Stanley Capital Trust IV 6.25% Apr 01/33	301,087	282,626	0.59

Statement of Investments (continued)

As at December 31, 2005

Number of Shares	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
PREFERRED SECURITIES				
United States (continued)				
50,000	Morgan Stanley Capital Trust V 5.75% Jul 15/33	1,401,376	1,325,685	2.76
2,100	Northern States Power Company 8.00% Jul 01/42	63,031	63,024	0.13
10,000	ONEOK, Inc. 8.50% Feb 16/06	395,791	378,700	0.79
45,139	PLC Capital Trust V 6.13% Jan 27/34	1,320,130	1,252,063	2.61
3,800	PLC Capital Trust VI 7.25% Sep 25/32	113,778	112,892	0.24
40,000	Provident Financial Group Inc. 7.75%	1,340,293	1,260,685	2.63
24,400	Public Storage, Inc. 6.50% Series W	730,645	665,142	1.39
4,400	Southern Company Capital Trust VI 7.13% Jun 30/42	139,656	132,205	0.28
19,500	Southwest Gas Capital II 7.70% Sep 15/43	639,668	595,911	1.24
25,000	Structured Repackaged Asset-Backed Trust Securities for Dominion Resources, Inc. 5.90% Dec 15/32 Series D	747,390	646,519	1.35
22,700	Telephone & Data Systems, Inc. 7.60% Dec 01/41	675,123	663,529	1.38
50,900	Telephone & Data Systems, Inc. 6.63% Mar 31/45	1,536,012	1,446,876	3.02
45,600	The Phoenix Companies, Inc. 7.45% Jan 15/32	1,428,396	1,334,499	2.78
7,400	The Walt Disney Company 7.00% Nov 01/31	216,530	220,015	0.46
22,500	USB Capital VI 5.75% Mar 09/35	652,408	600,231	1.25
24,000	USB Capital VII 5.88 % Aug 15/35	661,609	652,559	1.36
12,800	Vectren Utility Holdings Inc. 7.25% Oct 15/31	383,120	376,089	0.78
25,000	Verizon New England Inc. 7.00% May 15/42 Series B	793,573	743,293	1.55
51,100	Virginia Power Capital Trust 7.38% Jul 30/42	1,636,810	1,526,440	3.18
30,000	Wachovia Funding Corp. 7.25% Series A	1,019,690	977,299	2.04
15,000	Wells Fargo Capital Trust IV 7.00% Sep 01/31	448,016	442,128	0.92
10,700	Wells Fargo Capital Trust VI 6.95% Apr 15/32	335,708	315,135	0.66
30,000	Wells Fargo Capital Trust VII 5.85% May 01/33	887,303	840,533	1.75
10,000	Wells Fargo Capital Trust IX 5.63% Apr 08/34	285,370	266,769	0.56
		46,184,429	44,052,241	91.82
Total Preferred Securities		54,862,623	52,456,840	109.33
BONDS				
Par Value (\$)	Description	Average Cost (\$)	Market Value (\$)	% of Net Assets
Canada				
1,509,000	Bell Canada 5.00% Feb 15/17	1,465,871	1,519,224	3.17
998,000	BMO Capital Trust 5.47% Dec 31/14	1,018,290	1,056,969	2.20
1,454,000	CU Inc. 5.10% Nov 18/14	1,470,292	1,520,157	3.17
1,007,000	Enbridge Gas Distribution Inc. 5.16% Sep 24/14	1,023,045	1,056,765	2.20
536,000	Great-West Life Capital Trust 6.00% Dec 31/12	571,577	584,459	1.22
1,077,000	Hydro One Inc. 5.77% Nov 15/12	1,149,722	1,170,426	2.44
683,000	Loblaw Companies Limited 7.10% Jun 01/16	796,533	817,452	1.70
1,001,000	Manitoba Telecom Services Inc. 5.20% Sep 27/11	1,025,182	1,028,026	2.14
245,000	Molson Coors Capital Finance ULC 5.00% Sep 22/15	244,390	243,810	0.51
972,000	RBC Capital Trust II 5.81% Dec 29/49	1,017,184	1,051,276	2.19
529,000	Scotiabank Capital Trust 6.28% Dec 29/49	571,891	586,078	1.22
1,292,000	Sun Life Assurance of Canada 6.15% Jun 30/22	1,394,604	1,414,635	2.95
529,000	The Greater Toronto Airports Authority 6.25% Dec 13/12	571,471	583,863	1.22
1,449,000	The Thomson Corporation 5.20% Dec 01/14	1,498,791	1,522,523	3.17
543,000	The Toronto-Dominion Bank 5.69% Jun 03/18	570,623	585,868	1.22
975,000	TransCanada PineLines 5.65% Jan 15/14	1,019,532	1,049,851	2.19
1,121,000	Westcoast Energy 8.30% Dec 20/13	1,372,440	1,390,376	2.90
1,433,000	YPG Holdings Inc. 5.71% Apr 21/14	1,466,574	1,495,553	3.12
Total Bonds		18,248,012	18,677,311	38.93
TOTAL INVESTMENTS		73,110,635	71,134,151	148.26
Liabilities less other assets			(23,153,573)	(48.26)
NET ASSETS, AT MARKET VALUE			47,980,578	100.00

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

December 31, 2005

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 have been 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.

(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 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

Notes to Financial Statements (continued)

December 31, 2005

instrument being hedged. All other realized gains and losses on futures contracts are accounted for as gains or losses and are included in net gains (losses) on investments in the Statement of Operations.

(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. 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.

Capital losses realized over and above realized capital gains in the current taxation year can be carried forward indefinitely and may be applied against future years’ taxable capital gains. Non-capital losses may be carried forward for a period of ten years and applied against future years’ taxable income. If the non-capital losses are not

applied within ten years from the taxation year in which the non-capital loss was realized, the non-capital loss will expire.

As at December 31, 2005, the Trust's capital and non-capital losses, with the year of expiry, are:

Capital Losses	Non-Capital Losses	Year of Expiry
\$17,881	–	–

4. 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.

In return, 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 term 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. For the period ended December 31, 2005 brokerage commissions were \$62,227. 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

Notes to Financial Statements (continued)

December 31, 2005

dealers, calculated and payable semi-annually in arrears. Dealer service fees for the period were \$127,353 and are included in management fees in the Statement of Operations.

5. 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.

6. NET CAPITAL TRANSACTIONS

Net capital transactions for the Trust for the period from Date of Inception to December 31, 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 4)	11,261	106,219
Distribution Reinvestment Plan	577	5,379
Redemptions	(1,400)	(12,600)
Repurchase and cancellation		
of units (Note 11)	(32,700)	(276,461)
Issue costs (including agents' fees)	–	(3,355,000)
Number of units outstanding,		
end of period	5,287,738	49,567,537

7. 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 December 31, 2005, the Manager, on behalf of the Trust has drawn down loans in the aggregate principal amount of CAD \$6,250,000 and U.S. \$16,000,000 (CAD \$18,655,194 equivalent). The first loan was in the amount of CAD \$4,125,000 with an interest rate of 3.38%, and maturing on January 18, 2006. The second loan was in the amount of CAD \$2,125,000 with an interest rate of 3.26%, and maturing on January 17, 2006. The third loan was in the amount of U.S. \$5,500,000 with an interest rate of 4.69%, and maturing on January 18, 2006. The fourth loan was in the amount of U.S. \$10,000,000 with an interest rate of 4.78%, and maturing on January 19, 2006. The fifth loan was in the amount of U.S. \$500,000 with an interest rate of 4.79%, and maturing on January 30, 2006.

Notes to Financial Statements (continued)

December 31, 2005

The highest amounts drawn down on the loan facility in 2005 were CAD \$6,250,000 and U.S. \$16,000,000. The lowest amount drawn down on the loan facility in 2005 was nil for both CAD and U.S. components.

8. SECURITIES LENDING

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

There were no securities lending transactions during the period.

9. 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. In addition, the Trust distributed \$0.103192 per unit to unitholders of record on December 30, 2005 due in large part to currency gains realized on the U.S. amounts drawn down on the Loan Facility during the period. There is no guarantee that the factors leading to such a distribution will reoccur in the future.

10. 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 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.

11. MANDATORY REPURCHASE PROGRAM

The Trust has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase (in the open market or by invitation for tenders) units for cancellation up to a maximum in any twelve-month period of up to 10% of the number of units outstanding at the commencement of such period, in all cases at prices not exceeding the net asset value per unit of the Trust on the valuation date immediately prior to the date of any such purchase. During the year, the Trust repurchased 32,700 units for cancellation under the mandatory repurchase program at a total cost of \$276,461.

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