

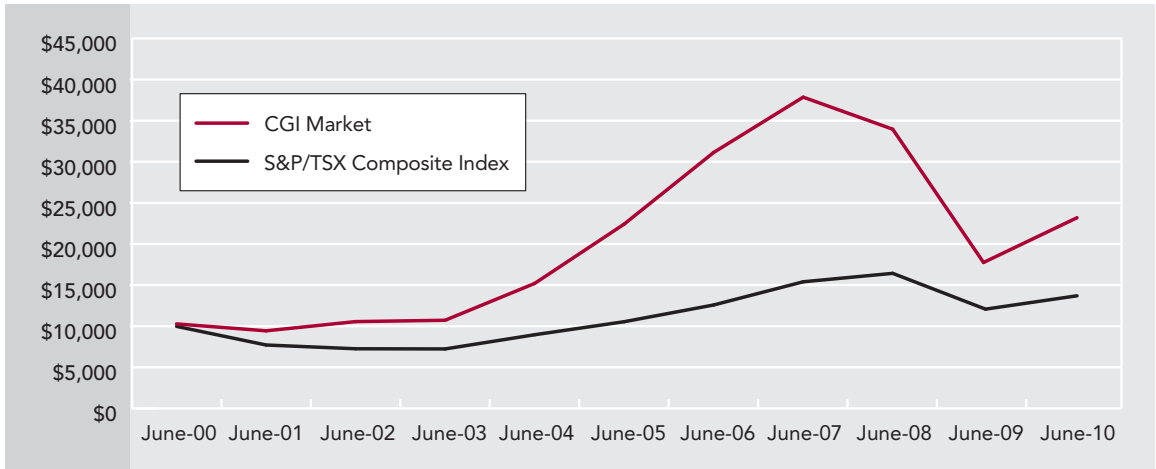


# CORPORATE PROFILE

**Canadian General Investments, Limited (CGI)** is a closed-end equity fund focussed on medium to long-term investments in Canadian corporations. It strives, through prudent security selection, timely recognition of capital gains and appropriate income generating instruments, to provide better than average returns to investors.

CGI was established in 1930 and has been managed since 1956 by Morgan Meighen & Associates Limited (website: [www.mmainvestments.com](http://www.mmainvestments.com)).

## Growth of a \$10,000 Investment – 10 years to June 30, 2010



The graph above is presented to illustrate the benefit of a long-term investment in CGI's common shares. A \$10,000 investment in CGI common shares would have grown to over \$23,000 over the 10-year period ended June 30, 2010. This equates to a compound annual average growth rate of 8.8%. By comparison, a \$10,000 investment in the benchmark S&P/TSX Composite Index would have grown to nearly \$14,000 or a compound average annual growth rate of 3.3%.

*Certain financial information contained in this report, including investment growth rates, rates of return and other such statistical information are historical values; past performance is no assurance or indicator of future returns. Share prices, net asset values and investment returns will fluctuate. Stated historical returns assume the reinvestment of all distributions. Such financial information does not reflect any broker commissions, transaction costs or such other fees and expenses which may have been applicable nor income taxes payable by any shareholder, which would have the effect of reducing such historical returns. Stated returns for periods greater than one year are compound average annual rates of return. Further information concerning risk can be found in the Management Report of Fund Performance in the Company's most recent Annual Report to Shareholders.*

*The Company is an investment fund, and as such, this Interim Report to Shareholders carries a variety of information concerning stocks and other investments, all for informational purposes only. The reader should assume that the Company and all individuals and entities (including the Manager and members of its staff) who have contributed to this publication may have a conflict of interest. Readers should therefore not rely solely on this Report in evaluating whether or not to buy or sell securities discussed herein.*

# LETTER TO SHAREHOLDERS

## GENERAL COMMENTARY

Canadian General Investments, Limited's (CGI) net asset value per share (NAV) fell 13.0% in the second quarter on a total return basis, versus the 5.5% total return decline posted by the benchmark S&P/TSX Composite Index. CGI's market return was -6.4% for the same period.

While CGI's shares and NAV are still well ahead of the benchmark over the 12 months to the end of June, the swing from positive to negative numbers in May – the month of the 'flash crash' – highlights the fact that investors remain jittery and the market remains prone to extreme moves. This volatility is more pronounced for CGI, because of the \$150 million of leverage, in the form of its two series of preferred shares, which accentuates NAV moves both up and down. In order to moderate the level of net leverage, CGI holds cash or short-term securities in its portfolio from time to time. At quarter end, the level of cash and short-term securities was \$57 million, making for a net leverage position of approximately 18%.

Clearly, we are still feeling the aftershocks of the 2008 crisis. The unsupportable level of debt in the global banking sector was largely assumed by national governments, transforming what started as a financial crisis into a sovereign debt crisis. Compounding matters, China's growth numbers were revised down, increasing fears that the economic recovery might be petering out.

Meanwhile, policy makers are split as to the appropriate policy response. Some argue for a program of strict austerity to bring the budget back in balance; others argue that renewed stimulus is required to spur demand and maintain the momentum of the recovery. The markets appear to be dubious about either prospect, but fear uncertainty most.

## OUTLOOK

Canada is not an island immune from global contagion. Nevertheless, it continues to weather the storm better than most industrialized economies, largely the result of more than a decade of sound fiscal policy, and should be well positioned to benefit from a recovery. The Manager will continue to seek out stocks that can help CGI endure through the current period and capitalize on any upswing.

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President & CEO*

## INVESTMENT COMMENTARY

The few areas of equity markets that had upward momentum have been correcting. Heightening worries about economic expansion are accompanied by the widening European fiscal woes, and growing concern that China, the world's growth leader, is slowing. Employment and the housing and banking sectors of the U.S. are still shaky. Austerity measures announced by some countries will likely set back economic growth.

Despite Canada's "most admired country" status, impact of global caution was particularly evident during the second quarter, with the S&P/TSX Composite Index unable to hold its earlier gains and turning down in late April, eventually posting a loss of 5.5 % for the quarter. It was the first negative quarter for the S&P/TSX following four consecutive positive quarters. Canadian markets reached the halfway point of 2010 in negative territory with the S&P/TSX and CGI's NAV posting year-to-date returns of -2.5% and -5.4% respectively.

## HIGHER CASH LEVELS

Canadian General Investments responded to the deteriorating conditions with trading weighted to sales, therefore resulting in cash levels higher than typically carried. We believe the challenging markets of the last couple of years have often demanded this. At June 30, cash and short-term securities were 10.9% of the portfolio, up from approximately 3.3% at the beginning of the quarter.

Cautious investors have reacted to the many problems and reduced faith in currencies by seeking to protect wealth in gold and gold-related instruments, adding support to the precious metal, which is heading for its tenth consecutive annual gain and its longest winning streak since at least 1920! Gold-related equities do not always move in tandem with the metal, but for now the gold subsector of the S&P/TSX made the best returns of all sub-groups in the past three months and has pushed the diversified Materials sector second quarter performance into the No. 1 position among the ten groups in the Index.

## NEW GOLD POSITIONS

All of this prompted a recent purchase of Goldcorp Inc., a senior global producer with expectation of about 2.5 million ounces of production for 2010 at relatively low cash costs for today, of around \$350 per ounce. It has share trading liquidity, a conservative balance sheet, good cash flows and

## LETTER TO SHAREHOLDERS – CONTINUED

possibly the best growth profile amongst the large gold companies. Its mines are located predominately in politically low-risk jurisdictions in the Americas, a consideration which becomes more valued as events highlight geopolitical risk. CGI's gold weighting was also increased with an addition to its holding in Osisko Mining Corporation. Osisko is currently redeveloping the Canadian Malartic gold mine in Quebec, last mined in 1965. This big, low-grade mine is expected to begin producing in the second quarter of 2011, with an average annualized run-rate of greater than 600,000 ounces a year at operating costs in today's lowest cost quartile globally of just above \$300.

Expansion opportunities for Osisko are possible plus the recently purchased Brett Resources further north in Ontario and activity with joint venture partner Clifton Resources might bring in more ounces. The main Osisko property is believed to be the second biggest gold resource in Canada and growing. Osisko and Franco-Nevada Corporation, the big precious metals royalty company spun out by Newmont Mining Corporation, were two of the top performers for CGI in the quarter. Now we need Osisko to stay on schedule and the gold price to stay strong.

### PORTFOLIO LEADERS

The omnipresent Apple Inc. was purchased late in the quarter. Apple's experience in product innovation for large addressable markets should provide gains well into the future. It also provides CGI with liquidity in its technology holdings, a feature somewhat limited in the Canadian technology market.

Pacific Rubiales Energy Corp., a star holding for some time now, the biggest private sector oil producer in Colombia, was up 300.0% over cost at June 30, 2010. Another top ten stock, SXC Health Solution Corp., showed a gain of 190.1% since purchase, and, of particular note, the largest portfolio holding, BMTC Group Inc., Quebec's leader in household goods retailing and a long-term holding, showed an appreciation of 540.0% over cost.

All top ten stocks at the end of March continued to head the portfolio at June 30 with one exception, Petrobank Energy and Resources Ltd., primarily an oilsands development and holding company for PetroBakken Energy Ltd. and another star Colombian oil producer, Petrominerales Ltd., which moved below the list on price reduction and a partial sale close to the latest quarter end. Portfolio names totalled 75 at June 30, of which 20 were appreciably higher and about 15

were slightly firmer or held their ground through the retreat of the market to date. This was not a bad result as frequent falls and quick rallies have tended to leave many stocks below previous levels.

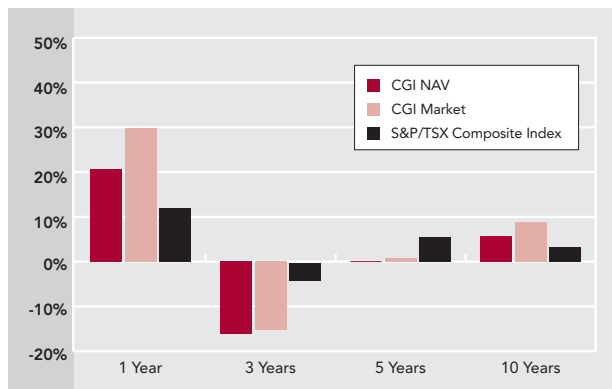
### GOING FORWARD

For now, investors' enthusiasm has taken a pause and this is likely to persist until the economic outlook and confidence improve again. Above all, it seems we must learn to accommodate the apparent China slowdown. We should also note that the delights of the northern hemisphere summer and major sporting events are, as usual, taking away much focus on markets. It is likely to stay for the foreseeable time a stock picker's special situations market.

Michael A. Smedley  
*CEO and Chief Portfolio Officer  
of the Manager*

D. Greg Eckel  
*Senior Vice-President  
of the Manager*

### Compound Annual Returns for the Periods Ending June 30, 2010



# MANAGEMENT REPORT OF FUND PERFORMANCE

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### RESULTS OF OPERATIONS

#### Performance

Canadian General Investment, Limited's (CGI or the Company) net asset value at June 30, 2010 was \$378,050,000, representing a 6.0% decrease from the \$402,001,000 at the end of 2009. CGI's net asset value per share (NAV) at June 30, 2010 was \$18.12, down from \$19.27 at year end 2009. The NAV return, with dividends reinvested, for the six months ended 2010 was -5.4%, compared with a -2.5% total return for the benchmark S&P/TSX Composite Index.

CGI's underperformance of the benchmark was primarily the result of the leverage afforded by the \$150 million in preference shares the Company has outstanding. This leverage serves to enhance NAV moves both up and down. The first six months of 2010 saw the portfolio increase the weighting of cash and short-term securities, now at 3.3% and 7.6%, respectively. These increasing balances have been built up to offset a portion of the leverage in an effort to provide protection to falling markets. A reduction in the weighting of the Materials sector was the primary result, which dropped from 27.0% at the end of 2009, to 21.5% at June 30, 2010.

While CGI's portfolio moved closer to many of the sector weightings in the S&P/TSX, specifically the aforementioned change in the Materials sector weighting, it continued to be significantly underweight in the Financials sector. The largest

sectors in the Index (Energy, Materials, Financials, and Industrials) were all negative, or barely positive, performers for the first six months of the year.

The table below illustrates the weightings of the five largest sectors in CGI's portfolio as at June 30, 2010, compared with year end 2009, and with the S&P/TSX. The weightings provided for CGI represent the market value of each sector as a percentage of the total investment portfolio.

Investment income, which is comprised mainly of dividends, interest and other income, was \$5,234,000 for the first six months of 2010, down 21.3% from 2009. The decrease was largely due to the receipt of a \$1.3 million special dividend from BPO Properties Ltd. in 2009. Dividends on preference shares and management fees are the largest expenses of the Company. The dividends on its preference shares were unchanged at \$3,189,000. Management fees increased by 31.5% to \$2,913,000 as a result of higher portfolio values than in the corresponding period in 2009.

#### Taxation

As a corporate entity, CGI is subject to tax on its taxable income – primarily on realized gains on the sale of investments – at an effective rate of approximately 21%. As a result of its investment corporation status under Canadian tax law, CGI can recover taxes paid or payable on its realized taxable capital gains through the payment of capital gains dividends to shareholders. To the extent that taxes paid or payable on taxable income in a year are greater than taxes recovered on the payment of capital gains dividends, there will be a

#### Sector Weightings

Sector	CGI		S&P/TSX	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Energy	23.3%	24.6%	26.6%	27.6%
Materials	21.5%	27.0%	20.1%	19.4%
Financials	16.2%	17.1%	30.1%	30.5%
Consumer Discretionary	8.4%	6.7%	4.8%	4.3%
Short-term Securities	7.6%	2.7%	0.0%	0.0%

negative impact on net assets of the fund. For the six months to June 30, 2010, there was a net payable related to tax of \$2,510,000, compared to a net recovery of \$3,937,000 in the first six months of the prior year. Taxes paid or payable on realized taxable capital gains may be recovered through the payment of capital gains dividends in future years. At June 30, 2010, the Company had refundable capital gains tax of approximately \$7 million, which is refundable upon payment of capital gains dividends of approximately \$35 million.

### RECENT DEVELOPMENTS

#### International Financial Reporting Standards

For fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises.

Based on the Manager's analysis of the Company's current accounting policies and financial statement presentation under GAAP against IFRS, it does not expect the adoption of IFRS to have a material effect on CGI's net assets or net asset value per share. The primary impact of IFRS on the Company's financial statements will be in the areas of presentation and note disclosure. In addition, based on its analysis to date, the Manager believes that the changeover to IFRS will not materially affect the Company's existing business arrangements.

Although it was originally anticipated that the Company would be adopting IFRS in its fiscal year beginning January 1, 2011, in June 2010, the Canadian Accounting Standards Board (AcSB) published an Exposure Draft, *Adoption of IFRSs by Investment Companies*, that proposes to defer the adoption of IFRS by investment companies, as defined in Accounting Guideline 18, for an additional year to January 1, 2012. CGI is an investment company and, accordingly, will consider the deferral of IFRS should this Exposure Draft be issued as a final accounting standard. In the event there is a deferral, the Company's first set of financial statements prepared in accordance with IFRSs would be for the semi-annual period ended June 20, 2012, which will provide corresponding comparative financial information for 2011, including an opening statement of net assets as at January 1, 2011.

#### Harmonized Sales Tax

Effective July 1, 2010, Ontario provincial sales tax (PST) is harmonized with the federal goods and services tax (GST), resulting in a federally administered harmonized sales tax (HST) of 13%. Management fees and certain other service costs of the Company, which were previously subject to the 5% GST, but not the 8% PST, are now subject to the new HST.

The Department of Finance (Finance) has recently introduced new place of supply rules, where a greater emphasis is placed on the location of the recipient of the supply, rather than the place where the service was performed. In addition, Finance has issued proposed rules for determining the ultimate HST liability for funds (among other types of "selected listed financial institutions", or "SLFIs"). Under the proposed rules, as an investment corporation under the Income Tax Act (Canada), CGI will qualify as a SLFI, and will, therefore, be required to determine its HST liability based on the location of its ultimate investors. These new rules may result in a partial rebate of the provincial component of the HST paid by CGI to the extent that its ultimate investors are located in non-HST provinces or in provinces with a lower HST rate than Ontario, such as British Columbia. Conversely, these rules may result in additional liability for HST to the extent that CGI's ultimate investors are located in provinces with higher HST rates, such as Nova Scotia. To the extent that the Company is not entitled to a rebate of the provincial component of the HST (or is required to pay additional HST in excess of 13% under the proposed rules), the new HST will represent an additional cost to CGI. It is not expected that the amount of any rebates would be significant (or that CGI's HST liability will exceed 13%) under the new rules.

### RELATED PARTY TRANSACTIONS

The Company is managed by Morgan Meighen & Associates Limited (MMA), a company under common control with CGI. MMA provides continuing advice and investment management services, as well as administration, financial reporting and other ancillary services required by a publicly listed company. For more details concerning the services that are provided by MMA and the management fee that is charged to the Company, see "Management Fees".

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Company and are intended to help you understand the Company's financial performance for the six months ended June 30, 2010 and the prior five financial years. Per share data is derived from the Company's audited annual financial statements. The net assets per share presented in the financial statements differs from the Company's daily net asset value due to differences in valuation techniques as described in the notes to the financial statements. Ratios and supplemental data are derived from the Company's net asset value.

### The Company's Net Assets per Share <sup>(1)</sup>

	Six months ended June 30, 2010	2009	2008	2007	2006	2005
<b>Net assets – basic, beginning of period</b>	\$ 19.17	\$ 13.81	\$ 31.77	\$ 31.58	\$ 28.59	\$ 23.22
<b>Increase (decrease) from operations:</b>						
Total revenue	0.25	0.58	0.84	0.67	0.75	0.75
Total expenses	(0.32)	(0.61)	(0.86)	(1.01)	(0.98)	(0.75)
Realized gains (losses) for the period	0.38	0.08	(5.41)	3.93	4.60	3.65
Unrealized gains (losses) for the period	(1.18)	5.87	(13.36)	(1.24)	4.07	3.53
<b>Total increase (decrease) from operations</b>	<b>(0.87)</b>	<b>5.92</b>	<b>(18.79)</b>	<b>2.35</b>	<b>8.44</b>	<b>7.18</b>
<b>Dividends paid to common shareholders:</b>						
Taxable dividends	(0.12)	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)
Capital gains dividends	-	(0.50)	-	(1.36)	(1.26)	(1.00)
<b>Total dividends <sup>(2)</sup></b>	<b>(0.12)</b>	<b>(0.74)</b>	<b>(0.24)</b>	<b>(1.60)</b>	<b>(1.50)</b>	<b>(1.24)</b>
Income taxes recoverable on dividends from net realized gain on investments	-	0.10	-	0.29	0.26	0.21
Net decrease (increase) in refundable dividend tax on hand	-	-	-	-	0.04	(0.01)
Decrease (increase) in refundable income taxes on net realized gain on investments	(0.13)	0.08	1.07	(0.45)	(0.83)	(0.64)
Warrants repurchased	-	-	-	-	(3.26)	(0.06)
	<b>(0.13)</b>	<b>0.18</b>	<b>1.07</b>	<b>(0.16)</b>	<b>(3.79)</b>	<b>(0.50)</b>
<b>Net assets – basic, end of period <sup>(3)</sup></b>	<b>\$ 18.05</b>	<b>\$ 19.17</b>	<b>\$ 13.81</b>	<b>\$ 31.77</b>	<b>\$ 31.72</b>	<b>\$ 28.59</b>
<b>Net assets – diluted, end of period <sup>(4)</sup></b>	<b>\$ 18.05</b>	<b>\$ 19.17</b>	<b>\$ 13.81</b>	<b>\$ 31.77</b>	<b>\$ 31.33</b>	<b>\$ 25.37</b>

1) Net assets and dividends are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(2) Dividends were paid in cash.

(3) This is not a reconciliation of the beginning and ending net assets per share.

(4) Reflects the potential exercise of the Company's outstanding warrants, which expired on July 3, 2007.

## MANAGEMENT REPORT OF FUND PERFORMANCE – CONTINUED

### Ratios and Supplemental Data

	Six months ended					
	June 30, 2010	2009	2008	2007	2006	2005
Total net asset value (000's) <sup>(1)</sup>	\$ 378,050	\$ 402,001	\$ 290,477	\$ 666,323	\$ 653,128	\$ 588,146
Number of shares outstanding <sup>(1)</sup>	20,861,141	20,861,141	20,861,141	20,861,141	20,591,159	20,573,940
Management expense ratio <sup>(2)(3)(6)</sup>	3.26%	3.82%	3.57%	3.04%	3.24%	2.88%
Portfolio turnover rate <sup>(5)</sup>	12.80%	41.54%	27.33%	36.68%	40.08%	47.07%
Trading expense ratio <sup>(4)(6)</sup>	0.22%	0.31%	0.25%	0.23%	0.24%	0.26%
Net asset value per share – basic <sup>(1)</sup>	\$ 18.05	\$ 19.17	\$ 13.93	\$ 31.94	\$ 31.72	\$ 28.59
Net asset value per share – diluted <sup>(1)</sup>	\$ 18.12	\$ 19.27	\$ 13.93	\$ 31.94	\$ 31.33	\$ 25.37
Closing market price <sup>(1)</sup>	\$ 15.15	\$ 15.83	\$ 9.12	\$ 28.30	\$ 27.40	\$ 23.20

(1) This information is provided as at the end of the financial period shown.

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) Excluding leverage costs (dividends on preference shares and amortization of deferred financing charge), the Company's MERs were as follows: 2010 (to June 30, annualized) – 1.70%, 2009 – 1.78%, 2008 – 1.67%, 2007 – 1.53%, 2006 – 1.65%, 2005 – 1.53%.

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

(5) The Company's portfolio turnover rate indicates how actively the Manager manages the Company's portfolio investments. A portfolio turnover of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year. There is not necessarily a relationship between the turnover rate and the performance of a fund.

(6) Ratios for the six months ended June 30, 2010 have been annualized

### MANAGEMENT FEES

The Company pays a management fee that is calculated monthly and paid at 1% per annum of the market value of CGI's investments adjusted for cash, portfolio accounts receivable and portfolio accounts payable. The Company's management fees were used by MMA to pay costs for managing the portfolio and making investment decisions, as well as the provision of administrative services including making brokerage arrangements for the purchase and sale of securities, calculating the net asset value of the Company, maintaining financial and corporate records, preparing financial statements and all required regulatory filings and assisting in promotion activities. The officers of the Company are remunerated by MMA in their capacity as directors and/or officers of MMA and receive no compensation from CGI.

## PAST PERFORMANCE

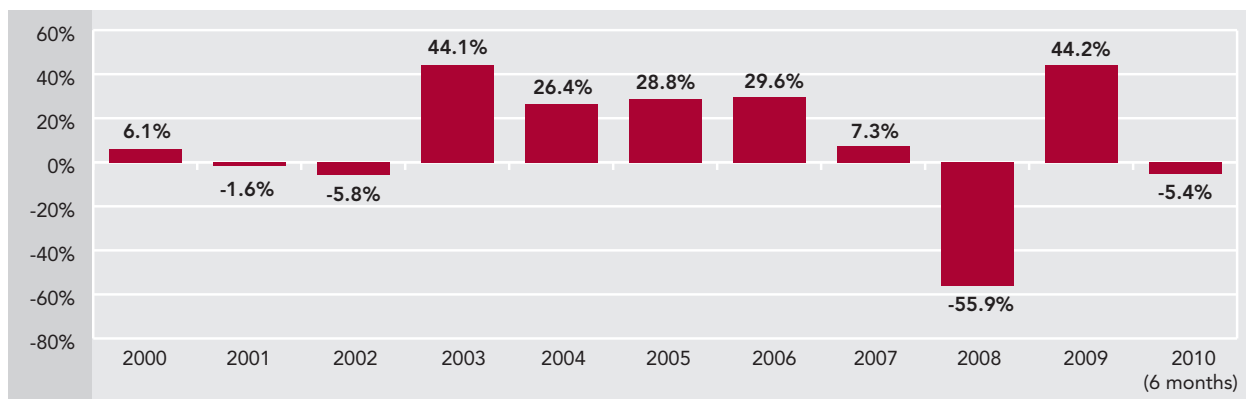
The performance information shown assumes that all dividends paid by CGI to common shareholders were reinvested in additional common shares of the Company. The performance information does not take into account broker commissions or other fees potentially payable by holders of the Company's shares that would have reduced returns or performance. How the Company has performed in the past does not necessarily indicate how it will perform in the future.

## YEAR-BY-YEAR RETURNS

The following bar charts show the Company's performance for each of the years shown, as well as the interim performance for the six months ended June 30, 2010, and illustrate how the Company's performance has changed from year to year. The bar charts show, in percentage terms, how much an investment made on the first day of each year would have grown or decreased by the last day of each financial period.

The bar chart below illustrates CGI's diluted net asset value per share return, with dividends reinvested at net asset value per share.

### Net Asset Value Return



The bar chart below illustrates CGI's market return, with dividends reinvested at the market price.

### Market Value Return



# MANAGEMENT REPORT OF FUND PERFORMANCE – CONTINUED

## SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2010

### Top 25 Holdings

Issuer	Sector	% of Net Asset Value*	% of Investment Portfolio
Canadian Treasury Bills	Short-Term Securities	10.6	7.6
BMTC Group Inc.	Consumer Discretionary	6.5	4.7
Pacific Rubiales Energy Corp.	Energy	4.9	3.5
Cash	Cash & Cash Equivalents	4.6	3.3
Labrador Iron Ore Royalty Income Fund	Materials	4.4	3.2
SXC Health Solutions Corp.	Information Technology	4.1	3.0
Brookfield Office Properties Canada	Financials	4.1	2.9
Franco-Nevada Corporation	Materials	3.9	2.8
Bank of Montreal	Financials	3.8	2.7
Royal Bank of Canada	Financials	3.7	2.6
Enbridge Inc.	Energy	3.5	2.5
Rogers Communications Inc.	Telecommunication Services	3.3	2.4
The Toronto-Dominion Bank	Financials	2.7	2.0
TransCanada Corporation	Energy	2.4	1.7
Apple Inc.	Information Technology	2.4	1.7
Dollarama Inc.	Consumer Discretionary	2.4	1.7
Suncor Energy, Inc.	Energy	2.3	1.6
IMAX Corporation	Consumer Discretionary	2.3	1.6
Canadian Natural Resources Limited	Energy	2.2	1.6
Teck Resources Limited	Materials	2.2	1.6
Crescent Point Energy Corp.	Energy	2.0	1.4
Bankers Petroleum Ltd.	Energy	1.9	1.4
Celestica Inc.	Information Technology	1.9	1.3
Goldcorp Inc.	Materials	1.8	1.3
Russel Metals Inc.	Industrials	1.8	1.3
		85.7*	61.4
Total Net Asset Value* (\$000's)			\$ 378,050
Total Investment Portfolio* (\$000's)			\$ 526,263

\* Total Net Asset Value represents Total Investment Portfolio adjusted for leverage in the form of preference shares (\$150 million), other assets and other liabilities. The Total Investment Portfolio includes a receivable on securities sold, net of a payable on securities purchased of \$0.1 million.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Company. The most recent quarterly portfolio disclosure may be obtained by visiting the Manager's web site at [www.mmmainvestments.com](http://www.mmmainvestments.com), by calling 416-366-2931 (Toll-free: 1-866-443-6097), or by writing to the Company at 10 Toronto Street, Toronto, Ontario, Canada, M5C 2B7.

## SUMMARY OF INVESTMENT PORTFOLIO (CONTINUED)

As at June 30, 2010

Sector Allocation	Asset Allocation				
	% of Net Asset Value*	% of Investment Portfolio		% of Net Asset Value*	% of Investment Portfolio
Energy	32.4	23.3	Canadian Equities	116.2	83.5
Materials	29.8	21.5	Short-Term Securities	10.6	7.6
Financials	22.5	16.2	Foreign Equities	7.8	5.6
Consumer Discretionary	11.7	8.4	Cash & Cash Equivalents	4.6	3.3
Short-Term Securities	10.6	7.6			
Industrials	9.5	6.8			
Information Technology	9.4	6.7			
Cash & Cash Equivalents	4.6	3.3			
Telecommunication Services	3.3	2.4			
Utilities	2.9	2.0			
Consumer Staples	2.5	1.8			

\* Total Net Asset Value represents Total Investment Portfolio adjusted for leverage in the form of preference shares (\$150 million), other assets and other liabilities. The Total Investment Portfolio includes a receivable on securities sold, net of a payable on securities purchased of \$0.1 million.

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## INTERIM FINANCIAL STATEMENTS

June 30, 2010

**The auditors of the Company have not reviewed these interim financial statements.**

Shareholders of the Company appoint an independent auditor to audit the Company's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Company's interim financial statements, this must be disclosed in an accompanying notice.

# STATEMENTS OF NET ASSETS

*As at June 30, 2010 and December 31, 2009*  
*(in thousands of dollars, except per share amounts)*

	<b>June 30, 2010</b> <b>Unaudited</b> <b>\$</b>	<b>December 31, 2009</b> <b>Audited</b> <b>\$</b>
<b>Assets</b>		
Investments at fair value (cost - \$371,686; 2009 - \$375,571)	507,444	535,895
Cash	17,267	9,441
Receivable on securities sold	8,506	-
Interest and dividends receivable	1,024	1,053
Income taxes recoverable	1,528	4,031
Deferred financing charge	221	386
	<b>535,990</b>	<b>550,806</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	722	721
Accrued dividends on preference shares	264	281
Payable for securities purchased	8,388	-
Preference shares	150,000	150,000
	<b>159,374</b>	<b>151,002</b>
	<b>376,616</b>	<b>399,804</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Common shares	128,568	128,568
Unrealized gain on investments	135,758	160,324
Retained earnings (note 2)	112,290	110,912
	<b>376,616</b>	<b>399,804</b>
	<b>20,861,141</b>	<b>20,861,141</b>
<b>Number of common shares outstanding</b>		
<b>Net assets per common share</b> (note 7)	18.05	19.17

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF OPERATIONS

For the six months ended June 30 (Unaudited)  
(in thousands of dollars, except per share amounts)

	2010 \$	2009 \$
<b>Investment income</b>		
Dividends	4,134	6,076
Interest and other	995	572
Securities lending revenue (note 6)	105	1
	5,234	6,649
<b>Expenses</b>		
Dividends on preference shares	3,189	3,189
Management fees	2,913	2,215
Amortization of deferred financing charge	165	165
Listing and regulatory costs	116	98
Investor relations	82	33
Directors' fees and expenses	79	86
Capital taxes	40	92
Custodial fees	34	23
Security holder reporting costs	23	41
Audit fees	23	23
Independent review committee fees and expenses	14	10
Legal fees	7	13
Other	27	79
	6,712	6,067
<b>Net investment income (loss)</b>	(1,478)	582
<b>Realized and unrealized gains (losses) on investments</b>		
Net realized gain (loss) on investments	8,312	(13,464)
Change in unrealized gain on investments	(24,566)	47,902
Transaction costs on purchase and sale of investments	(443)	(621)
	(16,697)	33,817
<b>Net gain (loss) on investments</b>	(16,697)	33,817
<b>Increase (decrease) in net assets resulting from operations for the period</b>	(18,175)	34,399
<b>Increase (decrease) in net assets resulting from operations per common share</b> (based on 20,861,141 (2009 - 20,861,141) weighted-average common shares outstanding during the period)	(0.87)	1.65

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF CHANGES IN NET ASSETS

For the six months ended June 30 (Unaudited)  
(in thousands of dollars)

	2010 \$	2009 \$
<b>Increase (decrease) in net assets resulting from operations for the period</b>	(18,175)	34,399
<b>Dividends to common shareholders</b>	(2,503)	(2,503)
Decrease (increase) in refundable income taxes on net realized gain (loss) on investments (note 3)	(2,510)	3,937
Increase in refundable dividend tax on hand	-	(253)
	(5,013)	1,181
<b>Increase (decrease) in net assets during the period</b>	(23,188)	35,580
<b>Net assets, beginning of period</b>	399,804	288,011
<b>Net assets, end of period</b>	376,616	323,591

The accompanying notes are an integral part of these financial statements.

# STATEMENTS OF CASH FLOWS

For the six months ended June 30 (Unaudited)  
(in thousands of dollars)

	2010 \$	2009 \$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net investment income (loss)	(1,478)	582
Amortization of deferred financing charge	165	165
Purchase of investments	(125,750)	(280,849)
Proceeds of disposition of investments	137,829	263,806
Transaction costs on purchase and sale of investments	(443)	(621)
Net change in non-cash balances related to operations	2,516	17,778
	12,839	861
<b>Financing activities</b>		
Dividends paid to common shareholders	(2,503)	(2,503)
Decrease (increase) in refundable income taxes on net realized gain on investments (note 3)	(2,510)	3,937
Increase in refundable dividend tax on hand	-	(253)
	(5,013)	1,181
<b>Net increase in cash during the period</b> (note 5)	7,826	2,042
<b>Cash, beginning of period</b>	9,441	5,660
<b>Cash, end of period</b>	17,267	7,702

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF INVESTMENT PORTFOLIO

As at June 30, 2010

Number or Par Value	Investment	Cost \$	Fair Value \$
<i>(in thousands of dollars)</i>			
<b>CONSUMER DISCRETIONARY (8.3%) (2009 - 6.6%)</b>			
<b>Media</b>			
550,000	IMAX Corporation	5,993	8,493
100,000	Shaw Communications Inc., class B NV	1,433	1,917
<b>Multiline Retail</b>			
365,000	Dollarama Inc.	7,520	8,994
<b>Specialty Retail</b>			
1,280,400	BMTC Group Inc., class A SV	3,849	24,328
<b>TOTAL CONSUMER DISCRETIONARY</b>		<b>18,795</b>	<b>43,732</b>
<b>CONSUMER STAPLES (1.8%) (2009 - 3.3%)</b>			
<b>Beverages</b>			
215,300	Corby Distilleries Limited, class A	2,693	3,371
150,800	Corby Distilleries Limited, class B NV	2,378	2,215
<b>Food &amp; Staples Retailing</b>			
132,000	Alliance Grain Traders Inc.	3,048	3,963
<b>TOTAL CONSUMER STAPLES</b>		<b>8,119</b>	<b>9,549</b>
<b>ENERGY (23.3%) (2009 - 24.8%)</b>			
<b>Energy Equipment &amp; Services</b>			
272,000	Calfrac Well Services Ltd.	5,400	5,255
173,400	Phoenix Technology Income Fund, units	2,731	1,455
<b>Oil, Gas &amp; Consumable Fuels</b>			
275,000	Athabasca Oil Sands Corp.	4,433	3,028
1,050,000	Bankers Petroleum Ltd	6,832	7,339
200,000	Baytex Energy Trust, units	4,758	6,354
506,100	Bellatrix Exploration Ltd.	2,141	1,544
1,655,000	Blackpearl Resources Inc.	4,436	4,634
240,000	Canadian Natural Resources Limited	3,853	8,479
140,000	Canadian Oil Sands Trust, units	4,346	3,774
200,000	Crescent Point Energy Corp.	5,429	7,432
270,000	Enbridge Inc.	5,557	13,387
458,571	Extract Resources Limited	3,195	2,681
165,000	Forest Oil Corporation	3,877	4,788
279,167	Legacy Oil & Gas Inc.	2,873	3,188
20,000	Legacy Oil & Gas Inc., sub rcpts	236	228
560,000	Midway Energy Ltd.	1,893	1,663
780,000	Pacific Rubiales Energy Corp.	4,657	18,595
806,030	Parex Resources Inc.	3,383	3,264
105,000	Petrobank Energy and Resources Ltd.	3,914	3,932
275,000	Suncor Energy, Inc.	10,572	8,616
256,000	TransCanada Corporation	7,091	9,114
850,000	Western Coal Corp.	3,075	3,536
<b>TOTAL ENERGY</b>		<b>94,682</b>	<b>122,286</b>

Number or Par Value	Investment	Cost \$	Fair Value \$
<i>(in thousands of dollars)</i>			
<b>FINANCIALS (16.2%) (2009 - 17.2%)</b>			
<b>Commercial Banks</b>			
250,000	Bank of Montreal	8,534	14,433
120,000	Laurentian Bank of Canada	4,730	5,054
275,000	Royal Bank of Canada	11,438	13,943
150,000	The Toronto-Dominion Bank	6,461	10,335
<b>Diversified Financial Services</b>			
225,000	Ceres Global AG Corp., warrants 12/21/2010	473	1
92,056	TMX Group Inc.	2,486	2,556
<b>Insurance</b>			
7,200	E-L Financial Corporation Limited	2,640	3,240
<b>Real Estate Management &amp; Development</b>			
816,900	Brookfield Office Properties Canada, units	7,619	15,439
374,270	First Capital Realty Inc.	3,706	5,090
<b>Thriffs &amp; Mortgage Finance</b>			
254,500	Genworth MI Canada Inc.	5,141	5,902
100,000	Home Capital Group Inc.	4,572	4,217
<b>Capital Markets</b>			
76,900	Economic Investment Trust Limited	3,851	4,691
<b>TOTAL FINANCIALS</b>		<b>61,651</b>	<b>84,901</b>

<b>INDUSTRIALS (6.8%) (2009 - 7.0%)</b>			
<b>Building Products</b>			
195,600	Waterfurnace Renewable Energy Inc.	2,633	5,078
<b>Commercial Services &amp; Supplies</b>			
390,000	Data Group Income Fund, units	2,551	2,820
<b>Construction &amp; Engineering</b>			
169,100	GENIVAR Income Fund, units	4,512	4,314
110,000	Stantec Inc.	3,219	2,593
<b>Marine</b>			
37,200	Algoma Central Corporation	2,863	2,799
<b>Road &amp; Rail</b>			
115,000	Canadian Pacific Railway Limited	6,275	6,562
<b>Trading Companies &amp; Distributors</b>			
250,000	Ritchie Bros. Auctioneers Incorporated	2,827	4,826
375,000	Russel Metals Inc.	3,243	6,757
<b>TOTAL INDUSTRIALS</b>		<b>28,123</b>	<b>35,749</b>

The accompanying notes are an integral part of these financial statements.

As at June 30, 2010

Number or Par Value	Investment	Cost \$	Fair Value \$
<i>(in thousands of dollars)</i>			
<b>INFORMATION TECHNOLOGY (6.7%) (2009 - 5.7%)</b>			
<b>Computers &amp; Peripherals</b>			
34,000	Apple Inc.	8,828	9,068
<b>IT Services</b>			
200,000	SXC Health Solutions Corp.	5,355	15,538
<b>Semiconductors &amp; Semiconductor Equipment</b>			
825,000	Celestica Inc.	6,080	7,087
<b>Software</b>			
900,000	Absolute Software Corporation	3,842	3,681
<b>TOTAL INFORMATION TECHNOLOGY</b>		<b>24,105</b>	<b>35,374</b>
<b>MATERIALS (21.5%) (2009 - 26.9%)</b>			
<b>Chemicals</b>			
275,000	Methanex Corporation	5,951	5,756
60,000	Potash Corporation of Saskatchewan Inc.	6,761	5,501
90,000	The Scotts Miracle-Gro Company	3,811	4,241
<b>Metals &amp; Mining</b>			
1,018,300	East Asia Minerals Corporation	2,998	6,344
3,500,000	Eastern Platinum Limited	5,210	3,360
1,600,000	Equinox Minerals Limited	3,139	5,920
440,000	Franco-Nevada Corporation	8,698	14,234
100,000	Franco-Nevada Corporation, warrants 03/13/2012	491	527
150,000	Goldcorp Inc.	7,079	6,992
202,700	Imperial Metals Corporation	2,255	3,223
42,870	Kinross Gold Corporation, warrants 09/03/2013	107	125
387,700	Labrador Iron Ore Royalty Income Fund, units	5,605	16,555
1,020,000	Medusa Mining Ltd.	3,646	3,568
575,250	Osisko Mining Corporation	4,828	6,592
25,000	Quadra FNX Mining Ltd, warrants 09/09/12	49	56
1,078,100	Rubicon Minerals Corporation	3,142	3,924
265,000	Teck Resources Limited, class B SV	5,586	8,342
765,000	Ventana Gold Corporation	3,945	6,051
<b>Paper &amp; Forest Products</b>			
98,150	Domtar Corporation	3,629	5,104
410,000	Sino-Forest Corporation	7,753	6,203
<b>TOTAL MATERIALS</b>		<b>84,683</b>	<b>112,618</b>

Number or Par Value	Investment	Cost \$	Fair Value \$
<i>(in thousands of dollars)</i>			
<b>TELECOMMUNICATION SERVICES (2.4%) (2009 - 2.1%)</b>			
<b>Wireless Telecommunication Services</b>			
360,000	Rogers Communications Inc., class B NV	5,047	12,517
<b>TOTAL TELECOMMUNICATION SERVICES</b>		<b>5,047</b>	<b>12,517</b>
<b>UTILITIES (2.1%) (2009 - 2.0%)</b>			
<b>Electric Utilities</b>			
230,000	Fortis Inc.	6,082	6,249
<b>Independent Power Producers &amp; Energy Traders</b>			
100,000	Canadian Utilities Limited, class A NV	1,171	4,516
<b>TOTAL UTILITIES</b>		<b>7,253</b>	<b>10,765</b>
<b>SHORT-TERM SECURITIES (7.6%) (2009 - 2.7%)</b>			
20,000,000	Canadian Treasury Bill, 0.4% 09/02/2010	19,979	19,979
20,000,000	Canadian Treasury Bill, 0.49% 09/16/2010	19,974	19,974
<b>TOTAL SHORT-TERM SECURITIES</b>		<b>39,953</b>	<b>39,953</b>
TRANSACTION COSTS		(725)	-
<b>TOTAL INVESTMENTS (96.7%)</b>		<b>371,686</b>	<b>507,444</b>
NET RECEIVABLE ON SECURITIES SOLD (0.0%)		118	118
CASH & CASH EQUIVALENTS (3.3%)		17,267	17,267
<b>INVESTMENT PORTFOLIO (100%)</b>		<b>389,071</b>	<b>524,829</b>
NV:	non-voting		
SV:	subordinate voting		
Percentage amounts in brackets represent fair value as a percentage of the Investment Portfolio.			
All comparative weightings are as at December 31, 2009.			
<b>RECONCILIATION OF INVESTMENT PORTFOLIO TO NET ASSETS:</b>			
INVESTMENT PORTFOLIO (139.4%)			524,829
PREFERRED SHARES (-39.8%)			(150,000)
OTHER ASSETS AND LIABILITIES, NET (0.4%)			1,787
<b>NET ASSETS (100.0%)</b>			<b>376,616</b>
Percentage amounts in brackets represent fair value as a percentage of Net Assets.			

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

*For the six months ended June 30, 2010 (Unaudited)*

These unaudited interim financial statements do not include all of the disclosures contained in the audited financial statements and accordingly, should be read in conjunction with the December 31, 2009 audited financial statements which are available on [www.sedar.com](http://www.sedar.com) or from the Company.

## 1 ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited interim financial statements conform to those presented in the Company's December 31, 2009 audited financial statements.

## 2 RETAINED EARNINGS

The changes in retained earnings for the six months ended June 30 were as follows:

<i>(in thousands of dollars)</i>	<b>2010</b> <b>\$</b>	<b>2009</b> <b>\$</b>
Retained earnings, beginning of period	110,912	121,627
Net realized gain (loss) on investments, net of transaction costs	7,869	(14,085)
Net investment income (loss)	(1,478)	582
Increase in refundable dividend tax on hand	-	(253)
Dividends paid from net investment income	(2,503)	(2,503)
Decrease (increase) in refundable income taxes on net realized gain (loss) on investments (note 3)	(2,510)	3,937
Retained earnings, end of period	112,290	109,305

### 3 TAXATION

The Company qualifies as an investment corporation under Section 130 of the Income Tax Act (Canada) (the Act) and, as such, is subject to a reduced rate of income tax on its net investment income other than dividends received from taxable Canadian corporations. The Company's provision for income taxes during the period is determined as follows:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Recovery of income taxes on net investment income (loss)</b>		
Provision for (recovery of) income taxes based on combined Canadian federal and provincial income tax rate	(473)	195
Increase (decrease) in income taxes resulting from:		
Dividends from taxable Canadian companies	(1,311)	(2,024)
Dividends on preference shares	1,026	1,074
Income tax rate differential for investment corporations	(237)	(191)
Other	-	(40)
Recovery of income taxes	(995)	(986)
Applied to reduce refundable income taxes on net realized gain on investments	995	986
Recovery of income taxes	-	-
<b>Refundable income taxes on net realized gain (loss) on investments</b>		
Provision for (recovery of) income taxes based on combined Canadian federal and provincial income tax rate	2,660	(4,510)
Increase (decrease) in income taxes resulting from:		
Non-taxable portion, net realized loss (gain) on investments	(1,330)	2,255
Differences arising from use of different cost bases for income tax and accounting purposes and other items	1,341	(99)
Income tax rate differential for investment corporations	834	(597)
Recovery applied from investment income	(995)	(986)
Increase (decrease) in refundable income taxes on net realized gain on investments	2,510	(3,937)

Income taxes are paid by the Company on net capital gains realized at the rate of approximately 21%. These income taxes are recoverable by the Company as long as it continues to qualify as an investment corporation. The Company has refundable capital gains taxes of approximately \$7 million as at June 30, 2010 (2009 - \$5 million), which are refundable on payment of capital gains dividends of approximately \$35 million (2009 - \$22 million). This potential recovery has not been recorded by the Company.

The Company is also subject to a special tax of 33-1/3% on taxable dividends received from corporations resident in Canada. This special tax is refundable on payment of taxable dividends to shareholders at the rate of \$1 for each \$3 of such dividends paid. The Company has no refundable dividend tax on hand as at June 30, 2010 (2009 - \$253).

### 4 FINANCIAL INSTRUMENTS

The Company is a closed-end equity fund focussed on medium to long-term investments in primarily Canadian corporations. Its objective is to provide better than average returns to investors through prudent security selection, timely recognition of capital gains/losses and appropriate income-generating instruments. The Company may invest in foreign securities that are typically not expected to exceed 15%, in aggregate, of the portfolio's fair value.

In the normal course of operations, the Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (defined as interest rate risk, currency risk and other price risk). In general, Morgan Meighen & Associates Limited (the Manager) seeks to minimize the potential adverse effects of these risks on the Company's performance by employing professional, experienced portfolio managers, by daily monitoring of the Company's positions and market events, and by diversifying the investment portfolio within the policies and guidelines set by the Board of Directors of the Company, in a manner consistent with the investment objective. Pursuant to the Manager's bottom-up selection mandate, security selection is the primary criteria for managing risk. In order to mitigate risk, depending on conditions, the Manager considers other criteria such as asset class, industry, country and currency.

#### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main exposure to credit risk may consist of investments in debt instruments, including short-term securities, bonds, preferred shares, amounts due from brokers as well as securities on loan as part of the Company's securities lending program. The fair value of debt instruments includes consideration of the creditworthiness of the debt issuer. The carrying amount of debt instruments, as presented on the statement of investment portfolio represents the maximum credit risk exposure as at June 30, 2010. This also applies to other assets, as these have a short term to settlement. As at June 30, 2010, the Company had \$40 million of Canadian treasury bills or 7.6% of the investment portfolio, which carried an AAA rating (December 31, 2009 - \$15 million or 2.7% of the investment portfolio).

All transactions in securities are settled/paid for on delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the Company's custodian has received payment. Payment is made on a purchase once the securities have been received by the Company's custodian. The trade will fail if either party fails to meet its obligation.

Credit risk with respect to the Company's securities lending program is considered minimal given the nature of the collateral, as well as the indemnification provided by the agent administering the program (note 6).

#### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

As the Company is a publicly traded, closed-end investment fund with a fixed number of common shares outstanding, unlike an open-ended mutual fund, it is not exposed to the liquidity risk associated with daily cash redemptions of securities. However, as part of a leverage strategy, the Company currently has two series of Class A preference shares outstanding: Series 2 for \$75 million with a redemption date of March 15, 2014 and Series 3 for \$75 million with a redemption date of June 15, 2016. Included in the Series 2 and Series 3 preference share provisions is a restriction, which precludes payment of a common share dividend unless, after giving effect thereto, the ratio of assets to obligations (both as defined in the preference share provisions) exceeds 2.5 times.

Liquidity risk is managed by investing the majority of the Company's assets in investments that are traded in an active market and which can be readily disposed of and by retaining sufficient cash and cash equivalent positions to maintain liquidity.

Restricted and unlisted securities, if any, are identified in the statement of investment portfolio. There are no restricted securities as at June 30, 2010. Leverage decisions, whether in the form of bank borrowings or bond or preference share issues from treasury, are at the discretion of the Company's Board of Directors.

All financial liabilities other than the preference shares of the Company as at June 30, 2010 and December 31, 2009 fall due within twelve months.

## **Market risk**

### Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

As at June 30, 2010, the Company's investments in debt instruments were limited to short-term securities, with the longest maturity being under three months. The Company has minimal sensitivity to changes in interest rates on these securities since it is anticipated they will be held to maturity and they are short-term in nature.

The Company's two series of Class A preference shares outstanding both have fixed coupon rates. While they themselves are not subject to interest rate risk, any new issues, whether or not in connection with the redemption date of an existing series, will be subject to the prevailing interest rate environment at that time.

### Currency risk:

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Company's reporting currency. The Company is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. Securities trading in foreign markets are also exposed to currency risk, as the price in local terms in the foreign market is converted to Canadian dollars to determine fair value. The Company's policy is not to enter into any hedging arrangements.

As at June 30, 2010, the Company had a 5.6% (December 31, 2009 – 5.7%) weighting in foreign currencies. As at June 30, 2010, had the Canadian dollar strengthened or weakened by 5% in relation to all currencies represented in the portfolio as at June 30, 2010, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$1,473,000 or approximately 0.4% of total net assets (December 31, 2009 - \$1,547,000 or approximately 0.4% of total net assets).

### Other price risk:

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to an individual investment or its issuer, or by factors affecting all similar instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy and by maintaining a well diversified portfolio. The maximum risk resulting from financial instruments is equivalent to their fair value. The Company's equity and debt (if any) instruments are susceptible to other price risk arising from uncertainty about future prices of the instruments.

The statement of investment portfolio groups the securities by industry sector.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

As at June 30, 2010, a 5% increase or decrease in market prices in the investment portfolio, excluding short-term securities, with all other variables held constant, would have resulted in the net assets of the Company increasing or decreasing, respectively, by approximately \$23,375,000 or approximately 6.2% of total net assets (December 31, 2009 - \$26,045,000 or approximately 6.5% of total net assets).

Sensitivity analyses are provided for information purposes only. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

### Fair value measurements

The Company classifies its investments within a fair value hierarchy, based on the inputs used in their fair value measurement. The hierarchy of inputs is summarized below:

Level 1: Unadjusted quoted prices at the measurement date in active markets for identical assets

Level 2: Directly or indirectly observable inputs other than quoted prices included in Level 1, such as quoted prices for identical or similar assets in markets that are not active

Level 3: Inputs for the assets that are not based on observable market data

As at June 30, 2010 and December 31, 2009, the fair value of all equity investments and short-term securities of the Company are classified within Level 1 because their fair values represent quoted prices in active markets for identical assets.

All other financial instruments of the Company, which may include cash, receivable on securities sold or payable on securities purchased, interest and dividends receivable, income taxes recoverable or payable, accounts payable and accrued liabilities, accrued dividends on preference shares and preference shares are carried at amortized cost which approximates their fair value.

During the periods ended June 30, 2010 and December 31, 2009, there were no investments transferred between Level 1 and Level 2.

## 5 SUPPLEMENTAL CASH FLOW INFORMATION

Included in the net increase in cash during the period are the following:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Preference share dividends and interest paid	3,206	3,206
Income taxes paid (recovered) - net	8	(20,659)

## 6 SECURITIES LENDING

As at June 30, 2010, the Company had loaned securities with a fair value of \$92,894,000 and the custodian held collateral of \$97,911,000.

## 7 COMPARISON OF NET ASSET VALUE PER SHARE AND NET ASSETS PER SHARE

In accordance with Section 3.6(1) of National Instrument 81-106, the Company's net asset value per share, the net assets per share, calculated in accordance with Canadian GAAP for financial reporting purposes, and an explanation of the differences between such amounts, are required disclosures in the notes to the financial statements. For investments that are traded in an active market, Canadian GAAP requires that bid prices be used in the fair value of instruments, rather than the use of the last traded price, as currently used for the purpose of determining net asset value. This change accounts for the difference between net asset value and net assets.

	<b>June 30, 2010 \$</b>	<b>December 31, 2009 \$</b>
Net asset value per share	18.12	19.27
Canadian GAAP adjustment	(0.07)	(0.10)
Net assets per share	18.05	19.17

FOCUSSED ON CANADA

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