

**THIRD CANADIAN GENERAL  
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Managed by:



**MorganMeighen**  
& ASSOCIATES

Investment Managers



**THD**  
Third Canadian General  
Investment Trust Limited

**2005**

**INCOME  
AND GROWTH**

**2**

*Second Quarter Report*  
June 30, 2005

# Report to Shareholders

Third Canadian posted very strong results for its shareholders in the first half of 2005. The net asset value per share (NAV) return with dividends reinvested showed an increase of 16.9% compared to the 8.1% rise of the S&P/TSX Composite Total Return Index (S&P/TSX). This follows on the first quarter results which were also more than double the S&P/TSX. Year-to-date to June 30, 2005, the market return of Third Canadian's common shares with dividends reinvested was 12.8%, delivering a generous spread to the shareholders over the benchmark return.

The excellent performance of the Canadian market, and its superior performance to its U.S. peers, can be summed up in one word – energy. The energy sector represents an approximate 25% weighting in the S&P/TSX. It has followed the crude oil's leadership as the commodity climbed from U.S.\$43.45 a barrel at the beginning of the year to more than U.S.\$60.00. The Energy sub-index increased 32.7% year-to-date to June 30, 2005 on a total return basis, and accounted for almost the entire return of the overall index, including seven of the top ten individual contributors, representing approximately 70% of the point change of the S&P/TSX. Only one other group, Utilities, had a better return than the S&P/TSX.

In the near to medium term, it seems doubtful that investors' infatuation with, and the market dominance by, energy will diminish. Although preferring the relative



Jonathan A. Morgan, Vanessa L. Morgan, with D. Greg Eckel and Michael A. Smedley, the responsible portfolio management executives of the Manager

stability of a more diversified market, Third Canadian and its principal asset, Canadian General Investments, Limited, of which Third Canadian owns approximately 37%, will always try to participate in those big market opportunities that have the potential to provide continued superior returns for our shareholders.

**Vanessa L. Morgan**  
Chairman

**Jonathan A. Morgan**  
President & CEO

## Top Ten Investments at Market\* – June 30, 2005

(Portfolio details on page 9)

	%		%
Canadian General Investments, Limited	73.3	TransForce Income Fund	1.0
Canadian World Fund Limited	2.1	Home Capital Group Inc.	1.0
Northern Property Real Estate Investment Trust	1.1	MGM MIRAGE	1.0
Great Canadian Gaming Corporation	1.1	United Natural Foods, Inc.	0.9
		AltaGas Income Trust	0.9
		Trinidad Energy Services Income Trust	0.8
		<b>Total</b>	<b>83.2</b>

\*Excludes cash and non-convertible preference shares.

## Weighting of Portfolio Investments at Market – June 30, 2005

	%
Principal Assets	75.4
Canadian Income Trusts	12.2
Canadian Equities/Other	8.1
Foreign Equities	4.3
<b>Total</b>	<b>100.0</b>

## PRINCIPAL ASSETS

Led by Canadian General Investments, Limited (CGI), the principal assets have produced a strong year-to-date market return of 21.6%. CGI's approximate 75% weighting in Third Canadian's portfolio at the mid-year point has produced a formidable, leveraged play that spearheads Third Canadian's overall net asset growth. Year-to-date, CGI's net asset value and market returns, inclusive of dividends, were 7.9% and 20.7%, respectively. As Third Canadian's portfolio is always marked-to-market, the market return of CGI and other holdings is the impact number.

Illustrating the leverage potential of the CGI warrants, which made up 11.9% of Third Canadian's principal assets at June 30, 2005, their year-to-date market return was an exceptional 42.8%.

## NON-PRINCIPAL ASSETS

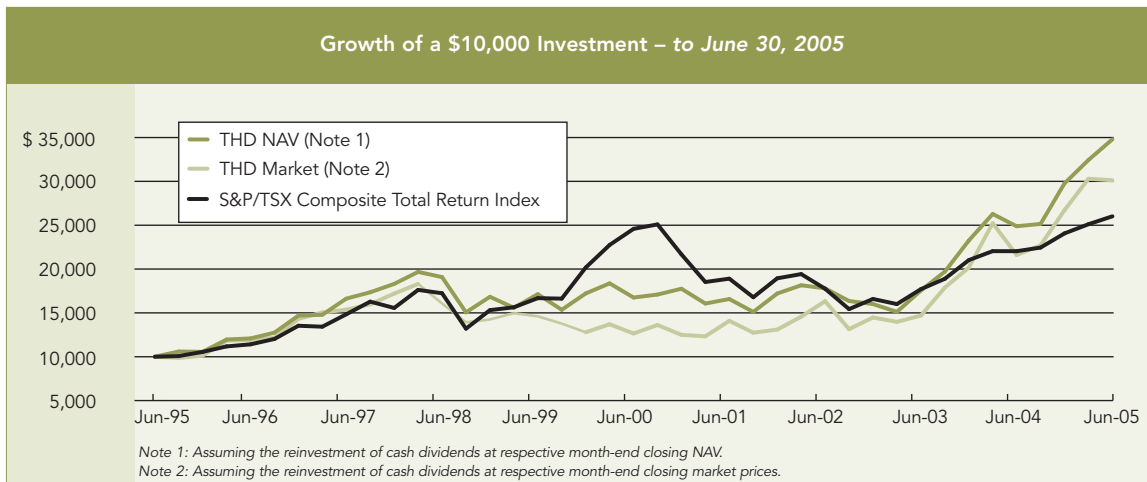
The asset mix of the portfolio has not changed much since the beginning of the year. Non-principal assets continue to represent approximately 25% of the portfolio at June 30, 2005. Income trusts amounted to about half of the weighting with the balance in Canadian and U.S. securities.

Income trusts have dominated the initial public offerings (IPOs) in Canada in the first half of the year with more than 70% of the value of the new listings on the TSX. Couple the robust IPO and secondary markets with the official announcement on the inclusion of trusts into the main S&P/TSX index and any remaining doubts

regarding the legitimacy of the asset class should be removed. However, the sector has evolved from the early days in primarily oil and gas, and now in many respects represents a tax advantaged wrap that can be placed around almost any type of business. This has diversified the risk profile of the group, but the expansion of the trust universe has exposed the sector to many more potential investors who would be well served by sophisticated research coverage. Third Canadian should continue to benefit from the greater number of opportunities provided by the income trust sector. Returns have been good year-to-date, with the S&P/TSX Capped Income Trust Index producing a 12.5% total return.

Investments other than income trusts make up the other half of the non-principal assets and have always played a role in the portfolio. A prudent diversification strategy helps spread the risk by investing in various asset types, market capitalizations, geographies, currencies and industries. Opportunities are pursued in a manner consistent with the successful style employed by the Manager over many years.

**Michael A. Smedley**, *Chief Portfolio Officer of the Manager*  
**D. Greg Eckel**, *Vice-President of the Manager*



# Management's Discussion & Analysis

Third Canadian's net asset value per share (NAV) returns, with dividends reinvested, for the six and three month periods ended June 30, 2005 were 16.9% and 7.3%, respectively. By comparison, the returns of the benchmark S&P/TSX Composite Total Return Index (S&P/TSX) for the same periods were 8.1% and 3.6%. At June 30, 2005, Third Canadian's net assets were \$177,757,000, up 7.0% and 16.4% from March 31, 2005 and December 31, 2004, respectively. The increases were largely attributable to uplifts of 9.0% and 22.2%, respectively, in the combined market value of the shares and warrants of Canadian General Investments, Limited (CGI), the Corporation's key principal asset, representing more than 70% of Third Canadian's portfolio at the mid-year point.

## FINANCIAL REVIEW

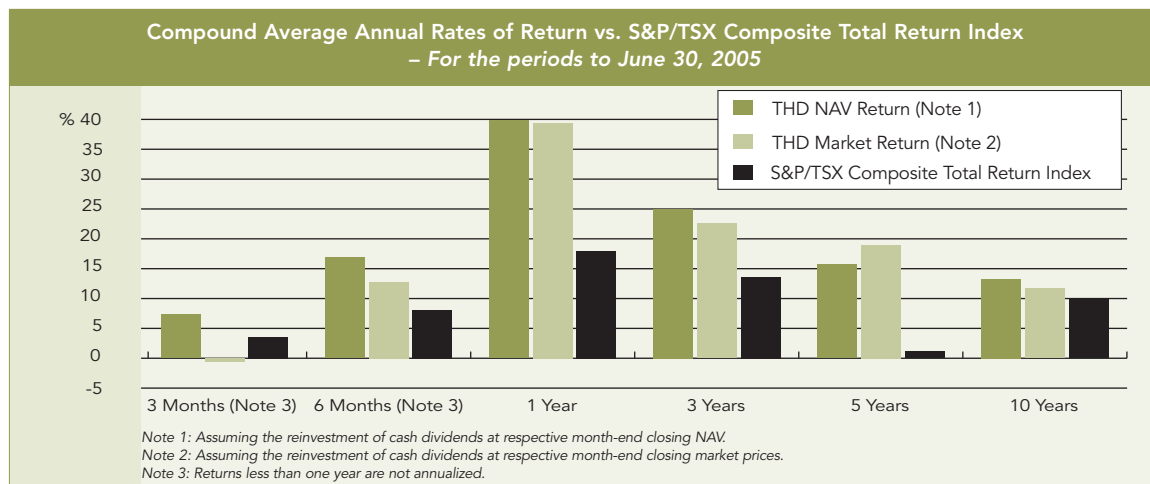
For the six months, Third Canadian had an increase in net assets resulting from operations of \$25,892,000, or \$5.39 per share. For the corresponding period in 2004, the amounts were \$8,131,000 and \$1.69, respectively.

Strong portfolio performance resulted in a net gain on investments of \$24,792,000 for the current six month period, comprised of a net realized gain on investments of \$509,000 and a change in unrealized gain on investments of \$24,283,000. This compares to a net gain on investments of \$6,853,000 for the corresponding period in 2004.

Third Canadian's net investment income in the first half of 2005 was \$1,100,000, down from the \$1,278,000 for the first six months of 2004. Total investment income, comprised of dividends, interest and other income, increased by 6.6%. Regular dividends received from CGI continue to be the mainstay of this income category. At \$916,000 in both periods, these distributions represented 80.5% and 72.8% of total dividend income for the first half of 2005 and 2004, respectively. Interest and other income is comprised primarily of distributions from Canadian income trusts, which represented just under one-half of the non-principal assets at quarter-end, a weighting that has not changed significantly over the last three years.

Total expenses in the first six months of 2005 were 26.2% higher, attributable primarily to management fees, driven by higher portfolio values on the same fee structure, and interest on bank borrowings. Interest increased by 17.9% from the corresponding period last year, largely a result of higher borrowing levels supported by favourable market conditions. Borrowings averaged \$17.6 million during the first half of 2005 compared to an average of \$15 million over the same period in 2004.

During the first half of both 2005 and 2004, Third Canadian paid regular quarterly dividends totalling \$0.15 per share to its shareholders.



## INVESTMENT OBJECTIVE AND STRATEGIES

Third Canadian is a closed-end fund with the objective of providing its investors with above average returns, comprised of a blend of current income and long-term capital appreciation, primarily through its investment in its principal assets, Canadian income trusts and equities, as well as foreign equities. The Manager of Third Canadian primarily employs a bottom-up investment style. As a closed-end fund, the primary risk to the Corporation is market risk – the exposure to market price changes in the securities held within the portfolio. Third Canadian attempts to mitigate this risk by maintaining a diverse portfolio of non-principal assets. In addition, the principal assets themselves represent well-diversified underlying portfolios.

## PRINCIPAL ASSETS

CGI, the largest principal asset, is a Canadian closed-end equity fund, actively managed in a similar investment style by the same Manager as Third Canadian. For the first half of 2005, CGI's diluted NAV and market returns, both including the reinvestment of dividends, were 7.9% and 20.7%, respectively.

CGI's top five S&P/TSX sectors and investments (excluding cash and non-convertible preference shares) as at June 30, 2005 were as shown in the table below. Information concerning CGI, including its quarterly report, is available at [www.mmainvestments.com](http://www.mmainvestments.com). Further information is also available via email ([cgifund@mmainvestments.com](mailto:cgifund@mmainvestments.com)) or toll-free at 1-866-443-6097.

Canadian World Fund Limited (CWF), established in 1994, is a global equities fund that constituted 2.1% of Third Canadian's portfolio at June 30, 2005. Year-to-date to June 30, 2005, CWF's NAV and markets returns were -0.7% and 3.8%, respectively, while its benchmark, the Morgan Stanley All-Country World Free Index, returned 0.4% (in Canadian dollar terms).

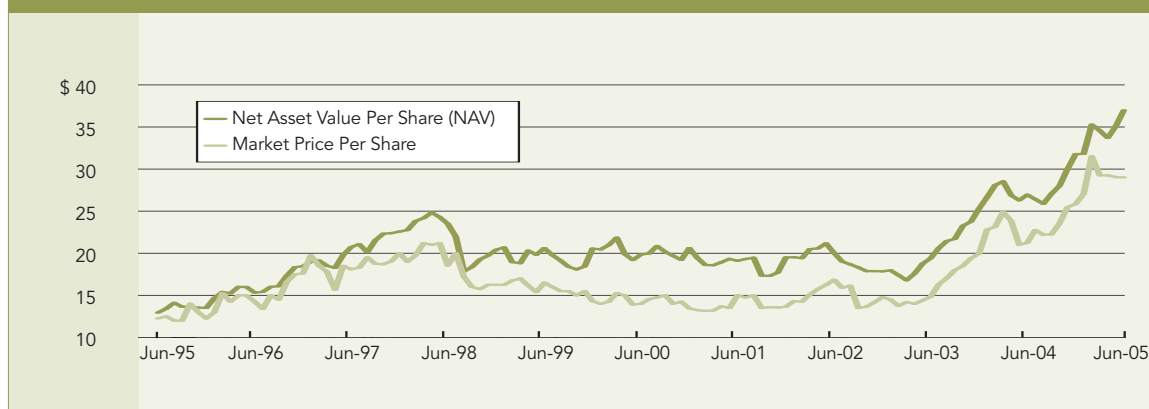
## OUTLOOK

We are optimistic that the marketplace will continue to reflect favourable results in 2005. Through its principal and other assets, Third Canadian will continue to offer investors a listed, leveraged and well diversified portfolio.

### Canadian General Investments, Limited

<i>Top 5 Sectors</i>	<i>% at market</i>	<i>Top 5 Investments</i>	<i>% at market</i>
Energy	26.6	Cameco Corporation	3.1
Financials	22.8	TSX Group Inc.	2.3
Materials	11.5	TELUS Corporation	2.1
Industrials	8.9	Enbridge Inc.	2.0
Consumer Discretionary	8.6	Home Capital Group Inc.	1.9
	78.4		11.4

### Comparison of Market Price to NAV – June 30, 1995 to June 30, 2005



## Consolidated Statements of Net Assets

	As at June 30, 2005 <i>(Unaudited)</i> \$	As at December 31, 2004 <i>(Audited)</i> \$
<i>(in thousands of dollars, except per share amounts)</i>		
<b>Assets</b>		
Investments at market value	219,419	184,145
Cash	1,182	3,594
Accrued interest and dividends receivable	228	213
Income taxes recoverable	389	15
	<b>221,218</b>	187,967
<b>Liabilities</b>		
Bank indebtedness	21,004	16,984
Payable on securities purchased	-	1,247
Accounts payable and accrued liabilities	85	102
Future income taxes on unrealized net capital gains	22,372	16,908
	<b>43,461</b>	35,241
<b>Net Assets</b>	<b>177,757</b>	152,726
<b>Shareholders' Equity</b>		
Capital stock	6,504	6,504
Contributed surplus	2,681	2,681
Unrealized gain on investments*	130,277	105,994
Retained earnings	38,295	37,547
	<b>177,757</b>	152,726
<b>Number of shares outstanding</b>	<b>4,805,910</b>	4,805,910
<b>Net asset value per share</b>	<b>36.99</b>	31.78

\* Refer to analysis provided in the accompanying Consolidated Schedule of Realized and Unrealized Gains (Losses) on Investments.

### Note to Consolidated Financial Statements

The accompanying consolidated financial statements should be read in conjunction with the notes to the company's audited financial statements for the year ended December 31, 2004. These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

# Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<i>(Unaudited)</i>				
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$	\$	\$
<b>Investment income</b>				
Dividends	657	606	1,138	1,258
Interest and other	405	342	875	630
	<b>1,062</b>	948	<b>2,013</b>	1,888
<b>Expenses</b>				
Management fees	217	180	425	338
Interest	179	143	343	291
Directors' fees	15	11	31	25
Investor relations	9	17	15	22
Other	73	21	117	62
	<b>493</b>	372	<b>931</b>	738
<b>Net investment income before income taxes</b>	<b>569</b>	576	<b>1,082</b>	1,150
<b>Income tax recovery (provision)</b>	<b>30</b>	(6)	<b>18</b>	128
<b>Net investment income for the period</b>	<b>599</b>	570	<b>1,100</b>	1,278
<b>Realized and unrealized gains (losses) on investments*</b>				
Net realized gain (loss) on investments	1,013	93	509	(841)
Change in unrealized gain on investments - net of future income taxes	10,506	(8,415)	24,283	7,694
<b>Net gain (loss) on investments</b>	<b>11,519</b>	(8,322)	<b>24,792</b>	6,853
<b>Increase (decrease) in net assets resulting from operations for the period</b>	<b>12,118</b>	(7,752)	<b>25,892</b>	8,131
<b>Increase (decrease) in net assets resulting from operations per share</b>				
(based on 4,805,910 (2004 - 4,805,910) weighted average shares outstanding during the period)	<b>2.52</b>	(1.61)	<b>5.39</b>	1.69

\* Refer to the analysis provided in the accompanying Consolidated Schedule of Realized and Unrealized Gains (Losses) on Investments.

# Consolidated Statements of Cash Flows

	Three Months Ended		Six Months Ended	
	June 30, 2005 \$	June 30, 2004 \$	June 30, 2005 \$	June 30, 2004 \$
<i>(Unaudited)</i>				
<i>(in thousands of dollars, except per share amounts)</i>				
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Increase (decrease) in net assets resulting from operations for the period	<b>12,118</b>	(7,752)	<b>25,892</b>	8,131
Add (deduct) non-cash items				
Realized (gain) loss on disposition of investments before income taxes	<b>(1,013)</b>	(114)	<b>(509)</b>	1,165
Change in unrealized gain on investments	<b>(13,045)</b>	10,269	<b>(29,747)</b>	(9,390)
Increase (decrease) in future income taxes on unrealized gain on investments	<b>2,539</b>	(1,854)	<b>5,464</b>	1,696
Purchases of investments during the period	<b>(9,423)</b>	(4,901)	<b>(13,839)</b>	(9,486)
Proceeds of disposition of investments during the period	<b>5,865</b>	5,067	<b>8,821</b>	8,499
Net change in non-cash balances related to operations	<b>348</b>	(550)	<b>(1,653)</b>	(1,333)
	<b>(2,611)</b>	165	<b>(5,571)</b>	(718)
<b>Financing activities</b>				
Increase (decrease) in bank indebtedness	<b>4,010</b>	(41)	<b>4,020</b>	(14)
Dividends paid	<b>(361)</b>	(361)	<b>(721)</b>	(721)
Decrease (increase) in refundable dividend tax on hand	<b>(99)</b>	507	<b>(140)</b>	424
	<b>3,550</b>	105	<b>3,159</b>	(311)
<b>Net increase (decrease) in cash during the period</b>	<b>939</b>	270	<b>(2,412)</b>	(1,029)
<b>Cash - Beginning of period</b>	<b>243</b>	867	<b>3,594</b>	2,166
<b>Cash - End of period</b>	<b>1,182</b>	1,137	<b>1,182</b>	1,137

## Consolidated Statements of Retained Earnings

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<i>(Unaudited)</i>				
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$	\$	\$
<b>Retained earnings - Beginning of period</b>	<b>37,143</b>	34,705	<b>37,547</b>	35,374
Net investment income for the period	<b>599</b>	570	<b>1,100</b>	1,278
Net realized gain (loss) on investments*	<b>1,013</b>	93	<b>509</b>	(841)
Net (increase) decrease in refundable dividend tax on hand	<b>(99)</b>	507	<b>(140)</b>	424
	<b>38,656</b>	35,875	<b>39,016</b>	36,235
<b>Dividends paid</b>	<b>(361)</b>	(361)	<b>(721)</b>	(721)
<b>Retained earnings - End of period</b>	<b>38,295</b>	35,514	<b>38,295</b>	35,514
<b>Dividends per share</b>	<b>0.075</b>	0.075	<b>0.150</b>	0.150

\* Refer to analysis provided in the accompanying Consolidated Schedule of Realized Loss and Unrealized Gains (Losses) on Investments.

## Consolidated Schedule of Realized and Unrealized Gains (Losses) on Investments

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<i>(Unaudited)</i>				
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$	\$	\$
The net realized gain (loss) on investments was as follows:				
Proceeds from disposition of investments	<b>5,865</b>	5,067	<b>8,821</b>	8,499
Investments at cost - Beginning of period	<b>62,199</b>	57,890	<b>61,243</b>	58,016
Investments purchased during the period	<b>9,423</b>	4,901	<b>13,839</b>	9,486
Investments at cost - End of period	<b>(66,770)</b>	(57,838)	<b>(66,770)</b>	(57,838)
Cost of investments disposed of during the period	<b>4,852</b>	4,953	<b>8,312</b>	9,664
Realized gain (loss) on disposition of investments before income taxes	<b>1,013</b>	114	<b>509</b>	(1,165)
Income tax recovery (provision) on allowable capital losses (realized net taxable capital gains)	-	(21)	-	324
<b>Net realized gain (loss) on investments</b>	<b>1,013</b>	93	<b>509</b>	(841)
The change in unrealized gain on investments was as follows:				
Unrealized gain on investments - Beginning of period	<b>119,771</b>	93,161	<b>105,994</b>	77,052
Change in unrealized gain on investments - net of future income taxes	<b>10,506</b>	(8,415)	<b>24,283</b>	7,694
<b>Unrealized gain on investments - End of period</b>	<b>130,277</b>	84,746	<b>130,277</b>	84,746



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To change your address, eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare at the above address.

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Trading Symbol: THD

## PUBLICATION

Net asset value per share (NAV) and/or market price and market return are published daily/weekly in various media in Canada and the United States. These include: Globe and Mail, National Post, New York Times, Wall Street Journal, and Barron's.

The Corporation posts ongoing top 10 portfolio investments (priced at market), together with current NAV and market return information on its website. Similar information is available directly from the Corporation upon request.

The Corporation is a founding member of the Closed-End Fund Association (CEFA) in North America.

