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Third Canadian General  
Investment Trust Limited



INTERIM REPORT 2006

## CORPORATE PROFILE

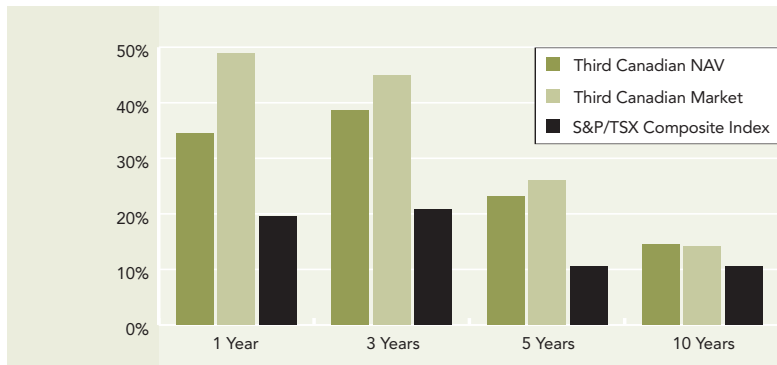
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**Third Canadian General Investment Trust Limited (Third Canadian)**, founded in 1928, is one of the oldest publicly listed closed-end funds in North America and certainly one of the most unusual. Third Canadian's objective is to provide its investors with above-average returns comprised of a blend of current income and long-term capital appreciation through its investment in Canadian and international products including equities, funds, income trusts and related products.

Third Canadian has been managed since 1956 by investment manager Morgan Meighen & Associates Limited (website: [mmainvestments.com](http://mmainvestments.com)).

### COMPOUND ANNUAL RETURNS FOR THE PERIODS TO JUNE 30, 2006

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*Certain financial information contained in this report, including investment growth rates, rates of return and other such statistical information are historical values and past performance is no assurance or indicator of future returns. Historical returns assume the reinvestment of all distributions. Share prices, net asset values and investment returns will fluctuate. 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.*

## LETTER TO SHAREHOLDERS

Third Canadian lost a portion of its excellent first quarter returns but is still comfortably ahead of the benchmark S&P/TSX with year-to-date net asset value (NAV) and market returns, with dividends reinvested, of 7.4% and 8.9%, respectively.

After steadily rising in the early part of the year, almost half of the returns established by the S&P/TSX Composite Index (S&P/TSX) in the first quarter were clawed back in the bearish tone of the second quarter. The resultant loss of almost 9% occurred during just two weeks, slightly less than the 10% level that unofficially seems to define a market correction. Fortunately, some stocks recovered by quarter-end with the S&P/TSX achieving a year-to-date total return of 4.2%, compared to the stronger 8.0% showing at March 31, 2006.

Repercussions of rising interest rates on economic activity caused concern as the timeframe for a pause in rate hikes became uncertain. The S&P/TSX posted its worst quarterly performance since 2002, with only one of its ten sectors, that being Materials, showing only a marginal gain.

Investors in Canadian markets are watching not only the Bank of Canada and its actions, but central banks around the world, as rising global rates and industry costs work against strengths such as continuing low inventories and development of supply for our dominant resources sectors.

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President & CEO*

## INVESTMENT COMMENTARY

## Third Canadian's Principal Assets

Third Canadian's principal assets, unchanged for many years, were reduced with the tender of Canadian General Investments, Limited (CGI) warrants to an offer by the issuer, at June 30, 2006.

CGI, the core holding in Third Canadian's portfolio, offered its warrant holders a cash tender for all of their outstanding warrants by way of an Offer to Purchase. Issued in conjunction with CGI's listing on the London Stock Exchange in 1995, and due to expire on June 30, 2007, the warrants provided a levered investment contributing to the excellent returns produced by CGI over the years. Third Canadian tendered its 1,526,578 warrants at the offering price of \$22.35 for total proceeds of \$34,119,000. The holding represented more than 11% of portfolio assets prior to disposition. Two long-term principal investments remain, CGI common shares and Canadian World Fund Limited common shares, forming 65.6% of the total portfolio compared to 78.3% (including the CGI warrants) at March 31, 2006.

Year to date, CGI has outperformed in both NAV and market price total returns, posting 5.9% and 6.1% gains respectively, compared to 4.2% for the benchmark S&P/TSX. The CGI warrants contributed a much higher 18.0% gain in the same period and, saving the best for last, CWF led the group with a 20.5% year-to-date market price return.

CGI's top five sectors and holdings as at June 30, 2006, excluding cash, were as shown in the table below.

## Canadian General Investments, Limited

Top 5 Sectors*	% at market	Top 5 Investments*	% at market
Financials	27.4	Cameco Corporation	2.8
Energy	18.8	Falconbridge Limited	2.8
Materials	18.2	TSX Group Inc.	2.4
Industrials	9.5	Rogers Communications Inc.	1.8
Consumer Discretionary	4.9	BMTC Group Inc.	1.6
	78.8		11.4

\* Excludes cash which represented 7.6% of CGI's investment portfolio.

## LETTER TO SHAREHOLDERS (CONTINUED)

### Third Canadian's Non-Principal Assets

A substantial increase in the size of the non-principal portfolio assets will occur when the CGI warrant proceeds are fully invested, moving to over \$100 million from \$66.7 million prior to the tender. The expansion of this portfolio segment in the last few years has been impressive. It is now bigger than Third Canadian's total portfolio was on December 31, 2002.

No major changes have been made in allocation, with Canadian income trusts remaining the largest segment. Although the spread of the trust subsector to the second largest subsector (Canadian equities) narrowed, the aggregate dollars remained fairly consistent. Many of the concerns affecting the general markets have also pressured the income trust market lately as oil and diversified business trusts carry a large weighting in the asset class. In particular, the uncertainty of interest rate levels has made investors cautious about all yield products.

It is anticipated that the size of all subsectors in the non-principal assets will increase in the near future as the new cash is invested. This process will support the ongoing application of a diversified portfolio strategy alongside the principal assets as a way to complement overall portfolio returns.

### Going Forward

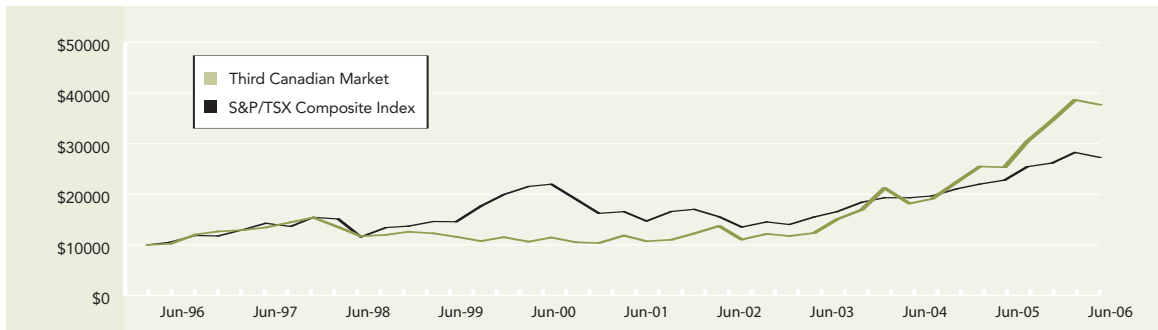
Markets have been turbulent recently with investors beginning to wonder if the multi-year rally has run its course for the time being. Even though an unsettled environment for the markets may persist for a time, we remain optimistic that fundamentals will be supported by a strong global economy led by China, India and other emerging growth areas and not least the United States. Third Canadian will be positioned to take full advantage of the market upside when sentiment turns more positive, rewarding shareholders for their long term commitment.

On behalf of the Manager,

Michael A. Smedley  
*Chief Portfolio Officer*

D. Greg Eckel  
*Senior Vice-President*

### Growth of a \$10,000 Investment - 10 Years to June 30, 2006



## MANAGEMENT REPORT OF FUND PERFORMANCE

### MANAGEMENT DISCUSSION OF FUND PERFORMANCE

#### RESULTS OF OPERATIONS

##### Performance

Third Canadian General Investment Trust Limited's (Third Canadian) net asset value per share (NAV) at June 30, 2006 was \$48.94, up from \$45.71 at year-end 2005. The NAV return, with dividends reinvested, for the six-month period to June 30, 2006 was 7.4%, compared with a total return of 4.2% for the benchmark S&P/TSX Composite Index. The Company's net assets at June 30, 2006 were \$235,210,000, representing a 7.1% increase from the \$219,701,000 at the end of 2005. This increase can be largely attributable to the year-to-date market value return of 9.0% in its principal asset segment, consisting of holdings in Canadian General Investments, Limited (CGI) and Canadian World Fund Limited (CWF).

At the end of June, Third Canadian tendered its holding in warrants of CGI to a substantial issuer bid announced by that company on May 23, 2006. These warrants had been issued to all shareholders of CGI at no cost in early 1995. This sale resulted in a realized gain on investments, before income taxes, of \$34.1 million for the Company. The proceeds are being invested in the non-principal asset segment of the portfolio, which consists of a diverse range of Canadian income trusts and Canadian and foreign equities. Primarily due to the tender of CGI warrants, principal assets represented 65.7% of the investment portfolio, down from 76.0% at the end of 2005.

Third Canadian has a revolving credit facility for investment leverage purposes of \$27.0 million comprising bankers' acceptances and term loans, with interest at a quoted one-year rate or based on the prime bankers' acceptance rate. The Company was in compliance with all specified covenants pertaining to the loans throughout the first six months of 2006. At June 30, 2006 the bank indebtedness had a combined weighted-average interest rate of 4.63% per annum and is repayable over various maturity dates in 2006 and 2007. During the first six months of 2006, Third Canadian utilized \$25 million of its credit facility. As at June 30, 2006, the outstanding borrowings represented 10.7% of net assets.

#### RECENT DEVELOPMENTS

Aside from normal market fluctuations to which the Company's portfolio is subject, Third Canadian has had no material recent developments since the 2005 annual Management Report of Fund Performance other than as described in the Results of Operations section of this report.

#### RELATED PARTY TRANSACTIONS

The Company is managed by Morgan Meighen & Associates Limited (MMA), a company under common control with Third Canadian and its principal assets.

At the end of the period, Third Canadian's principal assets consist of common shares of CGI and CWF. Third Canadian has ownership interests in CGI and CWF of approximately 37% and 27%, respectively. Third Canadian, CGI and CWF are all listed closed-end investment funds.

MMA provides continuing advice and investment management services as well as administration, financial reporting and other ancillary services required by a publicly listed corporation. Further information concerning this matter is described in the Management Fees section of this report.

2006 INTERIM REPORT | THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED  
**MANAGEMENT REPORT OF FUND PERFORMANCE**  
 (CONTINUED)

## 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, 2006 and the prior five financial years. This information is derived from the Company's audited annual financial statements and unaudited interim financial statements.

### The Company's Net Asset Value (NAV) per Share <sup>(1)</sup>

	Six months ended June 30 2006	2005	2004	2003	2002	2001
<b>Net asset value, beginning of period</b>	\$ 45.71	\$ 31.78	\$ 25.30	\$ 17.85	\$ 19.50	\$ 20.61
<b>Increase (decrease) from operations:</b>						
Total Revenue	0.47	0.91	0.81	0.84	0.83	0.86
Total Expenses	(0.29)	(0.43)	(0.31)	(0.28)	(0.31)	(0.33)
Income tax recovery (provision)	0.02	-	0.02	0.02	0.01	0.02
Realized gains (losses) for the period <sup>(2)</sup>	6.04	1.46	0.35	0.35	(0.23)	0.22
Unrealized gains (losses) for the period	(2.83)	12.69	6.02	7.16	(1.53)	(1.43)
<b>Total increase (decrease) from operations</b>	3.41	14.63	6.88	8.09	(1.23)	(0.66)
<b>Dividends paid to shareholders:</b>						
Taxable dividends <sup>(3)</sup>	(0.15)	(0.75)	(0.55)	(0.55)	(0.30)	(0.45)
<b>Net (increase) decrease in refundable dividend tax on hand</b>	(0.03)	0.05	0.14	(0.09)	(0.12)	-
<b>Net asset value, end of period</b>	48.94	45.71	31.78	25.30	17.85	19.50

(1) Net asset value 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 period.

(2) Includes capital gains dividends received – net of income taxes.

(3) Dividends were paid in cash.

## RATIOS AND SUPPLEMENTAL DATA

	Six months ended June 30 2006	2005	2004	2003	2002	2001
Net assets (000's) <sup>(1)</sup>	\$ 235,210	\$ 219,701	\$ 152,726	\$ 121,611	\$ 85,768	\$ 93,698
Number of shares outstanding	4,805,910	4,805,910	4,805,910	4,805,910	4,805,910	4,805,910
Management expense ratio <sup>(2) -</sup>	4.23%	4.39%	5.16%	4.87%	4.95%	5.20%
Management expense ratio excluding leverage costs and proportionate share of expenses of holdings in other investment funds <sup>(2) (3) -</sup>	0.73%	0.68%	0.68%	0.73%	0.86%	0.75%
Portfolio turnover rate – total portfolio <sup>(4)</sup>	7.58%	10.23%	10.64%	7.21%	5.88%	13.44%
Portfolio turnover rate – non – principal asset segment <sup>(5)</sup>	31.51%	41.28%	41.12%	26.70%	22.52%	48.04%
Trading expense ratio <sup>(6) -</sup>	0.07%	0.06%	0.07%	0.06%	0.03%	0.13%
Closing market price	42.30	38.96	25.85	19.96	14.79	13.65

(1) This information is provided as at the end of the financial period 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. As Third Canadian invests in CGI and CWF, which are investment funds, total expenses also include Third Canadian's proportionate share of the expenses of CGI and CWF.

(3) Leverage costs reflect interest on bank borrowings.

(4) The Company's portfolio turnover rate indicates how actively the Company's portfolio adviser manages its 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 a high turnover rate and the performance of a fund.

(5) This turnover rate excludes the Company's principal asset holdings.

(6) 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.

~ Ratios for the six months ended June 30, 2006 have been annualized.

## MANAGEMENT REPORT OF FUND PERFORMANCE (CONTINUED)

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### MANAGEMENT FEES

The Company pays a management fee that is calculated monthly at 1.0% per annum of the consolidated net asset value (adjusted to include future income taxes, any tax liabilities and any borrowings as part of consolidated net asset value) of the Company (calculated without regard to the value of any securities owned by the Company or its subsidiaries in any company or other entity whose investment portfolio is managed by the Manager). The Manager is also entitled to receive an administration fee of 0.2% per annum of the market value of the securities owned by the Company or its subsidiaries in any company or other entity whose investment portfolio is managed by the Manager. Prior to 2006, the management fee and administration fee were calculated quarterly in arrears at the same 1.0% and 0.2% rates. 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, 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 Third Canadian.

### PAST PERFORMANCE

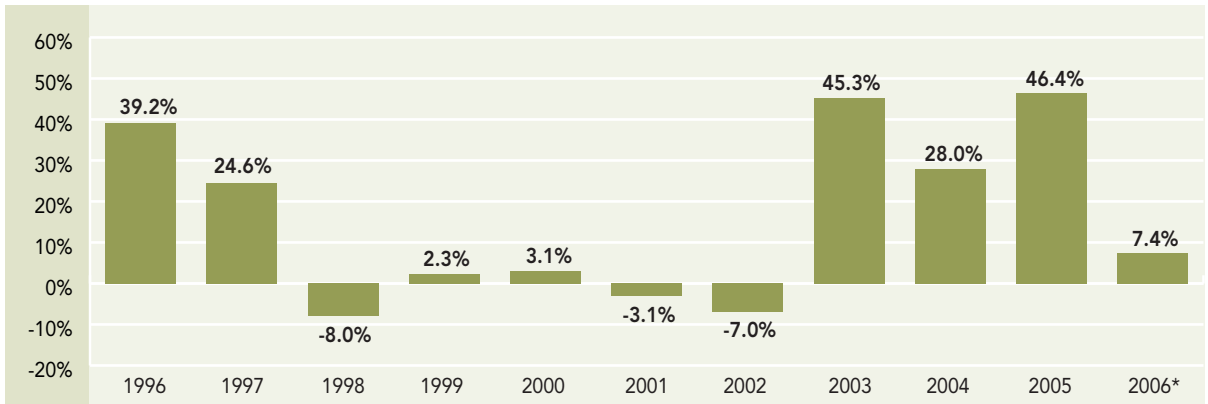
The performance information shown assumes that all dividends paid by Third Canadian were reinvested in additional shares of the Company. The performance information does not take into account an investor's broker commissions or other fees that would have reduced returns or performance. How the Company 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 interim performance for the six months ended June 30, 2006, 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 financial period would have grown or decreased by the last day of each financial period.

The bar chart below illustrates the net asset value per share return with dividends reinvested at the net asset value per share – this is the best representation of the performance of the Company.

### Net Asset Value Returns



\* For the six-month period ended June 30, 2006.

The bar chart below illustrates the market return, with dividends reinvested at the market price – this is the best representation of the return to a shareholder of the Company.

### Market Value Returns



\* For the six-month period ended June 30, 2006.

## MANAGEMENT REPORT OF FUND PERFORMANCE (CONTINUED)

### SUMMARY OF INVESTMENT PORTFOLIO

as at June 30, 2006

#### Top 25 Holdings

Issuer	Country	Sector	% of Net Assets*	% of Investment Portfolio
Canadian General Investments, Limited**	Canada	Principal Assets	79.5	63.7
Canadian World Fund Limited**	Canada	Principal Assets	2.5	2.0
Northern Property Real Estate Investment Trust	Canada	Canadian Income Trusts	1.2	0.9
First Capital Realty Inc.	Canada	Canadian Equities/Other	0.9	0.7
Home Capital Group Inc.	Canada	Canadian Equities/Other	0.8	0.7
ARC Energy Trust	Canada	Canadian Income Trusts	0.8	0.7
Wajax Income Fund	Canada	Canadian Income Trusts	0.8	0.6
TransForce Income Fund	Canada	Canadian Income Trusts	0.7	0.6
Newalta Income Fund	Canada	Canadian Income Trusts	0.7	0.6
Google Inc.	U.S.A	Foreign Equities	0.7	0.6
Lakeport Brewing Income Fund	Canada	Canadian Income Trusts	0.7	0.5
WFI Industries Ltd.	Canada	Canadian Equities/Other	0.7	0.5
IPSCO Inc.	Canada	Canadian Equities/Other	0.7	0.5
CCS Income Trust	Canada	Canadian Income Trusts	0.7	0.5
Livingston International Income Fund	Canada	Canadian Income Trusts	0.7	0.5
Dollar Financial Corp.	U.S.A	Foreign Equities	0.6	0.5
Trinidad Energy Services Income Trust	Canada	Canadian Income Trusts	0.6	0.5
Hansen Natural Corporation	U.S.A	Foreign Equities	0.6	0.5
Toro Company	U.S.A	Foreign Equities	0.6	0.5
AltaGas Income Trust	Canada	Canadian Income Trusts	0.6	0.5
SanDisk Corporation	U.S.A	Foreign Equities	0.6	0.5
Canadian Western Bank	Canada	Canadian Equities/Other	0.6	0.5
Wynn Resorts, Limited	U.S.A	Foreign Equities	0.6	0.5
Pembina Pipeline Income Fund	Canada	Canadian Income Trusts	0.6	0.5
North West Company Fund	Canada	Canadian Income Trusts	0.6	0.5
			98.1*	78.6
<b>Total Net Assets* (\$000's)</b>				<b>\$ 235,210</b>
<b>Total Investment Portfolio* (\$000's)</b>				<b>\$ 293,585</b>

\* Total Net Assets represents Total Investment Portfolio adjusted for future income taxes on unrealized net capital gains (\$39.0 million), leverage in the form of bank indebtedness (\$25.0 million), other assets and other liabilities. The Total Investment Portfolio includes a receivable on securities sold, net of a payable on securities purchased, of \$32,530,000.

\*\* Investments in TSX listed closed-end investment funds under common control with the Company. Information on these funds is available on the Internet at [www.sedar.com](http://www.sedar.com) or by visiting the Manager's web site at [www.mmainvestments.com](http://www.mmainvestments.com).

## SUMMARY OF INVESTMENT PORTFOLIO

as at June 30, 2006

### Portfolio Breakdown

	(\$000's)	% of Net Assets *	% of Investment Portfolio
Principal Assets	192,800	82.0	65.7
Canadian Income Trusts	28,918	12.3	9.8
Canadian Equities/Other	23,448	10.0	8.0
Foreign Equities	15,889	6.7	5.4

\* Total Net Assets represents Total Investment Portfolio adjusted for future income taxes on unrealized net capital gains (\$39.0 million), leverage in the form of bank indebtedness (\$25.0 million), other assets and other liabilities. The Total Investment Portfolio includes a receivable on securities sold, net of a payable on securities purchased, of \$32,530,000.

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.mmainvestments.com](http://www.mmainvestments.com), by calling 416-366-2931 (Toll-free: 1-866-443-6097), or by writing to the Company at 110 Yonge Street, Suite 1601, Toronto, Ontario, Canada, M5C 1T4.

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

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

2006 INTERIM REPORT | THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

## CONSOLIDATED STATEMENTS OF NET ASSETS

<i>As at June 30, 2006 and December 31, 2005</i> <i>(in thousands of dollars, except per share amounts)</i>	<b>June 30, 2006</b> <b>Unaudited</b> <b>\$</b>	<b>December 31, 2005</b> <b>Audited</b> <b>\$</b>
<b>Assets</b>		
Investments at market value (cost - \$80,284; 2005 - \$72,550)	261,055	269,911
Cash	-	5,023
Receivable for securities sold	34,119	379
Interest and dividends receivable	282	438
	295,456	275,751
<b>Liabilities</b>		
Bank indebtedness (note 2)	25,133	24,906
Accounts payable and accrued liabilities	248	105
Income taxes payable	5,740	507
Payable for securities purchased	1,589	-
Future income taxes on unrealized gain on investments	27,536	30,532
	60,246	56,050
<b>Net Assets</b>	235,210	219,701
<b>Shareholders' Equity</b>		
Capital stock	6,504	6,504
Contributed surplus	2,681	2,681
Unrealized gain on investments, net of future income taxes	153,235	166,829
Retained earnings (note 3)	72,790	43,687
	235,210	219,701
<b>Number of shares outstanding</b>	4,805,910	4,805,910
<b>Net asset value per share</b>	48.94	45.71

## CONSOLIDATED STATEMENTS OF OPERATIONS

<i>For the six months ended June 30 (Unaudited)</i> <i>(in thousands of dollars, except per share amounts)</i>	<b>2006</b> <b>\$</b>	<b>2005</b> <b>\$</b>
<b>Investment income</b>		
Dividends	1,175	1,138
Interest and other	1,057	874
Securities lending revenue	22	1
	2,254	2,013
<b>Expenses</b>		
Management fees (note 4)	650	425
Interest (note 2)	502	343
Capital taxes	58	12
Directors' fees and expenses	55	33
Listings and regulatory	38	33
Audit fees	18	18
Securityholder reporting costs	13	13
Custodial fees	5	4
Legal fees	3	37
Other	63	13
	1,405	931
<b>Net investment income before income taxes</b>	849	1,082
<b>Income tax recovery (note 5)</b>	(91)	(18)
<b>Net investment income for the period</b>	940	1,100
<b>Realized and unrealized gains (losses) on investments</b>		
Net realized gain on investments, net of income taxes of \$6,397 (2005 - \$nil) (note 5)	29,025	509
Change in unrealized gain on investments, net of future income taxes of \$(2,996) (2005 - \$5,464)	(13,594)	24,283
<b>Net gain on investments</b>	15,431	24,792
<b>Increase in net assets resulting from operations for the period</b>	16,371	25,892
<b>Increase in net assets resulting from operations per share</b>		
(based on 4,805,910 (2005 - 4,805,910) weighted-average shares outstanding during the period)	3.41	5.39

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

<i>For the six months ended June 30 (Unaudited)</i> <i>(in thousands of dollars)</i>	<b>2006</b> <b>\$</b>	<b>2005</b> <b>\$</b>
<b>Increase in net assets resulting from operations for the period</b>	16,371	25,892
Dividends paid to shareholders	(721)	(721)
Net increase in refundable dividend tax on hand	(141)	(140)
<b>Increase in net assets during the period</b>	15,509	25,031
<b>Net assets, Beginning of period</b>	219,701	152,726
<b>Net assets, End of period</b>	235,210	177,757

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>For the six months ended June 30 (Unaudited)</i> <i>(in thousands of dollars)</i>	<b>2006</b> <b>\$</b>	<b>2005</b> <b>\$</b>
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net investment income	940	1,100
Income tax provision included in net gain on investments	(6,397)	-
Purchases of investments	(23,080)	(13,839)
Proceeds of disposition of investments	50,768	8,821
Net change in non-cash balances related to operations	(26,619)	(1,653)
	(4,388)	(5,571)
<b>Financing activities</b>		
Increase in bank indebtedness	227	4,020
Dividends paid to shareholders	(721)	(721)
Net increase in refundable dividend tax on hand	(141)	(140)
	(635)	3,159
<b>Net decrease in cash during the period</b>	(5,023)	(2,412)
<b>Cash, Beginning of period</b>	5,023	3,594
<b>Cash, End of period</b>	-	1,182

## CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

June 30, 2006 (Unaudited)

Number or Par Value	Investment	Cost \$	Market Value \$
<i>(in thousands of dollars)</i>			
<b>PRINCIPAL ASSETS (65.7%)</b>			
7,629,811	Canadian General Investments, Limited	20,969	186,930
1,120,211	Canadian World Fund Limited	5,601	5,870
<b>TOTAL PRINCIPAL ASSETS</b>		<b>26,570</b>	<b>192,800</b>
<b>CANADIAN INCOME TRUSTS (9.8%)</b>			
62,500	Ag Growth Income Fund, units	996	1,025
50,000	AltaGas Income Trust, units	484	1,450
70,000	ARC Energy Trust, units	579	1,959
35,000	Bonnett's Energy Services Trust, units	350	908
90,000	Canada Cartage Diversified Income Fund, units	895	986
43,000	CCS Income Trust, units	1,512	1,588
20,000	Davis + Henderson Income Fund, units	201	350
30,000	Fording Canadian Coal Trust, units	257	1,062
40,000	Labrador Iron Ore Royalty Income Fund, units	955	948
100,000	Lakeport Brewing Income Fund, units	1,006	1,610
60,000	Livingston International Income Fund, units	979	1,559
51,000	Newalta Income Fund, units	985	1,667
30,000	North West Company Fund, units	454	1,346
130,000	Northern Property Real Estate Investment Trust, units	1,673	2,785
85,000	Pembina Pipeline Income Fund, units	807	1,374
30,000	Penn West Energy Trust, units	860	1,344
75,000	Pollard Banknote Income Fund, units	955	754
55,200	Stoneham Drilling Trust, units	785	1,145
103,241	TransForce Income Fund, units	1,570	1,750
85,000	Trinidad Energy Services Income Trust, units	872	1,494
45,000	Wajax Income Fund, units	1,094	1,814
<b>TOTAL CANADIAN INCOME TRUSTS</b>		<b>18,269</b>	<b>28,918</b>

Number or Par Value	Investment	Cost \$	Market Value \$
<i>(in thousands of dollars)</i>			
<b>CANADIAN EQUITIES/OTHER (8.0%)</b>			
20,000	Alcan Inc.	1,000	1,048
250,000	Amerigo Resources Ltd.	650	573
20,000	Cameco Corporation	849	894
220,000	Canadian Hydro Developers, Inc.	1,160	1,140
32,786	Canadian Western Bank	795	1,409
40,000	CCL Industries Inc, B non-voting	989	1,315
57,600	Corby Distilleries Ltd., B non-voting	483	1,158
500,000	Equinox Minerals Limited	775	650
1,000,000	First Capital Realty Inc., 5.50% 9/30/2017 convertible debenture	970	1,000
34,248	First Capital Realty Inc.	535	788
26,880	First Capital Realty Inc., warrants 8/31/2008	-	297
43,000	Galleon Energy Inc., A	878	932
60,000	Home Capital Group Inc.	779	1,977
15,000	IPSCO Inc.	1,673	1,604
1,150,000	Magna International Inc., 6.50% 3/31/2010 convertible debenture	1,355	1,236
200,000	Matrikon Inc.	1,066	870
20,000	Ritchie Bros. Auctioneers Incorporated	946	1,186
35,000	Russel Metals Inc.	901	905
450,000	Scorpio Mining Corporation, shares (r08/25/2006)	407	450
225,000	Scorpio Mining Corporation, warrants 04/24/2008 (r08/25/2006)	110	74
45,000	SNC-Lavalin Group Inc.	1,003	1,335
15,000	Teck Cominco Limited, B subordinate voting	1,035	1,001
325,000	Terra Energy Corp., warrants 7/27/2006	83	-
84,500	WFI Industries Ltd.	1,441	1,606
<b>TOTAL CANADIAN EQUITIES/OTHER</b>		<b>19,883</b>	<b>23,448</b>

## CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO (CONTINUED)

June 30, 2006 (Unaudited)

Number or Par Value	Investment	Cost \$	Market Value \$	Market Value \$
<i>(in thousands of dollars)</i>				<i>(in thousands of dollars)</i>
<b>FOREIGN EQUITIES (5.4%)</b>				<b>RECONCILIATION OF INVESTMENT PORTFOLIO TO NET ASSETS</b>
15,000	Best Buy Co., Inc.	872	917	INVESTMENT PORTFOLIO (124.8%)
630,000	Bolnisi Gold NL	1,045	1,293	FUTURE INCOME TAXES ON
75,000	Dollar Financial Corp.	1,463	1,505	UNREALIZED GAIN
3,500	Google Inc., A	1,641	1,637	ON INVESTMENTS (-11.7%)
7,000	Hansen Natural Corporation	1,283	1,486	(27,536)
20,000	Investment Technology Group, Inc.	1,290	1,134	BANK INDEBTEDNESS (-10.7%)
14,000	MGM MIRAGE	465	637	(25,133)
40,000	NetEase.com, Inc., ADR	981	996	OTHER ASSETS AND LIABILITIES,
10,000	Phelps Dodge Corporation	849	916	NET (-2.4%)
25,000	SanDisk Corporation	1,425	1,421	(5,706)
28,000	The Toro Company	1,563	1,458	<b>NET ASSETS (100.0%)</b>
22,000	Walgreen Co.	1,221	1,100	<b>235,210</b>
17,000	Wynn Resorts, Limited	1,464	1,389	
<b>TOTAL FOREIGN EQUITIES</b>		<b>15,562</b>	<b>15,889</b>	
TOTAL INVESTMENTS (88.9%)				80,284
RECEIVABLE ON SECURITIES SOLD, NET OF PAYABLE ON SECURITIES PURCHASED (11.1%)				32,530
<b>INVESTMENT PORTFOLIO (100.0%)</b>				<b>112,814</b>
				293,585

Percentage amounts in brackets represent market value as a percentage of Net Assets.

Percentage amounts in brackets represent market value as a percentage of the Investment Portfolio.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 (Unaudited)

These unaudited interim consolidated financial statements do not include all of the disclosures contained in the audited consolidated financial statements and accordingly, should be read in conjunction with the December 31, 2005 audited consolidated financial statements which are available on SEDAR at [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 consolidated financial statements conform to those presented in the Company's December 31, 2005 audited consolidated financial statements.

## 2 BANK INDEBTEDNESS

The Company has a revolving credit facility of \$27.0 million comprising bankers' acceptances and term loans, with interest either at a quoted one-year rate or based on the prime bankers' acceptance rate. The Company must comply with specified covenants during the terms of the loans. The bank indebtedness has a combined weighted-average interest rate of 4.63% per annum as at June 30, 2006 (2005 - 3.83% per annum) and is repayable over various maturity dates in 2006 and 2007.

During the first six months of 2006, the Company utilized \$25.0 million (2005 - between \$17.0 and \$21.0 million) of its revolving credit facility.

## 3 RETAINED EARNINGS

The changes in retained earnings for the six-month periods ended June 30 were as follows:

<i>(in thousands of dollars)</i>	2006	2005
Retained earnings, Beginning of period	43,687	37,547
Net investment income	940	1,100
Net realized gain on investments, net of income taxes	29,025	509
Net increase in refundable dividend tax on hand	(141)	(140)
	73,511	39,016
Dividends paid to shareholders	(721)	(721)
Retained earnings, End of period	72,790	38,295

## 4 RELATED PARTY INFORMATION

Management fees are paid monthly to Morgan Meighen & Associates Limited (MMA) for services received in connection with the management of the Company's financial accounts and investment portfolio among other services. Management fees are calculated on a monthly basis at the annual rate of 1.0% of consolidated net asset value (adjusted to include future income taxes, any income tax liabilities and any borrowings as part of consolidated net asset value) of the Company (calculated without regard to the value of any securities owned by the Company or its subsidiaries in any company or other entity whose investment portfolio is managed by MMA). MMA is also entitled to receive an administration fee of 0.2% of the market value of the securities owned by the Company or its subsidiaries in any company or other entity whose investment portfolio is managed by MMA. Values for fee calculation purposes are determined on the basis of the financial statements of the Company as at the last day of the applicable month. Prior to 2006, management fees were calculated quarterly, with values for fee calculation purposes determined on the basis of the published financial statements of the Company as at the last day of the immediate preceding quarter.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30 (Unaudited)

Included in dividend income is \$916,000 (2005 - \$916,000) and included in the net gain on investments is a realized gain on investments of \$34,119,000 (2005 - \$nil) resulting from the Company's tendering of warrants of Canadian General Investments, Limited (CGI) pursuant to a substantial issuer bid. The Company has an approximate 37% ownership interest in CGI.

The Company has an approximate 27% ownership interest in Canadian World Fund Limited (CWF).

Included in the change in unrealized gain on investments is a decrease of \$17,255,000 (2005 - increase of \$29,225,000) related to the Company's investment in CGI and an increase of \$997,000 (2005 - \$168,000) related to the Company's investment in CWF. These amounts are gross of income taxes.

MMA, CGI and CWF are corporations under common control with the Company.

**5 TAXATION**

The Company's provision for (recovery of) income taxes during the six-month period ended June 30 is made up as follows:

<i>(in thousands of dollars)</i>	2006	2005
<b>Recovery of income taxes on net investment income</b>		
Provision for income taxes based on combined Canadian federal and provincial income tax rate	307	391
Increase (decrease) in income taxes resulting from:		
Dividends from taxable Canadian companies	(398)	(410)
Other	-	1
<b>Income tax recovery</b>	<b>(91)</b>	<b>(18)</b>

<i>(in thousands of dollars)</i>	2006	2005
<b>Provision for income taxes on net realized gain on investments</b>		
Provision for income taxes based on combined Canadian federal and provincial income tax rate	12,795	184
Decrease in income taxes resulting from:		
Non-taxable portion of realized net taxable capital gains	(6,398)	(92)
Other	-	(92)
<b>Income tax provision</b>	<b>6,397</b>	<b>-</b>

**6 SECURITIES LENDING**

The Company has loaned securities with a market value of \$9,500,000 as at June 30, 2006 and the custodian held collateral of \$10,201,000.

**7 BROKERAGE COMMISSIONS PAID ON INVESTMENT TRANSACTIONS**

Brokerage commissions paid on investment transactions for the six months ended June 30, 2006 were \$81,000 (2005 - \$42,000).

# INCOME & GROWTH

Managed by:



*MorganMeighen*

& ASSOCIATES

Investment Managers

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