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Third Canadian General  
Investment Trust Limited



# GROWTH AND INCOME

2003 ANNUAL REPORT

# Corporate Profile

**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 equities, funds, income trusts and related products. The fund qualifies as Canadian content for registered plans in Canada.

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

Net asset value per share (NAV) is calculated daily, and distributed via various news services in Canada and the U.S. NAV and market price information are published in the financial press in Canada on a daily basis and at the weekend in the United States.

Third Canadian is a founding member of the Closed-End Fund Association (CEFA) in North America (website: [www.cefa.com](http://www.cefa.com)).

## Top Ten Investments at Market

*(Excludes cash and non-convertible preference shares)*

*December 31, 2003*

<i>(Portfolio details on page 10)</i>	%
Canadian General Investments, Limited	73.5
Canadian World Fund Limited	2.8
Enerplus Resources Fund	1.2
AltaGas Services Inc.	1.1
RioCan Real Estate Investment Trust	0.9
Pembina Pipeline Income Fund	0.8
Connors Bros. Income Fund	0.7
ARC Energy Trust	0.7
Associated Brands Income Fund	0.7
Home Capital Group Inc.	0.7
<b>Total</b>	<b>83.1</b>

# Top Quartile Performer



Jonathan A. Morgan, Vanessa L. Morgan and Michael A. Smedley

- **Principal assets up 52.3%**
- **Market return 39.2%**

After an inauspicious start as most markets extended their downtrends early in 2003, equity markets around the world staged a turnaround. Investors seized on the opportunities provided by the incipient economic recovery. Third Canadian participated strongly in the favourable new direction and ended 2003 exceeding its benchmark by a considerable margin. Annual net asset value and market returns with distributions reinvested were 45.3% and 39.2%, respectively. In comparison, the benchmark S&P/TSX Composite Total Return Index rose 26.7%. Third Canadian's returns would place it high in the top quartile of Canadian general equity funds.

In the North American context, the S&P/TSX Composite Index ended two years of negative returns, while its counterpart in the United States, the Dow Jones Industrial Average, ended a three-year term of negative performance. After bottoming in March, markets rose steadily throughout the remaining part of the year, despite adverse events such as geopolitical unrest and war, SARS, mad cow disease, serious forest fires, power blackouts and a weakening U.S. dollar.

The principal assets within the investment portfolio had a break-out year. The shares of Canadian General Investments, Limited (CGI), representing 66.5% of the portfolio at year-end, soared 58.3% for the one-year term, assuming reinvestment of dividends. The CGI warrants, representing 7.0% of the portfolio, increased 84.1%. Rounding out the principal assets group, the shares of Canadian World Fund Limited had an impressive 36.9% return. Collectively, these assets, which represented 76.3% of the portfolio at year-end, appreciated in market value by 52.3% for the twelve-month period.

## Income and growth

Non-principal assets, forming 23.7% of the year-end portfolio, ended at a slightly lower percentage of the total portfolio than a year ago, a result of the extraordinary gains achieved by the principal asset group. This contrasted with several prior years when the non-principal assets provided stabilisation in declining markets due to their bias to income generating securities, providing growth as well as high income in an environment of declining interest rates. In 2003, the market value of the non-principal assets increased by 21.7%, also providing a major contribution to the overall portfolio growth. The positive return supports the leveraging approach represented by borrowings of \$15 million at low interest rates.

The Canadian income trust sector comprised slightly more than 50% of total year-end market value of the non-principal assets. We participated in the record number of offerings completed during the year which added \$14 billion in new income funds in Canada last year. At year-end, the approximate total market capitalisation of the sector was an impressive \$83 billion. We remain vigilant for any general weakness in this sector, but believe that continuing growth of the sector should increase its attraction.

Among other interesting investments which provide for a prudent diversified mix complementary to the income trust holdings was AltaGas Services Inc. This is an independent western Canadian midstream natural gas company, yielding 2.8% at year-end, while also offering excellent growth opportunity. Home Capital Group Inc., a recent addition, and also for

some time, a major holding of CGI, specialises in non-standard mortgages. The company has produced spectacular financial results, is well managed and governed, and should continue to perform well. A unique opportunity was seized in the preferred share class with an investment in Nortel Networks Corporation preferred series 5. Bought when Nortel was out of favour, but with the sense that the dividend was secure, this holding showed an unrealised gain of 57% and a dividend yield of 5.6% at year-end.

### Outlook

Leadership from CGI, the engine of performance for Third Canadian, is expected, given further strength in Canadian equity markets, while the non-principal assets, a very important element of the portfolio, will be actively managed to enhance overall returns.

In conclusion, 2003 was a very good year for Third Canadian and we hope for more of the same in 2004.

### Board of Directors and Management

Albert E. Bates, a director of the Corporation since 1994, will not be standing for re-election to the Board at the next Annual Meeting of Shareholders. His colleagues and Management acknowledge with gratitude Mr. Bates' contribution over the past ten years.

With Mr. Bates retiring, the Board of Directors, at their meeting on February 4, 2004, voted unanimously to put forward Shawn S. Cooper of Toronto as a nominee for election to the Board of Directors at the April 2, 2004 shareholder meeting.

Mr. Cooper has extensive experience in the banking sector and is currently Managing Director and Country Manager for Canada, Russell Reynolds Associates, a global executive recruitment and assessment firm.

Also at the February 4, 2004 meeting of the Board, Michael A. Smedley confirmed his decision to stand down as President of the Company, a position he has held since November 1989. The Board expressed its appreciation to Mr. Smedley for his valued contribution that has benefitted all shareholders over the years. Mr. Smedley will remain actively involved with Third Canadian both as a member of the Board, and also as Chief Portfolio Officer of the Management Company, Morgan Meighen & Associates Limited.

To fill the vacancy created by Mr. Smedley's resignation, the Board appointed Jonathan A. Morgan as President and Chief Executive Officer of the Company. Mr. Morgan, previously Vice-President of the Company, continues as a member of the Board of Third Canadian.



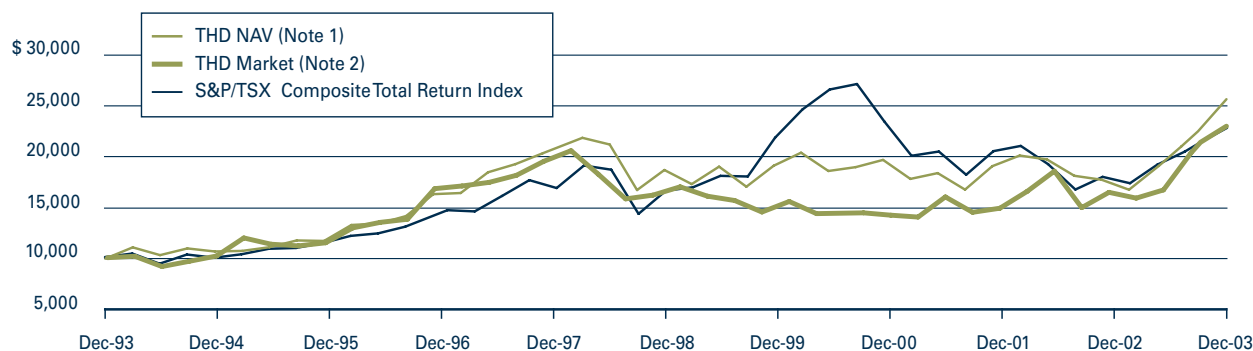
Vanessa L. Morgan  
*Chairman*

February 4, 2004



Jonathan A. Morgan  
*President*

Growth of a \$10,000 Investment – to December 31, 2003



Note 1: Assuming the reinvestment of dividends at month-end closing NAV.  
 Note 2: Assuming the reinvestment of dividends at month-end closing market prices.

# Management's Discussion and Analysis

Third Canadian is a closed-end investment fund that measures its return by the growth of net assets with dividends reinvested. The Corporation experienced its highest annual net asset appreciation for at least a decade in the year 2003, recording an annual per share return of 45.3%, inclusive of dividends reinvested, outperforming the 26.7% return of the benchmark S&P/TSX Composite Total Return Index (S&P/TSX).

## Financial review

At December 31, 2003, net assets were \$121,611,000, up 41.8% from year-end 2002. The increase was largely attributable to the significant uplift of 53.0% in the combined market value of the shares and warrants of Canadian General Investments, Limited (CGI), the Corporation's key principal asset.

For 2003, Third Canadian had net investment income of \$2,797,000, 9.3% higher than the \$2,558,000 recorded in 2002.

Total investment income for 2003, comprised of dividends, interest and other income, increased by 1.3% to \$4,054,000 from \$4,003,000 in 2002. The decline in dividend income of \$341,000 can be primarily attributable to the receipt of a special dividend of \$300,000 from Rothmans Inc. in 2002. Interest and other income increased by \$392,000 for the year. For 2003 and 2002, approximately 90% of interest and other income related to Canadian income trust distributions. The income trust holdings, representing more than one-half of the non-principal portfolio segment and roughly 12% of the total portfolio at year-end 2003, have been a growing portion of the Canadian-listed component of Third Canadian's portfolio over several years and are diversified across many sectors of the Canadian economy.

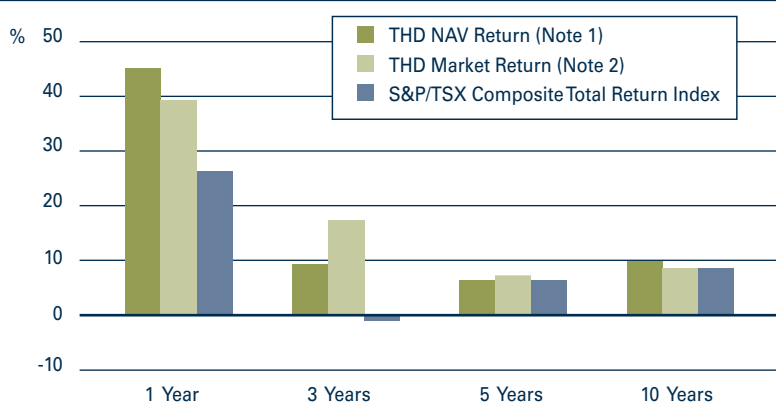
Dividends earned from CGI continue to be the mainstay of this income category, representing 67.1% and 59.7% of total dividend income for 2003 and 2002, respectively, or \$1,831,000 in each year.

Total expenses decreased by 7.5% to \$1,359,000. Lower management fees driven by a decrease in assets under management as well as a reduction in other expenses were responsible for much of the decline. Management fees are calculated quarterly in arrears at the annual rate of 1% of consolidated net asset value, excluding tax liabilities, bank indebtedness and the holdings of the principal assets. An administration fee of 0.2% of the market value applies to the holdings of the principal assets. Interest costs represented the largest component of expenses in both 2003 and 2002. Borrowings were constant at \$15 million throughout both years while the average interest rate in 2003 was 4.4%, slightly higher than the 4.3% rate recorded for 2002.

The management expense ratio (MER) was 0.7% compared to 0.9% for 2002. The MER calculation is based on all expenses, excluding brokerage commissions, interest and all income taxes. Portfolio turnover increased to 7.2% in 2003 from 5.9% in 2002.

The net gain on investments for 2003 was a substantial \$36,094,000 compared to a net loss on investments of \$8,491,000 for 2002. The figures were largely impacted by the 2003 increase in the unrealized appreciation of investments of \$34,433,000 in 2003 and the 2002 decrease of \$7,365,000 in the unrealized appreciation of investments. The 2003 amount also reflects the net of tax inclusion of \$2,244,000 generated from a special capital gains dividend of \$0.36 per share received from CGI in December.

**Compound Average Annual Rates of Return vs. S&P/TSX Composite Total Return Index – For the periods to December 31, 2003**



Note 1: Assuming the reinvestment of dividends at month-end closing NAV.  
 Note 2: Assuming the reinvestment of dividends at month-end closing market prices.

**Weighting of Portfolio Investments at Market – December 31, 2003**

	%
Principal Assets	76.3
Canadian-Listed	21.0
U.K.-Listed	1.5
U.S.-Listed	1.2

Dividend payments to shareholders aggregated \$0.55 per share or \$2,643,000 in 2003, compared to \$0.30 per share or \$1,442,000 in 2002, the difference being an extra year-end dividend payment of \$0.25 in 2003. Based on the year-end market prices, this translates into dividend yields of 2.8% and 2.0% for 2003 and 2002, respectively.

### Principal assets

CGI, which represented almost three-quarters of Third Canadian's portfolio at year-end, is an actively managed Canadian closed-end equity fund with well-diversified holdings. For 2003, CGI's diluted NAV return of 44.0% and market return of 58.3%, both including the reinvestment of dividends, outperformed its benchmark, the S&P/TSX, which posted 26.7%.

CGI's top five S&P/TSX sectors and top five investments (excluding cash, short-term investments and non-convertible preference shares) as at December 31, 2003 were as shown in the table below.

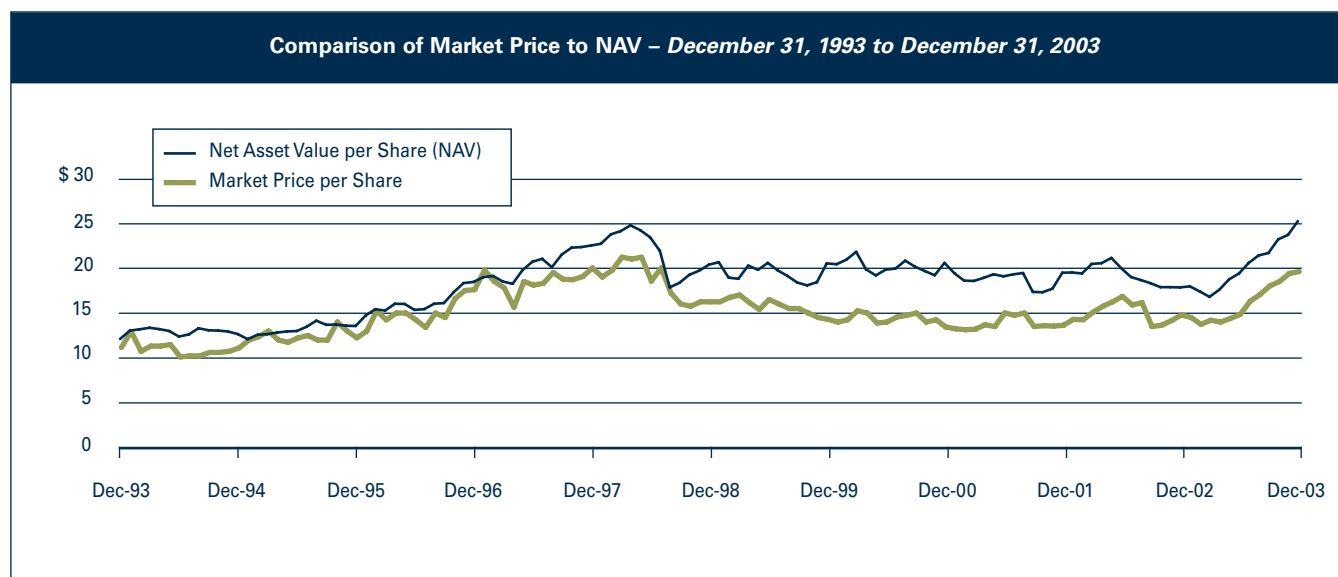
Information concerning CGI, including its annual report, is available via email (cgifund@mmainvestments.com) or toll-free at 1-866-443-6097.

Canadian World Fund Limited (CWF), established in 1994, is a global equities fund that constituted about 3% of Third Canadian's portfolio at December 31, 2003. For 2003, CWF's net asset value per share (NAV) return was 25.4%, while its share price advanced 36.9%, both measures significantly outperforming its benchmark, the Morgan Stanley All-Country World Free Index, which returned 7.7% (in Canadian dollar terms).

### Prospects

At the present time, we expect the marketplace to continue to reflect favourable results into 2004. A continuation of CGI's share performance that was demonstrated in 2003 would certainly benefit Third Canadian, while investors' desire for income should keep the income trust sector stable. Through its principal asset holdings and the mainly income related other assets, Third Canadian will continue to offer investors one of the most diversified portfolios among closed-end funds in Canada.

Canadian General Investments, Limited			
<i>Top 5 Sectors</i>	<i>% at market</i>	<i>Top 5 Investments</i>	<i>% at market</i>
Financials	26.1	BMTC Group Inc.	1.9
Materials	18.0	Enbridge Inc.	1.9
Energy	12.2	Home Capital Group Inc.	1.8
Consumer Discretionary	12.0	Southwestern Resources Corp.	1.8
Utilities	7.6	Bank of Montreal	1.7
	75.9		9.1



# Financial Reports

## Management's Report

The accompanying consolidated financial statements have been prepared by Management and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and other sections of the Annual Report.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies which Management believes are appropriate for the Company are described in note 1 to the consolidated financial statements. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing Management's performance of its financial reporting responsibilities. An Audit Committee comprised of non-Management Directors is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, the audit process and financial reporting with Management and the external Auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

PricewaterhouseCoopers LLP, the Company's external Auditors, who are appointed by the shareholders, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out on this page.



Vanessa L. Morgan  
*Chairman*

February 4, 2004



Jonathan A. Morgan  
*President*

## Auditors' Report

*To the Shareholders of  
Third Canadian General Investment Trust Limited*

We have audited the accompanying consolidated statements of net assets of **Third Canadian General Investment Trust Limited** as at December 31, 2003 and 2002, and the consolidated statement of investments as at December 31, 2003, the consolidated statements of operations, retained earnings, unrealized gain on investments and changes in net assets for the years then ended, and the consolidated statements of financial highlights for each of the years in the five-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and the changes in its net assets for the years then ended and its financial highlights for each of the years in the five-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



*Chartered Accountants*  
Toronto, Ontario

January 19, 2004

## Consolidated Statements of Net Assets

<i>As at December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$
<b>Assets</b>		
Investments <i>(note 1)</i>	145,813	101,445
Cash	2,166	1,686
Receivable on securities sold	–	420
Accrued interest and dividends	219	247
	<b>148,198</b>	<b>103,798</b>
<b>Liabilities</b>		
Bank indebtedness <i>(note 3)</i>	14,943	15,009
Accounts payable and accrued liabilities	79	93
Income taxes payable	820	440
	<b>15,842</b>	<b>15,542</b>
Future income taxes on unrealized net capital gains <i>(note 2)</i>	10,745	2,488
	<b>26,587</b>	<b>18,030</b>
<b>Net Assets</b>	<b>121,611</b>	<b>85,768</b>
<b>Shareholders' Equity</b>		
Capital stock <i>(note 4)</i>	6,504	6,504
Contributed surplus	2,681	2,681
Unrealized gain on investments	77,052	42,619
Retained earnings	35,374	33,964
	<b>121,611</b>	<b>85,768</b>
<b>Number of shares outstanding <i>(note 4)</i></b>	<b>4,805,910</b>	<b>4,805,910</b>
<b>Net asset value per share</b>	<b>25.30</b>	<b>17.85</b>

Approved by the Board of Directors



Director



Director

# Consolidated Statements of Operations

<i>For the years ended December 31, 2003 and 2002</i>	<b>2003</b>	<b>2002</b>
<i>(in thousands of dollars)</i>	\$	\$
<b>Investment income</b>		
Dividends	2,727	3,068
Interest and other	1,327	935
	<b>4,054</b>	<b>4,003</b>
<b>Expenses</b>		
Management fees <i>(note 6)</i>	496	519
Interest <i>(note 3)</i>	654	670
Directors' fees	49	48
Investor relations	40	37
Other	120	195
	<b>1,359</b>	<b>1,469</b>
<b>Investment income before income taxes</b>	<b>2,695</b>	<b>2,534</b>
<b>Income tax recovery <i>(note 2)</i></b>	<b>102</b>	<b>24</b>
<b>Net investment income for the year</b>	<b>2,797</b>	<b>2,558</b>
<b>Realized and unrealized gain (loss) on investments</b>		
Net realized loss on investments <i>(note 5)</i>	(583)	(1,126)
Change in unrealized appreciation of investments	34,433	(7,365)
Capital gains cash dividends received – net of income taxes of \$503 (2002 – \$nil)	2,244	–
<b>Net gain (loss) on investments</b>	<b>36,094</b>	<b>(8,491)</b>
<b>Increase (decrease) in net assets resulting from operations</b>	<b>38,891</b>	<b>(5,933)</b>

## Consolidated Statements of Retained Earnings

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$
<b>Retained earnings – Beginning of year</b>	33,964	34,529
Net investment income for the year	2,797	2,558
Net realized loss on investments	(583)	(1,126)
Capital gains cash dividends received – net of income taxes	2,244	–
Provision for refundable dividend tax on hand	(405)	(555)
	38,017	35,406
<b>Deduct: Dividends</b>	2,643	1,442
<b>Retained earnings – End of year</b>	35,374	33,964
<b>Dividends per share</b>	0.55	0.30

## Consolidated Statements of Unrealized Gain on Investments

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
<b>Unrealized gain on investments – Beginning of year</b>	42,619	49,984
Increase (decrease) during the year	42,690	(8,743)
(Increase) decrease in provision for future income taxes	(8,257)	1,378
<b>Unrealized gain on investments – End of year</b>	77,052	42,619

## Consolidated Statements of Changes in Net Assets

<i>For the years ended December 31, 2003 and 2002</i>	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
<b>Increase (decrease) in net assets resulting from operations</b>	<b>38,891</b>	<b>(5,933)</b>
<b>Distributions to shareholders from net investment income</b>	<b>(2,643)</b>	<b>(1,442)</b>
<b>Net increase in refundable dividend tax on hand</b>	<b>(405)</b>	<b>(555)</b>
<b>Increase (decrease) in net assets</b>	<b>35,843</b>	<b>(7,930)</b>
<b>Net assets – Beginning of year</b>	<b>85,768</b>	<b>93,698</b>
<b>Net assets – End of year</b>	<b>121,611</b>	<b>85,768</b>

## Consolidated Statements of Financial Highlights

<i>For the five-year period ended December 31, 2003</i>	2003	2002	2001	2000	1999
	\$	\$	\$	\$	\$
<b>Data per share (note 7)</b>					
<b>Net asset value – Beginning of year</b>	<b>17.85</b>	<b>19.50</b>	<b>20.61</b>	<b>20.55</b>	<b>20.41</b>
<b>Income (loss) from investment operations</b>					
Net investment income for the year	0.58	0.53	0.55	0.36	0.38
Net realized and unrealized gain (loss) on investments	7.51	(1.76)	(1.21)	0.25	0.06
	<b>8.09</b>	<b>(1.23)</b>	<b>(0.66)</b>	<b>0.61</b>	<b>0.44</b>
<b>Distributions to investors</b>					
From net investment income	(0.55)	(0.30)	(0.45)	(0.55)	(0.30)
Net increase in refundable dividend tax on hand	(0.09)	(0.12)	–	–	–
	<b>(0.64)</b>	<b>(0.42)</b>	<b>(0.45)</b>	<b>(0.55)</b>	<b>(0.30)</b>
<b>Net asset value – End of year</b>	<b>25.30</b>	<b>17.85</b>	<b>19.50</b>	<b>20.61</b>	<b>20.55</b>
<b>Ratios/supplemental data</b>					
Total net assets – End of year <i>(in thousands of dollars)</i>	<b>121,611</b>	<b>85,768</b>	<b>93,698</b>	<b>99,056</b>	<b>98,782</b>
Weighted average monthly net assets <i>(in thousands of dollars)</i>	<b>96,813</b>	<b>92,451</b>	<b>89,963</b>	<b>97,220</b>	<b>93,550</b>
Management expense ratio <i>(note 7(b))</i>	<b>0.7%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.7%</b>	<b>0.8%</b>
Portfolio turnover rate <i>(note 7(c))</i>	<b>7.2%</b>	<b>5.9%</b>	<b>13.6%</b>	<b>18.8%</b>	<b>8.6%</b>
Annual net asset value growth, with distributions reinvested <i>(note 7(d))</i>	<b>45.3%</b>	<b>-7.0%</b>	<b>-3.1%</b>	<b>3.0%</b>	<b>2.2%</b>

# Consolidated Statement of Investments

December 31, 2003

<i>Number of Shares or Par Value</i>	<i>Investment – % of Total Market Value</i>	<i>Cost</i>	<i>Market Value</i>
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*(in thousands of dollars)*

## PRINCIPAL ASSETS – 76.3%

7,629,811	Canadian General Investments, Limited	\$ 20,969	\$ 96,898
1,526,578	Canadian General Investments, Limited wts.	–	10,259
1,120,211	Canadian World Fund Limited	5,601	4,033
<b>TOTAL PRINCIPAL ASSETS</b>		<b>26,570</b>	<b>111,190</b>

## CANADIAN-LISTED – 21.0%

45,000	Advanced Fiber Technologies Income Fund	402	556
100,000	AltaGas Services Inc.+	1,120	1,587
70,000	ARC Energy Trust	584	1,032
90,000	Associated Brands Income Fund	859	1,022
100,000	Bombardier Inc. B	662	547
500,000	Canadian Western Bank conv. deb. 5.5% due March 31, 2008	501	645
50,000	Chemtrade Logistics Income Fund	533	902
75,000	Connors Bros. Income Fund	728	1,090
14,400	Corby Distilleries Ltd. B	484	864
40,000	DALSA Corporation	722	586
40,000	Davis + Henderson Income Fund	414	698
35,000	Energy Savings Income Fund	861	985
43,450	Enerplus Resources Fund	1,001	1,710
33,600	First Capital Realty Inc.	519	534
26,880	First Capital Realty Inc. wts. 8/31/08	–	101
20,000	Fording Canadian Coal Trust*	625	920
30,000	Home Capital Group Inc. B	779	997
45,000	Hot House Growers Income Fund*	450	495
45,000	KCP Income Fund	574	549
60,000	The Keg Royalties Income Fund	569	588
30,000	Livingston International Income Fund*	507	488
40,000	Newalta Income Fund*	628	645
60,000	Nortel Networks Corporation pfd. series 5	768	1,203
30,000	North West Company Fund	454	743
65,000	Northern Property Real Estate Investment Trust+	804	991
237,800	Novicourt Inc.	562	388
85,000	Pembina Pipeline Income Fund	825	1,113
52,500	Prime Restaurants Royalty Income Fund	525	490

<i>Number of Shares or Par Value</i>	<i>Investment – % of Total Market Value</i>	<i>Cost</i>	<i>Market Value</i>
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*(in thousands of dollars)*

90,000	RioCan Real Estate Investment Trust	\$ 1,078	\$ 1,377
27,400	Rothmans Inc.	598	799
95,700	Russel Metals Inc.*	687	841
100,000	Sceptre Investment Counsel Limited A	1,860	710
230,000	Sherritt International Corporation conv. deb. 6% due December 15, 2006	177	236
370,000	Sherritt International Corporation conv. deb. 7% due December 15, 2013*	370	448
45,200	Shiningbank Energy Income Fund	240	843
49,000	Sierra Wireless, Inc.	808	982
25,000	TransAlta Corporation	635	463
164,700	Viceroy Homes Limited A	889	856
55,000	Yellow Pages Income Fund	550	638
<b>TOTAL CANADIAN-LISTED</b>		<b>25,352</b>	<b>30,662</b>

## U.K.-LISTED – 1.5%

800,000	Asset Management Investment Company PLC	3,262	904
75,765	London Stock Exchange plc	439	586
235,000	UK COAL PLC	461	683
<b>TOTAL U.K.-LISTED</b>		<b>4,162</b>	<b>2,173</b>

## U.S.-LISTED – 1.2%

500,000	Magna Entertainment Corp. conv. deb. 7.25% due December 15, 2009	792	562
42,100	Morgan Stanley Dean Witter Emerging Markets Debt Fund, Inc.	467	531
40,000	Templeton Emerging Markets Income Fund, Inc.	673	695
<b>TOTAL U.S.-LISTED</b>		<b>1,932</b>	<b>1,788</b>

## TOTAL INVESTMENTS

– December 31, 2003	\$58,016	\$145,813
– December 31, 2002	\$56,338	\$101,445

*Changes from September 30, 2003: \* New Holdings; + Increased Holdings*

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The consolidated financial statements include the accounts of the Company and its three wholly owned subsidiaries, 1013229 Ontario Limited, 1013230 Ontario Limited and 1013231 Ontario Limited.

### Valuation of investments

Market values of securities are based on closing market quotations.

### Investment transactions

Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions are calculated on an average cost basis.

### Dividend and interest income

Dividend income is recorded on the ex-dividend date and interest income is recognized as earned.

### Foreign exchange

Assets and liabilities denoted in foreign currencies are translated into Canadian dollars at year-end rates. Investment income, expenses and purchases and sales of investments are calculated at the exchange rates prevailing on the dates of the transactions.

### Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax liabilities are measured using rates expected to apply to the taxable income in the years in which the temporary differences are expected to be settled on the Company's unrealized appreciation of investments.

## 2 TAXATION

The Company is subject to income taxes as a public corporation and, accordingly, taxable dividends receivable from taxable Canadian corporations, as defined by the Income Tax Act (Canada), are excluded from taxable income. The Company's provision for income taxes is made up as follows:

### Consolidated statements of operations

	Years ended December 31,	
	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
Provision for income taxes based on combined		
Canadian federal and provincial income tax rate	987	979
Increase (decrease) in taxes resulting from		
Dividends from taxable Canadian companies	(854)	(1,015)
Other items	(235)	12
Actual recovery of income taxes	(102)	(24)

### Consolidated net realized loss on investments (note 5)

	Years ended December 31,	
	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
Recovery of income taxes based on combined Canadian		
federal and provincial income tax rate	(356)	(620)
Decrease (increase) in taxes resulting from		
Non-taxable portion of allowable capital losses	178	310
Other	(211)	(169)
Actual recovery of income taxes	(389)	(479)

## Notes to Consolidated Financial Statements *(continued)*

The Company and its wholly owned subsidiaries are also subject to a special tax of up to 33½% 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 refundable dividend tax on hand of approximately \$960,000 as at December 31, 2003 (2002 – \$555,000).

The effective tax rate for the Company's future income taxes on its unrealized net capital gains is approximately 18% (2002 – 15%).

### 3 BANK INDEBTEDNESS

The Company has a credit facility of CAN\$17.0 million, 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 term of the loan. The bank indebtedness has a combined weighted average interest rate of 4.16% p.a. (2002 – 4.08% p.a.), and includes CAN\$5.0 million for a term to October 2004.

### 4 CAPITAL STOCK

The Company is authorized to issue 60,000 First, Preferred Shares, Series A and an unlimited number of common shares. As at December 31, 2003 and 2002, there are 4,805,910 common shares issued and outstanding.

### 5 CONSOLIDATED NET REALIZED LOSS ON INVESTMENTS

The consolidated net realized loss on investments was as follows:

	Years ended December 31,	
	2003	2002
<i>(in thousands of dollars)</i>	\$	\$
Proceeds from disposition of investments	8,436	6,514
Investments at cost – Beginning of year	56,338	55,224
Investments purchased during the year	11,086	9,233
Investments at cost – End of year	(58,016)	(56,338)
Cost of investments disposed of during the year	9,408	8,119
Realized loss on disposition of investments before income taxes	(972)	(1,605)
Income tax recovery on allowable capital losses <i>(note 2)</i>	389	479
Net realized loss on investments	(583)	(1,126)

### 6 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. Management fees are calculated on a quarterly basis at the annual rate of 1.0% of consolidated net asset value, excluding tax liabilities, bank indebtedness and the holdings of the principal assets and at the rate of 0.2% of the market value of the principal assets.

Included in dividend income is \$1,831,000 (2002 – \$1,831,000) and included in net gain (loss) on investments are capital gains cash dividends of \$2,747,000 (2002 – \$nil) from Canadian General Investments, Limited (CGI) in which the Company has an approximate 37% ownership interest.

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

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

## 7 FINANCIAL HIGHLIGHTS

### Explanatory notes

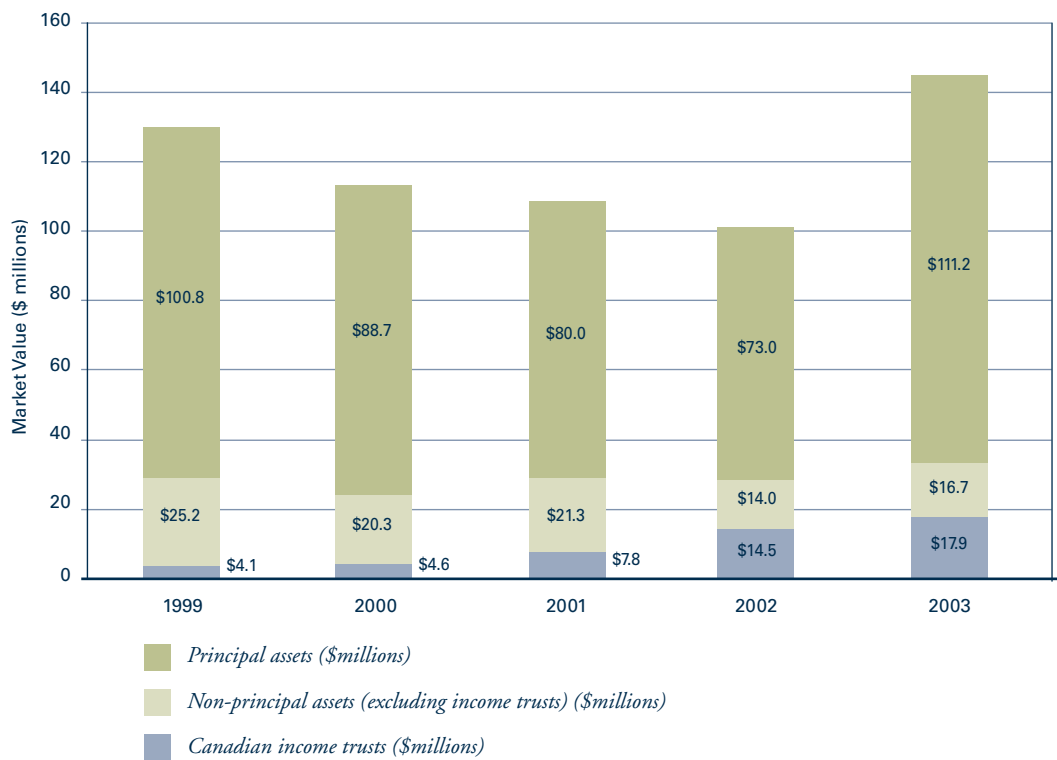
- a) All data per share, except opening and closing net asset values, are based on the average number of shares outstanding during the year.
- b) The management expense ratio is calculated based on all expenses of the Company (other than brokerage commissions, interest and income taxes) expressed as a percentage of the average monthly net assets of the Company.
- c) The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of securities, excluding securities having maturity dates at acquisition of one year or less, by the weighted average monthly value of the portfolio securities held during the year.
- d) Annual net asset value growth is calculated based on the change in net asset value per share with reinvestment of distributions at month-end closing net asset values.

# Portfolio Composition

The graph below illustrates the composition of Third Canadian's portfolio at market as at December 31 for the last 5 years. The principal assets have contributed to the portfolio yield over the period and also provided exceptional growth in 2003. The non-principal assets, which include Canadian and international equities, funds, and income generating securities including a growing component of Canadian income trusts, have provided stability to the overall portfolio, particularly in bear market conditions, and have exhibited both growth and income attributes.

## PORTFOLIO COMPOSITION

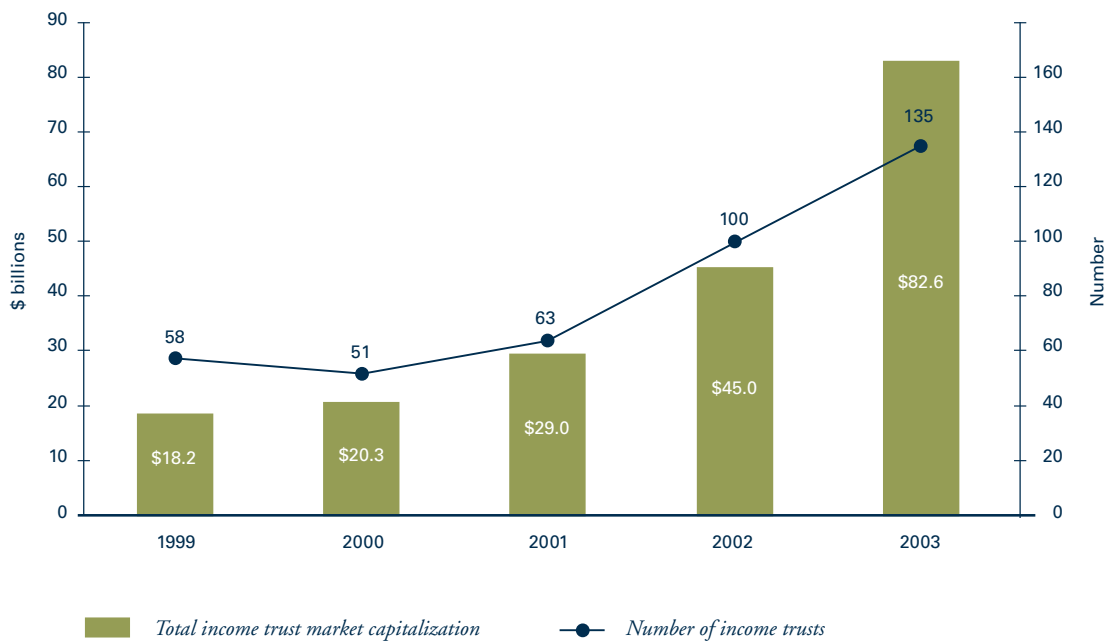
*As at December 31, 1999 – 2003*



# The Canadian Income Trust Sector

The income trust component of Third Canadian's portfolio represents more than 50% of the market value of the non-principal assets at year-end 2003 compared to 14% at the end of 1999. As illustrated in the graph on page 14, the mix of non-principal assets has changed in order to increase Third Canadian's participation in this attractive and growing sector. Overall market growth and an increase in business diversity within the sector requires an actively managed process for Third Canadian to enhance its returns to shareholders.

## GROWTH OF THE CANADIAN INCOME TRUST SECTOR



Source: Data courtesy of CIBC World Markets Inc.

## Ten Year Performance Summary

	Net Assets	Net Assets Per Share	Net Investment Income	Net Investment Income Per Share	Dividends Per Share	Market Value Per Share		
						High	Low	Close
	<i>(000's)</i>		<i>(000's)</i>					
1994	\$60,573	\$12.60	\$1,397	\$0.26	\$0.300	\$13.38	\$10.25	\$10.88
1995	64,920	13.51	1,520	0.32	0.300	14.00	11.00	12.25
1996	88,700	18.46	2,021	0.42	0.300	18.50	12.50	17.60
1997	108,483	22.57	3,661	0.76	0.400	20.50	15.00	20.00
1998	98,096	20.41	2,350	0.49	0.350	22.00	15.00	16.25
1999	98,782	20.55	1,852	0.38	0.300	17.00	13.80	14.30
2000	99,056	20.61	1,729	0.36	0.550	17.50	13.00	13.45
2001	93,698	19.50	2,630	0.55	0.450	15.50	13.00	13.65
2002	85,768	17.85	2,558	0.53	0.300	17.50	13.12	14.79
<b>2003</b>	<b>121,611</b>	<b>25.30</b>	<b>2,797</b>	<b>0.58</b>	<b>0.550</b>	<b>20.63</b>	<b>13.67</b>	<b>19.96</b>

## Closed-End Funds Simply Understood

- Fixed number of shares
- Usually listed and traded on a stock exchange
- Bought and sold through investment dealers and brokers
- Commission charges only when stock is purchased or sold
- Trade usually below real value
- May pay cash and/or stock dividends
- Often have dividends and dividend reinvestment plans (company may absorb all administrative costs, including commissions)
- May employ leverage

# Corporate Information

## THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

### BOARD OF DIRECTORS

Ronald D. Barnes  
*(President, Barmac Capital Management Inc.  
[Investment Management])*

Albert E. Bates\*  
*(Corporate Director)*

Robert S. Hart  
*(Barrister & Solicitor)*

Jonathan A. Morgan  
*(Senior Vice-President and Director, Morgan  
Meighen & Associates Limited  
[Investment Management])*

Vanessa L. Morgan  
*(Chairman, Canadian General Investments,  
Limited [Closed-end Investment Company])*

Michael A. Smedley  
*(President, Canadian General Investments,  
Limited [Closed-end Investment Company])*

### AUDIT COMMITTEE

Ronald D. Barnes  
Albert E. Bates\*  
Robert S. Hart

### CORPORATE GOVERNANCE COMMITTEE

Ronald D. Barnes  
Robert S. Hart  
Jonathan A. Morgan

### INDEPENDENT DIRECTORS COMMITTEE

Ronald D. Barnes  
Albert E. Bates\*  
Robert S. Hart

### OFFICERS

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President*

Colin Smith  
*Secretary-Treasurer*

Frank Fuernkranz, MBA, CA, CFA  
*Assistant-Treasurer*

### OFFICE OF THE COMPANY

110 Yonge Street, Suite 1601  
Toronto, Ontario, Canada M5C 1T4  
Telephone: (416) 366-2931  
Toll Free: 1-866-443-6097  
Fax: (416) 366-2729  
e-mail: thdfund@mmainvestments.com  
website: www.mmainvestments.com

### MANAGER

Morgan Meighen & Associates Limited  
Toronto

### AUDITORS

PricewaterhouseCoopers LLP  
Toronto

### BANKERS

Royal Bank of Canada  
Toronto

### SOLICITORS

Blake, Cassels & Graydon LLP  
Toronto

### CANADIAN REGISTRAR AND TRANSFER AGENT

Computershare Trust  
Company of Canada  
100 University Avenue, 9th Floor  
Toronto, Ontario, Canada M5J 2Y1  
Telephone:  
Canada & U.S.: 1-800-564-6253  
Overseas: 1-514-982-7555  
Fax: (416) 263-9524  
Toll Free: 1-866-249-7775  
e-mail: mmamail@computershare.com

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.

### ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of the shareholders of  
Third Canadian General Investment Trust  
Limited will be held at 12:00 noon (Toronto  
time) Friday, April 2, 2004 in Room A,  
4th Floor, The Toronto Board of Trade,  
77 Adelaide Street West, First Canadian Place,  
Street Level, (Adelaide Street entrance)  
Toronto, Ontario, M5X 1C1  
(Telephone: (416) 366-6811).

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

\* Mr. Bates will not be standing for re-election at the April 2, 2004 meeting of shareholders.

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

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e-mail: [thdfund@mmainvestments.com](mailto:thdfund@mmainvestments.com)

website: [www.mmainvestments.com](http://www.mmainvestments.com)

Third Canadian is managed by:



*MorganMeighen*

& ASSOCIATES

Investment Managers