



# CANADA DOMINION RESOURCES GROUP



## CANADA DOMINION RESOURCES LIMITED PARTNERSHIPS

### THIRD QUARTER INTERIM REPORT 2004

**Canada Dominion Resources  
Limited Partnership XI**

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**Canada Dominion Resources  
Limited Partnership XII**

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September 30, 2004

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CANADA DOMINION RESOURCES GROUP

## THIRD QUARTER INTERIM REPORT

The third quarter of 2004 saw much of the same as per our previous reports: ongoing turmoil in the Middle East, continued fears of terrorist attacks and a slowdown in the Chinese economy. Against this international backdrop were signs of economic growth in the U.S. combined with a growing fear of inflation and an accompanying increase in interest rates.

One significant change during the quarter was the price of crude oil, which reached a high of US\$50 per bbl late in the quarter. The increase in price is being driven by robust world demand for oil (primarily China and the U.S.) combined with geopolitical tensions in the Middle East and supply problems associated with hurricane damage in the Gulf of Mexico.

In addition, the price of both natural gas and gold also trended higher during the quarter, with natural gas at about US\$7.80 per Mmbtu and gold at US\$415 per ounce at quarter's end.

The upward trend in price of all three of these commodities has continued through October with oil reaching highs of US\$55 per bbl before settling back to the US\$50 range, while gold has climbed to US\$425 per ounce and natural gas has shot through US\$8 per Mmbtu.

All of the commodity price movements described above are positive for Canada Dominion Resources Group's partnerships. In particular, Canada Dominion Resources Limited Partnership XI ("LP XI") saw its NAV increase during the quarter by 18.6% to \$25.67 per unit while Canada Dominion Resources Limited Partnership XII ("LP XII") saw no significant increase in its NAV to quarter end, but as at the time of writing this report, its NAV has increased by 10.8% from its June 30 value to \$21.50 per unit. LP XI's NAV is currently unchanged from its September 30 value.

Administration expenses and management fees recorded by the Partnerships for the period were as expected. A meaningful comparison of costs for the nine-month period ended September 30, 2004 to the comparable period in 2003 is not possible given that LP XI only commenced its activities during the second quarter in 2003 while LP XII had not completed its initial public offering at such time and accordingly has no comparative figures.

LP XI recorded a net realized gain of \$1.6 million on sale of investments during the third quarter, with LP XII recording a net realized loss of \$1.2 million. The net realized gain recorded in LP XI resulted largely from gains on the sale of securities in UEX and International Uranium (aggregate \$4,001,000) offset by losses from the sale of securities in Petrobank Energy, Storm Energy and Great Northern Exploration (aggregate \$2,441,000). LP XII's net realized loss on sale of investments for the third quarter was largely the result of selling securities in Bow Valley Energy, Athlone Minerals and Hawker Resources.

Notwithstanding the recent increase in NAV experienced by both LP XI and LP XII, the General Partner believes that equity market price increases in the resource sector have not as yet caught up to the commodity price increases that have occurred throughout 2004. Accordingly, assuming that commodity prices continue to trade in a range near current levels, further increases in the value of securities comprising the Partnerships' portfolios are expected.

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by Goodman & Company, Investment Counsel Ltd. in its capacity as Manager of the Partnerships ("the Manager") and approved by the Board of Directors of the General Partner. The Manager is responsible for the information and representations contained in these financial statements and other sections of the Third Quarter Interim Report.

The Manager 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 judgements made by the Manager. The significant accounting policies which the Manager believes are appropriate for the Partnerships are described in Note 2 to the financial statements.



Ned Goodman  
Director



James Hutton  
Director

November 22, 2004



## CANADA DOMINION RESOURCES GROUP



### Canada Dominion Resources Limited Partnership XI

### FINANCIAL STATEMENTS

## STATEMENT OF INVESTMENTS

As at September 30, 2004 (unaudited)

(In Canadian dollars except for share amounts)	Number of Shares	Average Cost	Market Value
Alamos Gold Inc.	61,100	\$ 189,205	\$ 189,205
Amerigo Resources Ltd.	352,000	720,440	696,960
APF Energy Trust	28,544	343,955	335,107
Aquest Energy Ltd.	245,000	490,000	563,500
Aurizon Mines Ltd.	640,740	864,999	897,036
bcMetals Corporation	1,034,000	620,400	723,800
Bolivar Gold Corp.	121,000	180,597	206,910
Cambior Inc.	460,014	1,647,345	1,771,054
Canadian Gold Hunter Corp.	1,375,000	550,000	935,000
Canadian Royalties Inc.	305,000	838,750	417,850
Canico Resource Corp.	79,100	996,812	1,107,400
Cinch Energy Corp.	200,000	550,000	375,000
Clear Energy Inc.	692,590	2,280,000	2,908,878
Continuum Resources Ltd.	700,000	200,000	231,000
Crowflight Minerals Inc.	1,530,700	750,043	275,526
Deer Creek Energy Limited	160,000	1,599,998	1,335,998
Defiant Energy Corporation	318,400	1,273,600	1,203,552
Devlan Exploration Inc.	930,572	2,605,602	2,605,602
Devlan Exploration Inc., Restricted	312,500	1,000,000	943,750
Diamondex Resources Ltd.	1,334,000	1,000,500	1,107,220
Diamondex Resources Ltd., Warrants, Mar.08 05	667,000	–	33,350
Diamonds North Resources Ltd.	375,000	300,000	337,500
E3 Energy Inc.	869,734	913,221	1,617,705
EuroZinc Mining Corporation	1,000,000	400,000	770,000
EuroZinc Mining Corporation, Warrants, Feb.06 06	500,000	–	135,000
Harvest Energy Trust, Units	127,714	1,888,890	2,655,174
Heritage Explorations Ltd.	1,500,000	750,000	270,000
International Uranium Corporation	862,800	949,080	3,960,252
Jaguar Mining Inc.	30,000	120,900	97,500
Kinloch Resources Inc.	370,000	740,000	421,800
Lake Shore Gold Corp.	1,071,500	750,050	1,135,790
Lake Shore Gold Corp., Warrants, Aug.20 05	535,750	–	26,788
Landore Resources Inc.	2,000,000	500,000	400,000
Landore Resources Inc., Warrants, Feb.07 05	1,000,000	–	10,000
Lightning Energy Ltd.	400,000	1,762,500	1,580,000

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

## STATEMENT OF INVESTMENTS (cont'd)

As at September 30, 2004 (unaudited)

(In Canadian dollars except for share amounts)	Number of Shares	Average Cost	Market Value
Limerick Mines Limited, Special Warrants	895,000	\$ 223,750	\$ 223,750
Luke Energy Ltd.	100,000	200,000	261,000
Majescor Resources Inc.	1,303,571	365,000	351,964
Masters Energy Inc.	344,444	1,240,000	929,999
Meridian Energy Corporation	175,000	367,500	507,500
Metalex Ventures Ltd.	931,677	3,250,000	1,239,130
Midnight Oil & Gas Ltd.	185,000	1,498,500	1,881,450
Milagro Energy Inc.	680,000	884,000	299,200
Miramar Mining Corporation	314,100	659,610	502,560
North American Palladium Ltd.	7,900	71,337	82,950
Pacific Roderer Venture Inc.	500,000	100,000	575,000
Pan-Global Energy Ltd.	1,100,000	880,000	1,100,000
Patricia Mining Corp.	1,750,000	700,000	1,085,000
Quadra Mining Ltd.	200,000	1,200,000	1,080,000
Rider Resources Ltd.	450,000	2,182,500	2,205,000
Rock Creek Resources Ltd., Class "A"	380,000	950,000	855,000
Rock Energy Inc.	24,088	95,148	114,418
Rubicon Minerals Corporation	800,000	1,000,000	1,224,000
Savanna Energy Services Corp.	150,000	1,467,000	1,935,000
Senra Resources Corporation, Class "A"	433,000	1,515,500	671,150
Sherritt International Corporation, Restricted Voting	100,000	754,000	794,000
Southern Cross Resources Inc.	200,000	261,000	270,000
Storm Energy Ltd.	454,500	1,113,525	1,340,775
Tagish Lake Gold Corp.	1,805,028	523,458	306,855
Tagish Lake Gold Corp., Warrants, Jul.05 04	902,514	–	9,025
Tempest Energy Corp., Class "A"	445,000	3,115,000	2,569,875
Tenke Mining Corp., Restricted	250,000	687,500	675,000
Tiverton Petroleum Ltd., Class "A"	4,000,000	1,500,000	1,480,000
Twin Mining Corporation	3,571,428	1,000,000	714,286
UEX Corporation	2,291,300	229,130	5,430,381
Ursa Major Minerals Incorporated	400,000	200,000	348,000
Vedron Gold Inc., Restricted	2,200,000	385,000	506,000
Virtus Energy Ltd.	640,000	499,200	275,200
Winslow Resources Inc.	875,000	175,000	107,188
Wolfden Resources Inc.	1,020,500	4,034,797	5,255,575
		<b>\$ 61,104,342</b>	<b>\$ 69,487,438</b>

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

## STATEMENTS OF NET ASSETS

(In Canadian dollars)	(unaudited) As at September 30, 2004	(audited) As at December 31, 2003
<b>Assets</b>		
Investments, at market value*	\$ 69,487,438	\$ 70,502,712
Cash and short-term investments	3,425,341	535,674
Deferred interest expense (Note 3)	4,748	49,012
Interest receivable	343	1,223
Dividend receivable	30,110	–
	72,947,980	71,088,621
<b>Liabilities</b>		
Loan payable (Note 3)	5,100,000	5,100,000
Management fee payable (Note 4)	104,531	116,031
Payable for investment securities purchased	189,205	–
Accounts payable and accrued liabilities	72,254	40,320
	5,465,990	5,256,351
<b>Net assets</b>	<b>\$ 67,481,990</b>	<b>\$ 65,832,270</b>
<b>Limited partner units outstanding (Note 5)</b>	<b>2,628,332</b>	<b>2,628,332</b>
<b>Net asset value per unit</b>	<b>\$ 25.67</b>	<b>\$ 25.05</b>
*Investments, at average cost	\$ 61,104,342	\$ 64,242,594

On behalf of the General Partner, Canada Dominion Resources XI Corporation:



Ned Goodman  
Director



James Hutton  
Director

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

## STATEMENTS OF OPERATIONS

(In Canadian dollars) (unaudited)	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Period from inception on April 16, 2003 to September 30, 2003
<b>Investment Income</b>				
Interest income	\$ 6,026	\$ 89,714	\$ 6,746	\$ 99,413
Dividend income	115,872	–	120,439	–
	<b>121,898</b>	<b>89,714</b>	<b>127,185</b>	<b>99,413</b>
<b>Expenses</b>				
Management fee (Note 4)	315,454	295,995	964,975	512,702
Interest expense (Note 3)	39,317	39,950	123,091	77,023
Administration	71,837	66,977	252,565	114,050
Legal	(704)	10,335	9,698	10,335
Audit	5,230	–	11,659	–
Filing	499	–	1,508	–
Upfront loan facility expense (Note 3)	–	–	–	25,500
	431,633	413,257	1,363,496	739,610
<b>Net investment income (loss)</b>	<b>(309,735)</b>	<b>(323,543)</b>	<b>(1,236,311)</b>	<b>(640,197)</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>				
Net realized gain (loss) on sale of investments	1,575,878	–	763,053	–
Change in unrealized appreciation (depreciation) of investments	9,349,108	538,401	2,122,978	(2,100,951)
<b>Net gain (loss) on investments</b>	<b>10,924,986</b>	<b>538,401</b>	<b>2,886,031</b>	<b>(2,100,951)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>\$ 10,615,251</b>	<b>\$ 214,858</b>	<b>\$ 1,649,720</b>	<b>\$ (2,741,148)</b>
<b>Earnings (Loss) Per Unit</b>				
Net investment income (loss) per unit	\$ (0.12)	\$ (0.12)	\$ (0.47)	\$ (0.24)
Net realized gain (loss) and increase (decrease) in unrealized appreciation (depreciation) of investments per unit	4.15	0.08	1.09	(0.80)
<b>Earnings (Loss) Per Unit</b>	<b>\$ 4.03</b>	<b>\$ (0.04)</b>	<b>\$ 0.62</b>	<b>\$ (1.04)</b>

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

## STATEMENTS OF CASH FLOWS

(In Canadian dollars) (unaudited)	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Period from inception on April 16, 2003 to September 30, 2003
<b>Cash Flows from Operating Activities</b>				
Net investment income (loss)	\$ (309,735)	\$ (323,543)	\$ (1,236,311)	\$ (640,197)
<b>Changes in non-cash working capital</b>				
(Increase) decrease in accrued interest and other receivables	(25,861)	–	(29,230)	–
Increase (decrease) in liabilities	5,476	(180,155)	20,434	133,891
<b>Net cash provided by (used in) operating activities</b>	<b>(330,120)</b>	<b>(503,698)</b>	<b>(1,245,107)</b>	<b>(506,306)</b>
<b>Cash Flows from Investing Activities</b>				
Investments purchased	(5,023,048)	(31,809,317)	(13,665,583)	(52,109,096)
Proceeds from sale of investments	8,239,345	–	17,566,888	–
(Increase) decrease in receivable for investment securities sold	185,928	–	–	–
Increase (decrease) in payable for investment securities purchased	189,205	–	189,205	–
<b>Net cash provided by (used in) investing activities</b>	<b>3,591,430</b>	<b>(31,809,317)</b>	<b>4,090,510</b>	<b>(52,109,096)</b>
<b>Cash Flows from Financing Activities</b>				
Net proceeds from issue of units	–	(24,080)	–	60,606,558
Increase (decrease) in bank loan payable	–	39,950	–	4,675,684
(Increase) decrease in deferred interest expense	32	–	44,264	–
<b>Net cash provided by (used in) financing activities</b>	<b>32</b>	<b>15,870</b>	<b>44,264</b>	<b>65,282,242</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>163,999</b>	<b>44,963,985</b>	<b>535,674</b>	<b>–</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,425,341</b>	<b>\$ 12,666,840</b>	<b>\$ 3,425,341</b>	<b>\$ 12,666,840</b>

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



# CANADA DOMINION RESOURCES GROUP



## Canada Dominion Resources Limited Partnership XII

### FINANCIAL STATEMENTS

## STATEMENT OF INVESTMENTS

As at September 30, 2004 (unaudited)

(In Canadian dollars except for share amounts)	Number of Shares	Average Cost	Market Value
AIM PowerGen Corporation, Restricted	52,200	\$ 300,150	\$ 300,150
Athlone Minerals Ltd., Warrants, Dec.11 04	666,667	–	6,667
Baffinland Iron Mines Corporation	383,333	230,000	287,500
Bear Creek Energy Ltd.	100,000	505,000	680,000
Birch Mountain Resources Ltd.	1,000,000	500,000	540,000
Claude Resources Inc.	125,000	312,500	178,750
Crowflight Minerals Inc.	638,340	478,755	114,901
Crowflight Minerals Inc., Warrants, Dec.10 04	319,170	–	3,192
Deep Resources Ltd.	1,420,000	426,000	1,278,000
Delphi Energy Corp.	1,250,000	2,405,063	2,537,499
Devlan Exploration Inc., Restricted	350,000	980,000	980,000
Eastmain Resources Inc.	381,000	400,050	274,320
Eastmain Resources Inc., Warrants, Jun.15 05	190,500	–	1,905
Fairborne Energy Ltd.	204,600	1,381,050	2,005,080
Geodex Minerals Ltd.	1,500,000	300,000	187,500
Geodex Minerals Ltd., Warrants, Dec.31 05	750,000	–	7,500
Miramar Mining Corporation	548,000	2,000,200	876,800
Murgor Resources Inc.	2,500,000	250,000	181,250
Pan-Global Energy Ltd.	566,667	850,001	566,667
Purcell Energy Ltd.	330,000	990,000	1,019,700
Sabina Resources Limited	500,000	575,000	725,000
Sharon Energy Ltd.	1,250,000	500,000	162,500
Southern Star Resources Inc.	1,000,000	500,000	330,000
St Andrew Goldfields Ltd.	1,500,000	450,000	345,000
StarPoint Energy Ltd.	250,000	1,050,000	1,237,500
Thunder Energy Inc.	66,666	495,000	473,329
Tribute Minerals Inc.	833,334	250,000	106,250
True North Gems Inc.	240,000	252,000	168,000
True North Gems Inc., Warrants, Jun.30 05	120,000	–	1,200
TUSK Energy Inc.	310,800	1,398,600	1,569,540
Winstar Resources Ltd.	285,714	400,000	220,000
Wolfden Resources Inc.	62,000	465,000	319,300
		<b>\$ 18,644,369</b>	<b>\$ 17,685,000</b>

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

## STATEMENTS OF NET ASSETS

(In Canadian dollars)	(unaudited) As at September 30, 2004	(audited) As at December 31, 2003
<b>Assets</b>		
Investments, at market value*	\$ 17,685,000	\$ 20,262,466
Cash	–	433,058
Receivable for investment securities sold	230,325	–
Deferred interest expense (Note 3)	9,673	10,055
Interest receivable	96	11,165
	17,925,094	20,716,744
<b>Liabilities</b>		
Bank overdraft	517,964	–
Loan payable	1,795,000	1,600,000
Issuance costs payable	26,364	441,910
Management fee payable (Note 4)	29,585	31,003
Accounts payable and accrued liabilities	29,335	49,445
	2,398,248	2,122,358
<b>Net assets</b>	<b>\$ 15,526,846</b>	<b>\$ 18,594,386</b>
<b>Limited partner units outstanding (Note 5)</b>	<b>800,000</b>	<b>800,000</b>
<b>Net asset value per unit</b>	<b>\$ 19.41</b>	<b>\$ 23.24</b>
*Investments, at average cost	\$ 18,644,369	\$ 19,800,846

On behalf of the General Partner, Canada Dominion Resources XII Corporation:



Ned Goodman  
Director



James Hutton  
Director

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

## STATEMENTS OF OPERATIONS

(In Canadian dollars) (unaudited)	Three months ended September 30, 2004	Nine months ended September 30, 2004
<b>Investment Income</b>		
Interest income	\$ –	\$ –
<b>Expenses</b>		
Management fee (Note 4)	76,103	263,899
Interest expense (Note 3)	14,653	42,976
Administration	64,087	160,095
Legal	1,257	3,730
Audit	3,268	9,698
Filing	384	1,650
Upfront loan facility expense (Note 3)	–	25,000
	159,752	507,048
<b>Net investment income (loss)</b>	<b>(159,752)</b>	<b>(507,048)</b>
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>		
Net realized gain (loss) on sale of investments	(1,246,349)	(1,139,503)
Change in unrealized appreciation (depreciation) of investments	1,409,965	(1,420,989)
<b>Net gain (loss) on investments</b>	<b>163,616</b>	<b>(2,560,492)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>\$ 3,864</b>	<b>\$ (3,067,540)</b>
<b>Earnings (Loss) Per Unit</b>		
Net investment income (loss) per unit	\$ (0.20)	\$ (0.63)
Net realized gain (loss) and increase (decrease) in unrealized appreciation (depreciation) of investments per unit	0.21	(3.20)
<b>Earnings (Loss) Per Unit</b>	<b>\$ 0.01</b>	<b>\$ (3.83)</b>

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

## STATEMENTS OF CASH FLOWS

(In Canadian dollars) (unaudited)	Three months ended September 30, 2004	Nine months ended September 30, 2004
<b>Cash Flows from Operating Activities</b>		
Net investment income (loss)	\$ (159,752)	\$ (507,048)
<b>Changes in non-cash working capital</b>		
(Increase) decrease in accrued interest and other receivables	(96)	11,069
Increase (decrease) in liabilities	(97,392)	(437,074)
<b>Net cash provided by (used in) operating activities</b>	<b>(257,240)</b>	<b>(933,053)</b>
<b>Cash Flows from Investing Activities</b>		
Investments purchased	(2,491,123)	(2,785,123)
Proceeds from sale of investments	2,329,101	2,802,097
(Increase) decrease in receivable for investment securities sold	(106,373)	(230,325)
<b>Net cash provided by (used in) investing activities</b>	<b>(268,395)</b>	<b>(213,351)</b>
<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in bank loan payable	–	195,000
(Increase) decrease in deferred interest expense	(895)	382
<b>Net cash provided by (used in) financing activities</b>	<b>(895)</b>	<b>195,382</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>8,566</b>	<b>433,058</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ (517,964)</b>	<b>\$ (517,964)</b>

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



## CANADA DOMINION RESOURCES GROUP



**Canada Dominion Resources  
Limited Partnership XI**

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**Canada Dominion Resources  
Limited Partnership XII**

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## NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO FINANCIAL STATEMENTS

For the period ended September 30, 2004

### 1. ORGANIZATION OF THE LIMITED PARTNERSHIPS

The Canada Dominion Resources Limited Partnerships (the "Partnerships") were formed as limited partnerships under the laws of the Province of Ontario for the purpose of acquiring flow-through shares and other securities of resource companies with a view to achieving capital appreciation for the Limited Partners. The Partnerships were formed on the following dates:

Name of Limited Partnership	Date Formed	Commenced Operations
<b>Canada Dominion Resources Limited Partnership XI ("LP XI")</b>	<b>December 28, 2002</b>	<b>April 16, 2003</b>
<b>Canada Dominion Resources Limited Partnership XII ("LP XII")</b>	<b>October 1, 2003</b>	<b>December 4, 2003</b>

The General Partner of the Partnerships is as follows:

Partnership	General Partner	Date Incorporated	Date of Limited Partnership Agreement
<b>LP XI</b>	<b>Canada Dominion Resources XI Corporation ("CDR XI")</b>	<b>December 12, 2002</b>	<b>March 31, 2003</b>
<b>LP XII</b>	<b>Canada Dominion Resources XII Corporation ("CDR XII")</b>	<b>December 12, 2002</b>	<b>November 24, 2003</b>

(collectively known as the "General Partners")

The General Partners are responsible for the management of their Partnerships in accordance with the terms and conditions of each partnership agreement.

Under the Limited Partnership Agreement between the General Partner and each of their limited partners, each General Partner is entitled to a 0.01% beneficial interest in their Partnership.

The Statements of Investments are as at September 30, 2004. The Statements of Net Assets are as at September 30, 2004 and December 31, 2003. The Statements of Operations and Cash Flows are for the three month and nine month periods ended September 30, 2004 and the period from inception on April 16, 2003 to September 30, 2003 and three month periods ended September 30, 2003 for LP XI. The Statements of Operations and Cash Flows are for the three month and nine month periods ended September 30, 2004 for LP XII.

**NOTES TO FINANCIAL STATEMENTS (cont'd)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies used by the Partnerships.

**a) Valuation of Investments**

Securities listed on a recognized public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing bid and ask price. Securities traded on an over-the-counter market are valued in the same manner. Investments in securities having no quoted market values or in illiquid securities are normally carried at cost, unless there is a substantial arm's length transaction that establishes a different value, or there is a significant change from the General Partner's expectations. The quoted market values of those few securities that are subject to a hold period have not been adjusted for the potential impact of such hold periods. The market values can be impacted by trading volumes and restrictions, and the quoted market value may not be indicative of what the Partnership could realize on the immediate sale as it may take an extended period of time to liquidate positions without causing a significant negative impact on the market price. These values may differ from values that would have been used had a ready market existed for the investments. Any difference between the market value and the cost of the investments is treated as unrealized appreciation or depreciation. Short-term securities are valued based on original cost plus accrued interest, which approximates market value.

**b) Investment Transactions and Income Recognition**

All investment transactions, with the exception of short-term securities, are accounted for on the business day following the date the order to buy or sell was executed. Short-term securities are accounted for on the date the order to buy or sell is executed. Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Income from investment transactions is recognized on an accrual basis. Interest income is accrued as earned and dividend income is recognized on the ex-dividend date.

For income tax purposes, the adjusted cost base of flow-through shares is reduced by the amount of expenditures renounced to the Partnership. Upon disposition of such shares, a capital gain will result and be allocated to the Limited Partners based upon their proportionate share of the Partnership.

**c) Issuance Costs**

Expenses related to the initial offering of the Partnership units have been accounted for as a reduction of partners' equity.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### d) Financial Instruments

The fair value of the Partnership's financial assets and liabilities approximate the carried value due to their short-term nature.

#### e) Allocation of Partnership Income and Loss

99.99% of the income or loss of the Limited Partnership for the fiscal year will be allocated to owners of the limited partnership units at the end of the fiscal year in proportion to the number of limited partnership units owned. The Partnership is not itself a taxable entity. Accordingly, no provision for income tax is required.

#### f) Generally Accepted Accounting Principles

The Canadian Institute of Chartered Accountants ("CICA") issued Section 1100, "Generally Accepted Accounting Principles ("GAAP")" of the *CICA Handbook – Accounting*, which establishes standards for financial reporting. Section 1100 applies to all entities, with the exception of rate-regulated operations, for fiscal years beginning on or after October 1, 2003.

As a result, certain disclosures previously considered GAAP by virtue of general use in the investment funds industry, have been reviewed by the CICA. This section primarily impacts the disclosure of the financial statements, and accordingly, has no impact on the valuation of a partnership or in the calculation of the net asset value per unit of a partnership.

### 3. LOAN PAYABLE

LP XI and LP XII established credit facilities with The Bank of Nova Scotia (the "Bank") for the payment of issuance costs and has provided the Bank with a security interest in all of the assets of the Partnerships. The credit facilities were established on May 23, 2003 and December 4, 2003 for LP XI and LP XII respectively. As at September 30, 2004, the principal loan balance outstanding was \$5,100,000 for LP XI and \$1,795,000 for LP XII. The partnerships may avail credit by way of prime loans or Bankers' Acceptances ("BA"). The Partnerships pay interest on the outstanding prime loan balance at 1% per annum plus the greater of the Prime Lending Rate and the sum of the rate per annum for Canadian Dollar Bankers' Acceptances having a term of 30 days as reported by the Bank and 1/2 of 1% per annum. The BA interest rate per annum is equivalent to 1% per annum plus the rate existing at the borrowing date.

LP XI and LP XII paid upfront loan facility expenses of \$25,500 and \$25,000 respectively, which were expensed when the partnerships were charged.

The initial payment of the upfront loan fee on the drawdown or renewal of the BAs is deferred and amortized over the term of the BA.

For the period ended September 30, 2004, LP XI and LP XII recorded interest expense of \$123,091 and \$42,976 respectively.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

### 4. EXPENSES OF THE PARTNERSHIP

The General Partners, related parties to the limited partnerships, are entitled to an annual management fee equal to 2% of the net asset value of their respective Partnership, calculated and payable monthly in arrears. For the periods ended September 30, the Partnerships recorded a management fee expense as follows:

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Period from inception on April 16, 2003 to September 30, 2003
LP XI	\$ 315,454	\$ 295,995	\$ 964,975	\$ 512,702
LP XII	76,103	–	263,899	–

In respect of each financial year for LP XI and LP XII, an aggregate performance bonus equal to 20% of the amount by which the Net Asset Value per Unit of the Partnerships, as defined in the Limited Partnership Agreements, exceeds a threshold increase of 12% per annum will be payable to the portfolio advisor and the General Partners. As at September 30, 2004 there were no performance bonuses accrued.

The General Partners are entitled to 0.01% of the net income or loss of the Partnerships.

The Partnerships pay all the expenses of their operations and carrying on of their businesses including legal and audit fees, interest, taxes, administrative costs relating to the cost of financial and other reports, and compliance with all applicable laws, regulations and policies.

The General Partners are reimbursed for expenses incurred in the performance of their duties. For the periods ended September 30, the Partnership incurred expenses in respect of these services as follows:

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Period from inception on April 16, 2003 to September 30, 2003
LP XI	\$ 66,113	\$ 66,977	\$ 203,559	\$ 114,050
LP XII	51,278	–	117,320	–

LP XI paid approximately \$15,000 of the issuance costs to Hutton Capital Corporation and Dundee Securities Corporation, related parties. These payments were at cost as reimbursement for expenses incurred on behalf of the Partnership.

## NOTES TO FINANCIAL STATEMENTS (cont'd)

### 5. PARTNERS' EQUITY

The authorized capital of the Partnerships consists of an unlimited number of Partnership units. All Partnership units are of the same class with equal rights and privileges, including equal participation in any distribution made by the Partnership and the right to one vote at any meeting of the limited partners.

### 6. BROKERAGE COMMISSIONS

Broker commissions paid on securities transactions during the periods ended September 30 and the amounts paid to Dundee Securities Corporation, an indirect subsidiary of Dundee Wealth Management Inc. ("DWM Inc."), the parent of the Manager for brokerage services provided to the Partnerships, are as follows:

(in 000s of Canadian dollars) Name of Partnership	Total Brokerage Commissions Paid		Paid to Dundee Securities	
	2004	2003	2004	2003
LP XI	\$ 117	\$ –	\$ 16	\$ –
LP XII	26	–	20	–

Dundee Wealth owns 83.7% of DWM Inc., which in turn owns 100% of the General Partners and Dundee Securities Corporation ("Dundee"), one of the agents for the offerings of LP XI and LP XII. Accordingly, the LPs are related to Dundee. Dundee received a fee of 6.75% for each unit sold in connection with the offerings of the LPs. In certain circumstances, Dundee and the other agents may be entitled to receive fees and, in some cases, rights to purchase shares in connection with the sale of flow-through shares to the LPs.

### 7. COMPARATIVE INFORMATION

LP XII was formed on October 1, 2003, but did not complete its initial financing until December 4, 2003. Accordingly, there are no comparative figures for 2003 on the Statements of Operations and Cash Flows for LP XII.

Certain of the prior period's comparative figures have been reclassified to conform to the current period's financial statement presentation.







## CANADA DOMINION RESOURCES GROUP



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