



CWF

Canadian World Fund  
Limited



global opportunities

annual report | 2005

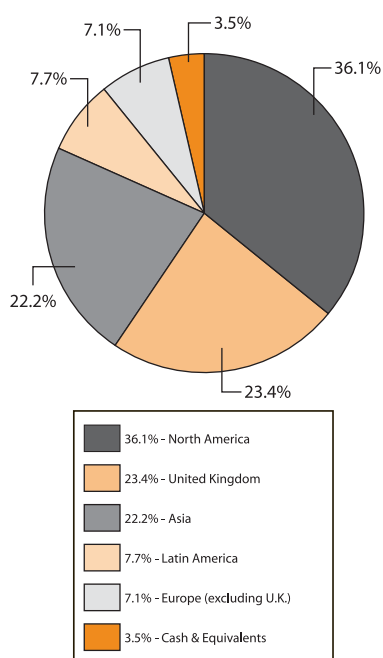
Cover: Highland Loch, Scotland. Oil on canvas.

Paul Mantrop is a working artist and founding member of the art collective "drawnward". Over ten years ago the artists of drawnward began to travel throughout Canada in order to document its unique and varied regions. Today after over 100,000 kilometres have been travelled by bus, boat, canoe, train, skis and feet, drawnward has painted from coast to coast. From the Queen Charlotte Islands to the Yukon, from the Gaspé to Newfoundland and throughout the Canadian Arctic. Today Paul keeps a working studio in downtown Collingwood, Ontario to be close to his favourite subject, Georgian Bay. You can learn more about drawnward at [www.drawnward.com](http://www.drawnward.com).

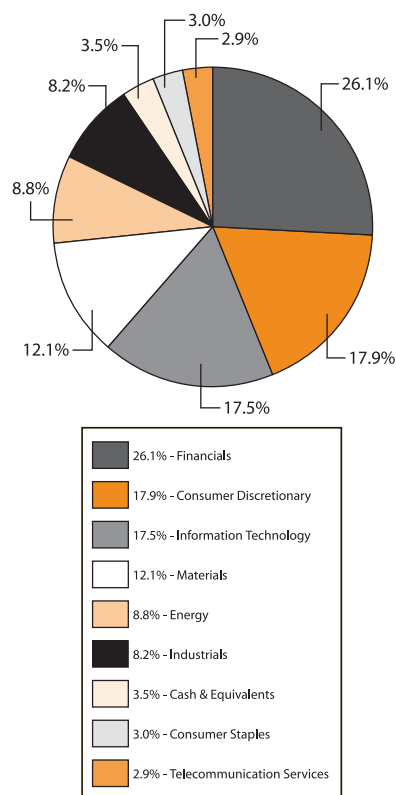
## CORPORATE PROFILE

**Canadian World Fund Limited (CWF)** is a closed-end equity fund that endeavors to provide superior long-term returns by investing globally in securities of publicly traded, primarily growth companies. The Company principally utilizes a bottom-up investment style in an effort to achieve this objective. The Company does not employ currency hedging as the portfolio is well diversified and influenced by many currencies.

Geographic Allocation of Portfolio - December 31, 2005



Sector Allocation of Portfolio - December 31, 2005



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. For information concerning the foregoing, please refer to the "Risk" section of the Management Report of Fund Performance on page 3 of this Annual Report to Shareholders.

## LETTER TO SHAREHOLDERS



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

- NAV RETURN **4.7%**
- MARKET RETURN **8.7%**
- BENCHMARK **5.4%**

Canadian World Fund's performance, as measured by net asset value, reflected a gain of 4.7% for the year 2005, after being down 4.6% at the end of October on a market correction coupled with a strengthening Canadian dollar.

In the final weeks of 2005, Canadian World Fund clearly demonstrated a recovery in many stocks as markets appeared to be adjusting to higher energy prices. To the end of the year, the U.S. economic state had not deteriorated as many had feared it would and soaring residential property prices were still not in serious retreat as was widely predicted. Any gloom which continues to prevail mainly concerns the outlook for events in the Middle East.

With the U.S. stock market still appearing as a middle of the road performer at best, the Manager will rely on individual stock selection globally. In the past year, this has worked well in allowing realization of substantial capital gains and the elimination of the Company's deficit and long-standing net taxable loss position. It has also improved the financial

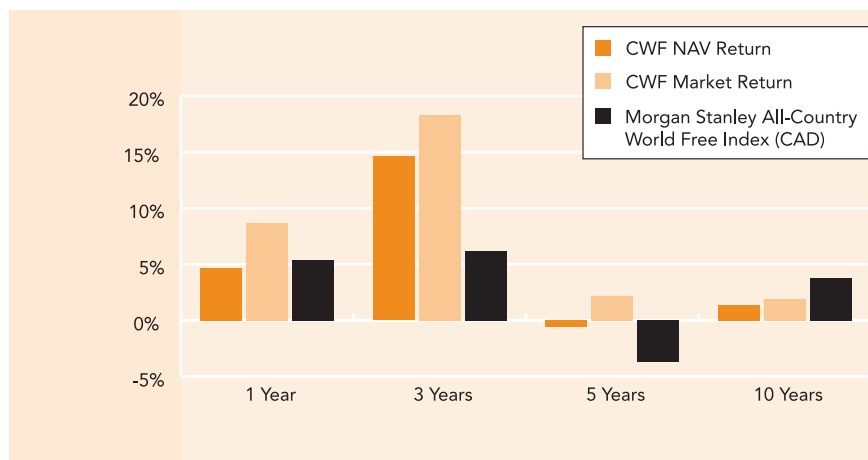
condition of the Company which, barring any unforeseen setbacks, should allow it to benefit from the utilization of capital loss carryforwards in the future.

Effective as of January 1, 2006, the original management agreement between the Company and the Manager was terminated, being superseded by a new management agreement. The new agreement was developed by the Independent Directors Committee of the Board of Directors of the Company following extensive review and deliberation. The complete agreement is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President & CEO*

### Compound Annual Returns for the Periods to December 31, 2005



## INVESTMENT COMMENTARY

### PORTFOLIO HIGHLIGHTS

CWF's top three holdings at year-end 2005 stand out as strong participants in the positive technology sector trend, showing share price appreciation of over 100%. Heading the list is Canada's March Networks Corporation, whose shares experienced a great run with a rate of return of 169.4% from its IPO in April through the end of the year. Brought to the public markets by Sir Terry Matthews of Mitel and Newbridge Networks fame, this company is enjoying great growth as one of the dominant companies in digital camera surveillance in North America.

In the number two position is Apple Computer Inc., which had appreciated 122.1% since being purchased in January, 2005. This phenomenal growth is mainly due to the reshaping of the company by the iPod experience that has captured a new consumer space worldwide.

The Company's third largest holding at year end was Google Inc., arguably one of the most exciting major market capitalization companies today, with portfolio appreciation of 115.2% in 2005. The Manager's understanding of Google suggests that it has a kind of supremacy of methodology in the Internet search business and might well succeed in developing and revolutionizing the application of information sciences, as intended by its founders.

Currency markets had a significant impact on the performance of Canadian World Fund in 2005, in that the Canadian dollar appreciation relative to other currencies adversely impacted the valuation of the investment portfolio. The portfolio's largest weighting by country at December 31, 2005 was the United Kingdom, which comprised 23.4% of the total investment portfolio. For 2005, the British pound declined 13.1% against the Canadian dollar. The U.S. dollar, which accounted for 17.3% of Canadian World Fund's portfolio investments at year-end 2005, also weakened relative to the Canadian dollar, albeit with only a 3.1% drop. Other notable foreign currencies which experienced the dominance of the Canadian dollar in 2005 were the Japanese yen, the euro and Indian rupee which declined 15.6%, 15.3% and 6.8%, respectively.

The portfolio holds a number of oil, gas and metals companies around the world, the most senior being Rio Tinto PLC, which had appreciated 44.1% since being acquired in February of 2005. Just before year end, Canadian-listed EuroZinc Corporation was added to the portfolio. The company is a mid-tier copper producer in Portugal where it has a large land position in the biggest sulphides belt of its type in the world. EuroZinc is looking to follow its first year

extraction of 100,000 tonnes of 5% grade copper in concentrates with work to develop or discover new deposits, the aim being to double present total production through the near-term development of high-grade zinc zones. In the latter half of the year, the Manager also added two important copper potentials: Chariot Resources Limited in Peru and Equinox Minerals Limited. Equinox is expected to be an intermediate size producer on the Zambian Copper Belt within a couple of years.

Before year end, an acquisition was made in the over-the-counter traded U.S. Gold Corporation, which is a key company in the new gold expansion moves in Nevada of Rod McEwan, the developer of Goldcorp Inc. More gold company purchases have been made since year end, as the metal continues its appreciating trend.

### Other new holdings in the fourth quarter:

Engel East Europe N.V., a seasoned residential developer with an excellent growth profile, recently gained a public listing in London. Property in Eastern Europe is a post-communist era growth sector in which Canadian World Fund already has exposure with its holding of Orco Property Group S.A., focused to date in Prague. Eastern Europe is one of the best multi-country regions for increasing consumer demand. For two years, the Company benefited from considerable gains in Central European Distribution Corporation, which is a major beverages business capitalizing on trends in Poland.

India Capital Growth Fund Limited gives Canadian World Fund access to pre-listed Indian companies.

The portfolio holds several securities exchanges including Oslo Bors Holdings ASA and International Securities Exchange Inc. Shortly after year end, the Company also acquired shares in Archipelago Holdings, Inc., which is headed for near-term conversion into future public shares of the New York Stock Exchange.

### OUTLOOK

The portfolio should show extension of the positive trend to date in 2006. Bright elements appear in the 2006 outlook, including the continuation of demand for resources linked to the rapid advances in China and India in infrastructure, business and consumer wealth. Also on the global scene, there appears to be a resurgence in the technology sector with names both old and new looking more soundly based than in the technology bubble era a few years ago.

Michael A. Smedley, *Chief Portfolio Officer of the Manager*  
Alex Sulzer, *Vice-President of the Manager*

## MANAGEMENT REPORT OF FUND PERFORMANCE

### MANAGEMENT DISCUSSION OF FUND PERFORMANCE

#### INVESTMENT OBJECTIVE AND STRATEGIES

Canadian World Fund Limited (CWF or the Company) is a closed-end equity fund with the objective of providing its investors with long-term returns by investing globally in securities of publicly traded, primarily growth companies.

The Manager, Morgan Meighen & Associates Limited (MMA), utilizes a bottom-up investment strategy in an effort to achieve CWF's objective. With a bottom-up investment strategy, the Manager first seeks individual companies with attractive investment potential, then proceeds to consider the larger industry, economic and global trends affecting those companies. This investment style allows for weightings that can differ from those of the benchmark Morgan Stanley All-Country World Free Index (MSACWFI).

#### RISK

As an equity fund, the primary risk to the Company is market risk – the exposure to market price changes for the securities held within the portfolio. Economic conditions, investor sentiment, global events and many other factors contribute to the day-to-day changes in security prices and the overall trend of the market. In addition, investing globally may present political and economic considerations not typically found in Canada or the United States markets. Of particular significance is the fact that CWF invests in growth companies in some markets which are not considered established. At December 31, 2005, 29.1% of CWF's investment portfolio was invested in emerging markets, compared to 31.9% at year-end 2004. CWF attempts to mitigate this risk by investing in companies in different economic sectors throughout the global market. For instance, for the year ended December 31, 2005, the Company held 23.4% of the investment portfolio in the United Kingdom. In that country, CWF had holdings in seven economic sectors, including consumer discretionary, financials, energy, industrials, information technology, materials and telecommunication services.

Since CWF is a global equity fund, it holds investments denominated in many currencies resulting in currency risk. If money must be converted into a different currency to make an investment, changes in the value of the currency relative to the Canadian dollar will affect the total gain or loss on the investment when the money is eventually converted back to Canadian currency. At December 31, 2005, 77.7% of CWF's investment portfolio was denominated in currencies other than the Canadian dollar. During 2005, the Canadian dollar strengthened relative to most currencies. The most prominent

foreign currencies in the investment portfolio at year-end were the British pound (23.4%), the U.S. dollar (17.3%) and the Indian rupee (13.6%). During the year, these currencies depreciated by 13.1%, 3.1% and 6.8%, respectively compared to the Canadian dollar, negatively impacting returns. CWF does not employ currency hedging, a form of risk protection not considered cost effective. However, the global portfolio is well diversified and influenced by many currencies.

Being a closed-end investment fund, CWF's share price generally trades at a lower value than its net asset value per share (NAV). This is known as a "discount". As a result, the return experienced by a shareholder will likely differ from the underlying performance of the Company. The share price is established by competitive markets which reflect the buying demand and the selling supply of shares. Factors which are thought to influence share price, and therefore discounts and their converse, premiums, include a fund's relative performance, the liquidity of the fund's shares, dividend yield, the use of a managed distribution policy, confidence in the fund/portfolio manager, investors' perceptions and expectations regarding the outlook of the countries/sectors/markets where the fund invests. Throughout 2005, Canadian World Fund's shares traded at a discount from NAV ranging from a high of 31.4% to a low of 12.9%, ending the year at 24.3%.

Since 1999, CWF has engaged a leveraging strategy in an effort to enhance returns to shareholders. The purchase of securities using leverage magnifies the gain or loss on the cash invested. At December 31, 2005 CWF's outstanding borrowings totalled \$4.1 million, representing 17.3% of net assets. As a result of this leverage, a 10% decline in the value of the portfolio will result in approximately a 12% decrease in CWF's net assets, and also in the Company's share price, provided there is no change in the discount. The reverse is true for a 10% increase in the value of the portfolio.

Although Canadian World Fund's portfolio is comprised entirely of equities, the Company is also impacted by interest rate risk. Notwithstanding the fact that Canadian interest rates are still at relatively low levels, the Bank of Canada and the U.S. Federal Reserve Board increased interest rates, whereas, the Bank of England decreased interest rates during 2005. Rising interest rates typically have a negative impact on corporate profits and stock prices.

As the Company is exclusively invested in equities, CWF is most suitable for investors seeking global exposure and/or long-term capital appreciation. Investors in Canadian World Fund should therefore be willing to tolerate moderate to high market volatility.

## MANAGEMENT REPORT OF FUND PERFORMANCE (CONTINUED)

### RESULTS OF OPERATIONS

#### Performance

Canadian World Fund's net asset value per share (NAV) at December 31, 2005 was \$5.75, up from \$5.49 at year-end 2004. The NAV return for 2005, was 4.7%, compared with a total return of 8.8% for the benchmark MSACWFI or 5.4% when expressed in Canadian dollars. The Company's net assets increased by 4.7% to \$23.6 million from \$22.5 million at the end of 2004. The market appreciation of the investments was negatively impacted by the increasing strength of the Canadian dollar relative to the currencies of the foreign holdings of the Company.

Management fees and interest, the Company's key expenses, increased by 11.2% over 2004 to \$505,000, driven largely by an increase in portfolio values and increased borrowing costs from its credit facility. Canadian World Fund has a credit facility for investment leverage purposes of \$5.0 million comprising bankers' acceptances and term loans, with interest at a quoted one-year rate or based on the prime bankers' acceptance rate. It must comply with specified covenants during the terms of the loans. The bank indebtedness had a combined weighted average rate of 3.96% per annum (2004 - 3.27% per annum) and is repayable on various dates in 2006. During 2005, Canadian World Fund utilized \$4.1 million (2004 - between \$3.6 million and \$4.1 million) of its credit facility. As at December 31, 2005, the outstanding borrowings represented 17.3% (2004 - 18.1%) of net assets.

### 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 past five years. This information is derived from the Company's audited annual financial statements.

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

	2005	2004	2003	2002	2001
<b>Net asset value, beginning of year</b>	\$ 5.49	\$ 4.79	\$ 3.82	\$ 4.63	\$ 5.94
<b>Increase (decrease) from operations:</b>					
Total revenue	0.10	0.10	0.10	0.12	0.11
Total expenses	(0.19)	(0.17)	(0.13)	(0.14)	(0.17)
Income tax recovery (provision)	0.00	0.00	0.00	0.00	(0.03)
Realized gains (losses) for the year	0.64	0.81	(0.26)	(0.53)	(0.22)
Unrealized gains (losses) for the year	(0.29)	(0.04)	1.26	(0.26)	(1.00)
<b>Total increase (decrease) from operations</b>	<b>0.26</b>	<b>0.70</b>	<b>0.97</b>	<b>(0.81)</b>	<b>(1.31)</b>
<b>Net asset value, end of year</b>	<b>\$ 5.75</b>	<b>\$ 5.49</b>	<b>\$ 4.79</b>	<b>\$ 3.82</b>	<b>\$ 4.63</b>

(1) Net asset value is 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 year.

#### Taxation

As a corporate entity, Canadian World Fund is subject to income taxes on its income and realized gains on investments at the rates of approximately 36% and 18%, respectively. In addition, Canadian World Fund is subject to future income taxes on its unrealized gain on investments at an effective rate of approximately 18%. At December 31, 2005, Canadian World Fund's future income tax liability was \$343,000, representing nearly 1.5% of net assets. The future income tax liability is directly impacted by the change in Canadian World Fund's unrealized gain, which represents the difference between the market value and cost of its investment portfolio.

### RECENT DEVELOPMENTS

Aside from normal market fluctuations to which the Company's portfolio is subject, CWF has had no material recent developments since year end.

### RELATED PARTY TRANSACTIONS

The Company is managed by Morgan Meighen & Associates Limited (MMA), a company under common control with CWF.

MMA provides continuing advice and investment management services, as well as administration, financial reporting and other ancillary services required by a publicly listed company. As a result of providing these services, MMA receives management fees that are computed quarterly in arrears at the annual rate of 1.50% of net asset value without deduction for income tax liabilities.

## Ratios and Supplemental Data

	2005	2004	2003	2002	2001
Net assets (000's) <sup>(1)</sup>	\$ 23,574	\$ 22,526	\$ 19,639	\$ 15,673	\$ 19,003
Number of shares outstanding	4,101,350	4,101,350	4,101,350	4,101,350	4,101,350
Management expense ratio <sup>(2)</sup>	3.51%	3.33%	3.44%	3.33%	3.46%
Management expense ratio excluding leverage costs <sup>(3)</sup>	2.89%	2.70%	2.70%	2.60%	2.50%
Portfolio turnover rate <sup>(4)</sup>	67.45%	72.22%	79.48%	65.75%	80.80%
Trading expense ratio <sup>(5)</sup>	0.58%	0.66%	0.70%	0.53%	0.53%
Closing market price	\$ 4.35	\$ 4.00	\$ 3.60	\$ 2.63	\$ 3.15

(1) This information is provided as at December 31 of the year shown.

(2) Management expense ratio is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year.

(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 rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of a 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) 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.

## MANAGEMENT FEES

The Company pays a management fee that is calculated quarterly in arrears at 1.5% per annum of the net asset value, excluding a deduction for income tax liabilities. 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 fund 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 CWF.

## PAST PERFORMANCE

The performance information does not take into account 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.

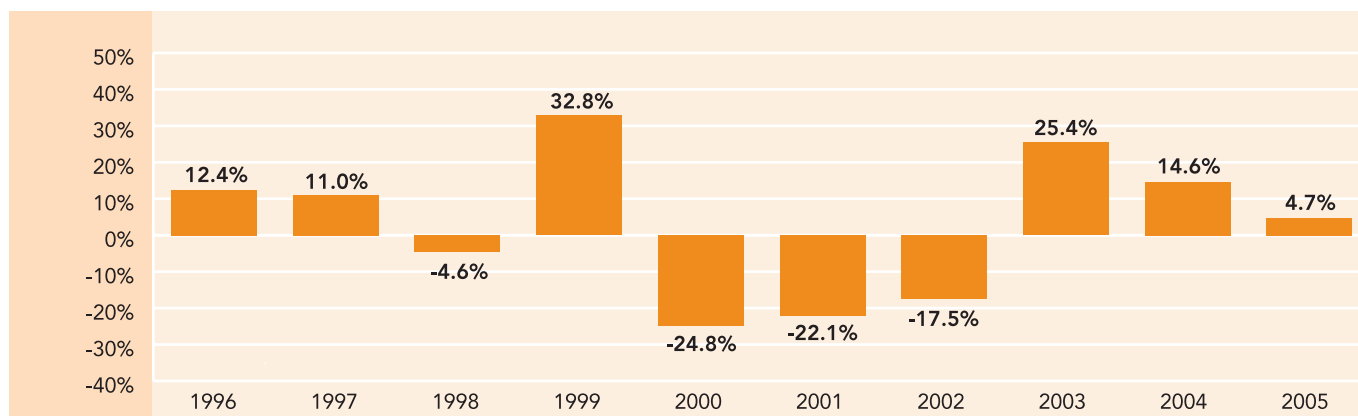
## MANAGEMENT REPORT OF FUND PERFORMANCE (CONTINUED)

### YEAR-BY-YEAR RETURNS

The following bar charts show the Company's performance for each of the years shown, and illustrate how the Company's performance has changed from year to year. The bar charts show, in percentage terms, how much an investment made on the first day of each year would have grown or decreased by the last day of each year.

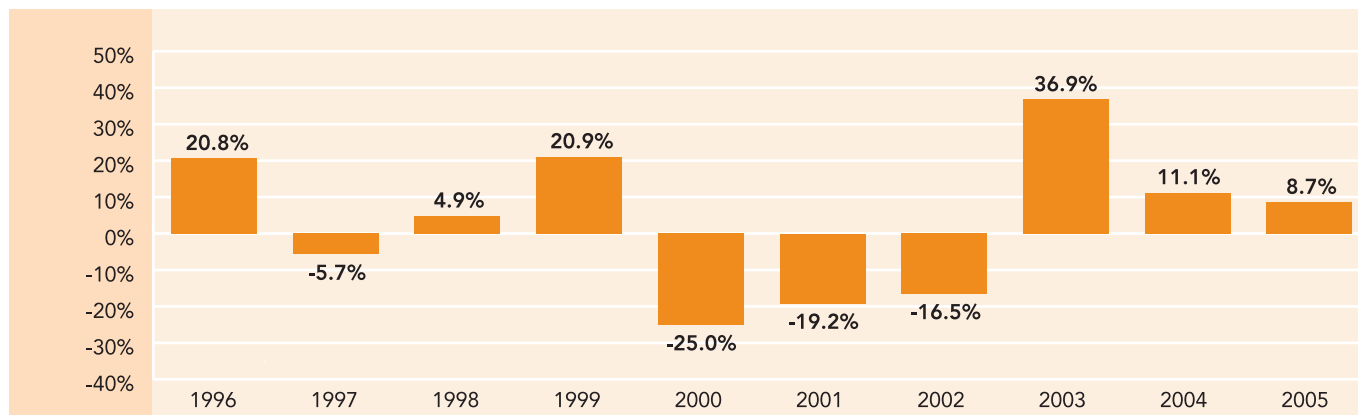
The bar chart below illustrates CWF's net asset value per share return – this is the best representation of the performance of the Company.

Net Asset Value Return



The bar chart below illustrates CWF's market return – this is the best representation of the return to a shareholder of the Company.

Market Value Return



### ANNUAL COMPOUND RETURNS

This table shows the Company's historical annual compound total returns for the periods indicated, compared to the MSACWFI in U.S. and Canadian dollars.

	1 Year	3 Years	5 Years	10 Years
Canadian World Fund Limited - NAV	4.7%	14.6%	-0.6%	1.4%
Canadian World Fund Limited - Market	8.7%	18.3%	2.2%	1.9%
Morgan Stanley All-Country World Free Index (USD)	8.8%	17.5%	1.3%	5.5%
Morgan Stanley All-Country World Free Index (CAD)	5.4%	6.2%	-3.7%	3.8%

*The MSACWFI is a free-float weighted-average equity index that provides a broad measure of performance of global equity markets.*

## SUMMARY OF INVESTMENT PORTFOLIO

as at December 31, 2005

### Sector Allocation

	(\$000's)	% of Net Assets*	% of Investment Portfolio
Financials	7,565	32.1	26.1
Consumer Discretionary	5,179	22.0	17.9
Information Technology	5,056	21.4	17.5
Materials	3,505	14.9	12.1
Energy	2,552	10.8	8.8
Industrials	2,382	10.1	8.2
Cash & Equivalents	1,014	4.4	3.5
Consumer Staples	864	3.6	3.0
Telecommunication Services	854	3.6	2.9

### Geographic Allocation

	(\$000's)	% of Net Assets*	% of Investment Portfolio
North America	10,444	44.3	36.1
United Kingdom	6,777	28.7	23.4
Asia	6,446	27.3	22.2
Latin America	2,240	9.5	7.7
Europe (excluding U.K.)	2,050	8.7	7.1
Cash & Equivalents	1,014	4.4	3.5

### Top 25 Holdings

Issuer	Country	Sector	% of Net Assets*	% of Investment Portfolio
March Networks Corporation	Canada	Information Technology	5.3	4.5
Apple Computer Inc.	U.S.A.	Information Technology	5.3	4.5
Google Inc.	U.S.A.	Information Technology	3.3	2.8
Grupo Financiero Banorte S.A. de C.V.	Mexico	Financials	2.9	2.4
Mahindra & Mahindra Limited	India	Industrials	2.8	2.4
Stanley Gibbons Group Limited	U.K.	Consumer Discretionary	2.8	2.4
Grupo Mexico, S.A. de C.V.	Mexico	Materials	2.7	2.3
HDFC Bank Ltd.	India	Financials	2.5	2.1
Autonomy Corporation plc	U.K.	Financials	2.5	2.1
SARE Holding, S.A. de C.V.	Mexico	Financials	2.4	2.0
Sprint Nextel Corporation	U.S.A.	Telecommunication Services	2.3	1.9
Indiabulls Financial Services Ltd.	India	Financials	2.3	1.9
India Capital Growth Fund Limited	India	Financials	2.3	1.9
Pan-Ocean Energy Corporation Limited	Canada	Energy	2.3	1.9
Oslo Bors Holding ASA	Norway	Financials	2.2	1.9
Serica Energy PLC	U.K.	Energy	2.1	1.8
Chariot Resources Limited	Canada	Materials	2.1	1.8
Britannia Industries Ltd.	India	Consumer Staples	2.1	1.8
Daniel Stewart Securities plc	U.K.	Financials	2.1	1.7
InterOil Corporation	Canada	Energy	2.0	1.7
Equinox Minerals Limited	Canada	Materials	2.0	1.7
Arbuthnot Banking Group PLC	U.K.	Financials	1.9	1.6
GeoGlobal Resources Inc.	Canada	Energy	1.9	1.6
Engel East Europe N.V.	Netherlands	Consumer Discretionary	1.8	1.5
IntercontinentalExchange, Inc.	U.S.A.	Financials	1.8	1.5
			63.7*	53.7
Total Net Assets* (\$000's)				\$ 23,574
Total Investment Portfolio* (\$000's)				\$ 28,971

\* Total Net Assets represents Total Investment Portfolio adjusted for leverage in the form of bank indebtedness (\$4.1 million), other assets and other liabilities.

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.mminvestments.com](http://www.mminvestments.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.

## FINANCIAL REPORTS

### MANAGEMENT'S REPORT

The accompanying 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 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 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 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 financial statements for publication.

PricewaterhouseCoopers LLP, the Company's external Auditors, who are appointed by the shareholders, audited the 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 8, 2006



Jonathan A. Morgan  
*President & CEO*

### AUDITORS' REPORT

#### *To the Shareholders of Canadian World Fund Limited*

We have audited the accompanying statements of net assets of Canadian World Fund Limited as at December 31, 2005 and 2004, the statement of investment portfolio as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2005 and 2004. 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



*Chartered Accountants*  
Toronto, Canada

January 27, 2006

## STATEMENTS OF NET ASSETS

<i>As at December 31, 2005 and 2004</i>	<b>2005</b>	<b>2004</b>
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$
<b>Assets</b>		
Investments at market value (cost - \$25,339; 2004 - \$20,727)	27,957	24,188
Cash	1,014	1,987
Receivable for securities sold	-	440
Dividends receivable	10	33
Income taxes recoverable	6	2
	<b>28,987</b>	<b>26,650</b>
<b>Liabilities</b>		
Bank indebtedness (note 2)	4,075	4,076
Payable for securities purchased	925	-
Accounts payable and accrued liabilities	70	48
Future income taxes on unrealized gain on investments (note 6)	343	-
	<b>5,413</b>	<b>4,124</b>
	<b>23,574</b>	<b>22,526</b>
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital stock (note 3)	20,507	20,507
Unrealized gain on investments, net of future income taxes	2,275	3,461
Retained earnings (deficit) (note 4)	792	(1,442)
	<b>23,574</b>	<b>22,526</b>
<b>Number of shares outstanding (note 3)</b>	<b>4,101,350</b>	<b>4,101,350</b>
<b>Net asset value per share</b>	<b>5.75</b>	<b>5.49</b>

Approved by the Board of Directors



Director



Director

## STATEMENTS OF OPERATIONS

<i>For the years ended December 31, 2005 and 2004</i>	<b>2005</b>	<b>2004</b>
<i>(in thousands of dollars, except per share amounts)</i>	\$	\$
<b>Investment income</b>		
Dividends	412	422
Interest	8	4
	420	426
<b>Expenses</b>		
Management fees (note 5)	364	324
Interest	141	130
Directors' fees and expenses	74	66
Custodial fees	50	42
Securityholder reporting costs	43	37
Listing and regulatory	32	30
Audit fees	24	24
Legal fees	24	6
Investor relations	17	13
Capital taxes	8	-
Other	24	13
	801	685
<b>Net investment loss before income taxes</b>	(381)	(259)
<b>Income tax provision (note 6)</b>	3	-
<b>Net investment loss</b>	(384)	(259)
<b>Realized and unrealized gains on investments</b>		
Net realized gain on investments	2,619	3,317
Change in unrealized gain on investments, net of future income taxes of \$343 (2004 - \$nil)	(1,186)	(170)
<b>Net gain on investments</b>	1,433	3,147
<b>Increase in net assets resulting from operations for the year</b>	1,049	2,888
<b>Increase in net assets resulting from operations per share</b> (based on 4,101,350 (2004 - 4,101,350) weighted-average shares outstanding during the year)	0.26	0.70

## STATEMENTS OF CHANGES IN NET ASSETS

<i>For the years ended December 31, 2005 and 2004</i>	<b>2005</b>	<b>2004</b>
<i>(in thousands of dollars)</i>	\$	\$
<b>Increase in net assets resulting from operations for the year</b>	1,049	2,888
<b>Net increase in refundable dividend tax on hand</b>	(1)	(1)
<b>Increase in net assets during the year</b>	1,048	2,887
<b>Net assets, Beginning of year</b>	22,526	19,639
<b>Net assets, End of year</b>	23,574	22,526

## STATEMENTS OF CASH FLOWS

<i>For the years ended December 31, 2005 and 2004</i>	<b>2005</b>	<b>2004</b>
<i>(in thousands of dollars)</i>	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net investment loss	(384)	(259)
Purchases of investments	(20,237)	(17,848)
Proceeds of disposition of investments	18,244	19,631
Net change in non-cash balances related to operations	1,406	(457)
	(971)	1,067
<b>Financing activities</b>		
(Decrease) increase in bank indebtedness	(1)	500
Net increase in refundable dividend tax on hand	(1)	(1)
	(2)	499
<b>Net (decrease) increase in cash during the year (note 7)</b>	(973)	1,566
<b>Cash, Beginning of year</b>	1,987	421
<b>Cash, End of year</b>	1,014	1,987



December 31, 2005

Number or Par Value	Investment	Cost \$	Market Value \$
<i>(in thousands of dollars)</i>			
<b>NORTH AMERICA - CONTINUED</b>			
<b>Canada</b>			
20,000	Pan-Ocean Energy Corporation Limited, B Subordinate Voting	450	540
400,000	Stratic Energy Corporation	481	324
4,600	Teekay Shipping Corporation	273	214
30,000	WGI Heavy Minerals, Incorporated	310	36
	<b>Total Canada (18.8%)</b>	<b>5,041</b>	<b>5,442</b>
<b>United States</b>			
15,000	Apple Computer Inc.	631	1,257
15,000	Comstock Homebuilding Companies, Inc.	468	247
1,600	Google Inc., A	581	774
7,000	Harley-Davidson, Inc.	471	420
10,000	IntercontinentalExchange, Inc.	391	424
10,000	International Securities Exchange Inc., A	375	321
15,000	Sothebys Holdings, Inc., A	318	321
20,000	Sprint Nextel Corporation	602	545
76,000	U.S. Gold Corporation	304	305
10,000	Winnebago Industries, Inc.	306	388
	<b>Total United States (17.3%)</b>	<b>4,447</b>	<b>5,002</b>
	<b>TOTAL NORTH AMERICA</b>	<b>9,488</b>	<b>10,444</b>
	TOTAL INVESTMENTS (96.5%)	25,339	27,957
	CASH & CASH EQUIVALENTS (3.5%)	1,014	1,014
	<b>INVESTMENT PORTFOLIO (100.0%)</b>	<b>26,353</b>	<b>28,971</b>
Percentage amounts in brackets represent market value as a percentage of the Investment Portfolio.			
<b>RECONCILIATION OF INVESTMENT PORTFOLIO TO NET ASSETS</b>			
	INVESTMENT PORTFOLIO (122.9%)		28,971
	BANK INDEBTEDNESS (-17.3%)		(4,075)
	FUTURE INCOME TAXES ON UNREALIZED GAIN ON INVESTMENTS (-1.5%)		(343)
	OTHER ASSETS AND LIABILITIES, NET (-4.1%)		(979)
	<b>NET ASSETS (100.0%)</b>		<b>23,574</b>
Percentage amounts in brackets represent market value as a percentage of Net Assets.			

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

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## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by Management that affect the amounts of assets, liabilities, income and expenses reported during the year. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Company.

### **Valuation of investments**

Publicly listed securities are valued at the last reported sale price or, if no sale price was reported, at the most recent bid price. Unlisted securities that trade on an over-the-counter market are valued in the same manner. Notwithstanding the above, in special circumstances when, in the opinion of Management, a market quotation is not readily available or is inappropriate (such as a stale price), the security is valued at its fair value as determined by Management using available sources of information and commonly used valuation techniques.

### **Investment transactions**

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

### **Investment income**

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

### **Foreign exchange**

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Purchases and sales of investments, investment income and expenses 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 assets and liabilities are measured using rates expected to apply to taxable income in the years in which the temporary differences are expected to be settled.

## 2 BANK INDEBTEDNESS

The Company has a revolving demand credit facility of \$5.0 million comprising bankers' acceptances and term loans, subject to specified covenants, with interest based on the prime bankers' acceptance rate. The bank indebtedness has a combined weighted-average interest rate of 3.96% per annum as at December 31, 2005 (2004 - 3.27% per annum) and is repayable in 2006.

During 2005, the Company utilized \$4.1 million (2004 - between \$3.6 million and \$4.1 million) of its revolving demand credit facility.

## 3 CAPITAL STOCK

The Company is authorized to issue unlimited preferred shares issuable in series and unlimited common shares. As at December 31, 2005 and 2004, there are 4,101,350 common shares issued and outstanding.

#### 4 RETAINED EARNINGS (DEFICIT)

The changes in retained earnings (deficit) for the year were as follows:

<i>(in thousands of dollars)</i>	<b>2005</b>	<b>2004</b>
	\$	\$
Deficit, Beginning of year	(1,442)	(4,499)
Net investment loss	(384)	(259)
Net realized gain on investments	2,619	3,317
Net increase in refundable dividend tax on hand	(1)	(1)
Retained earnings (deficit), End of year	792	(1,442)

#### 5 RELATED PARTY INFORMATION

Management fees are paid monthly to Morgan Meighen & Associates Limited, a corporation under common control with the Company, 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 quarterly basis at the annual rate of 1.50% of net asset value without a deduction for income tax liabilities. Values for fee calculation purposes are determined on the basis of the published financial statements of the Company as at the last day of the immediately preceding quarter.

#### 6 TAXATION

The Company, as a public corporation, is subject to income taxes on its income and realized gain on investments at the rates of approximately 36% (2004 - 36%) and 18% (2004 - 18%), respectively. The effective tax rate for future income taxes is approximately 18% (2004 - 18%).

The Company is also subject to a special tax of up to 33-1/3% of taxable dividends received from corporations resident in Canada. This special tax is refundable on payment of taxable dividends to shareholders at a rate of \$1 for each \$3 of such dividends paid. The Company has refundable dividend tax on hand of approximately \$10,000 as at December 31, 2005 (2004 - \$9,000).

The Company has capital loss carry-forwards of approximately \$693,000, which are not subject to expiry and can be utilized against future capital gains. An income tax benefit using income tax rates expected to be in effect when these losses are utilized has been included as a reduction in the Company's future income taxes on unrealized gain on investments.

#### 7 SUPPLEMENTAL CASH FLOW INFORMATION

Included in the net (decrease) increase in cash during the year are the following:

<i>(in thousands of dollars)</i>	<b>2005</b>	<b>2004</b>
	\$	\$
Interest paid	137	147
Income taxes paid	59	34

#### 8 BROKERAGE COMMISSIONS PAID ON INVESTMENT TRANSACTIONS

Brokerage commissions paid on investment transactions for the year ended December 31, 2005 were \$133,000 (2004 - \$137,000).

#### 9 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## COMMONLY ASKED QUESTIONS

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### **What is Canadian World Fund?**

CWF is a closed-end equity fund, founded in 1994, focussed on investments in corporations listed around the world. The portfolio is generally a blend of developed and emerging market stocks. It is the only Canadian-listed closed-end equity fund with an international portfolio of common shares.

### **What is CWF's investment objective?**

CWF's objective is to provide its investors with long-term returns by investing globally in securities of publicly traded, primarily growth companies.

### **Is CWF currency-hedged?**

No. The portfolio is currency-diversified and also has Canadian dollar holdings.

### **Does CWF employ leverage?**

CWF has an available credit facility of \$5 million at favourable interest rates. At December 31, 2005, CWF had utilized \$4.1 million of this credit facility at a weighted-average annual interest rate of 3.96%.

### **What is CWF's dividend policy?**

Currently, CWF is committed to growth, and as such, does not pay dividends.

### **Is CWF eligible for registered plans?**

CWF is a fully qualified investment for Canadian registered plans.

### **Is CWF appropriate for me?**

The Board and Management envisage that the typical investor in CWF is a Canadian or international investor interested in long-term capital growth from a portfolio of global equities, diversified against risk and actively managed by a team of experienced managers. Investors in CWF should be willing to tolerate moderate to high market volatility.

### **How can I buy CWF?**

CWF's shares are traded through stock brokers and are listed on the Toronto Stock Exchange (symbol: CWF).

## CLOSED-END FUNDS SIMPLY UNDERSTOOD

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- 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 charges, including commissions)
- May employ leverage

# CORPORATE INFORMATION

CANADIAN WORLD FUND LIMITED

## BOARD OF DIRECTORS

Thomas W.R. Lunan  
*Vice-President, B.E.S.T. Investment Counsel Limited*

Jonathan A. Morgan  
*President & CEO,  
Canadian General Investments, Limited*

Vanessa L. Morgan  
*Chairman, Canadian General Investments, Limited*

Jack H.B. Nederpelt  
*Managing Partner, Nederpelt Associates Inc.*

Michael A. Smedley  
*Executive Vice-President & CEO,  
Morgan Meighen & Associates Limited*

Richard O'C. Whittall  
*President, Watershed Capital Partners Inc.*

## AUDIT COMMITTEE

Thomas W.R. Lunan  
Jack H.B. Nederpelt  
Richard O'C. Whittall

## CORPORATE GOVERNANCE COMMITTEE

Jonathan A. Morgan  
Jack H.B. Nederpelt  
Richard O'C. Whittall

## INDEPENDENT DIRECTORS COMMITTEE

Thomas W.R. Lunan  
Jack H.B. Nederpelt  
Richard O'C. Whittall

## OFFICERS

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President & CEO*

Colin D. Smith  
*Secretary-Treasurer*

Frank C. 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: [cwffund@mmainvestments.com](mailto:cwffund@mmainvestments.com)  
website: [www.mmainvestments.com](http://www.mmainvestments.com)

## MANAGER

Morgan Meighen & Associates Limited  
Toronto

## AUDITORS

PricewaterhouseCoopers LLP  
Toronto

## BANKERS

Bank of Montreal  
Toronto

## SOLICITORS

Blake, Cassels & Graydon LLP  
Toronto

## CANADIAN REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.  
100 University Avenue, 9th Floor  
Toronto, Ontario, Canada M5J 2Y1  
Telephone:

Canada & U.S.: 1-800-564-6253  
Overseas: 1-514-982-7555

Fax:

Canada & U.S.: 1-888-453-0330  
Overseas: 1-416-263-9394

e-mail: [mmamail@computershare.com](mailto: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: CWF

## 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: The Globe and Mail, National Post, New York Times, The Wall Street Journal, and Barron's.

The Company posts ongoing top 10 portfolio investments (priced at market), together with current NAV and market return information on its website. CWF also posts its top 25 holdings on its website on a quarterly basis. Similar information is available directly from the Company upon request.

## ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of the shareholders of Canadian World Fund Limited will be held at 10:00 a.m. (Toronto time) Wednesday, April 5, 2006 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 Company is a founding member of the Closed-End Fund Association (CEFA) in North America.

Managed by:



**Morgan Meighen**

& ASSOCIATES

Investment Managers

**CANADIAN WORLD FUND LIMITED**

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