



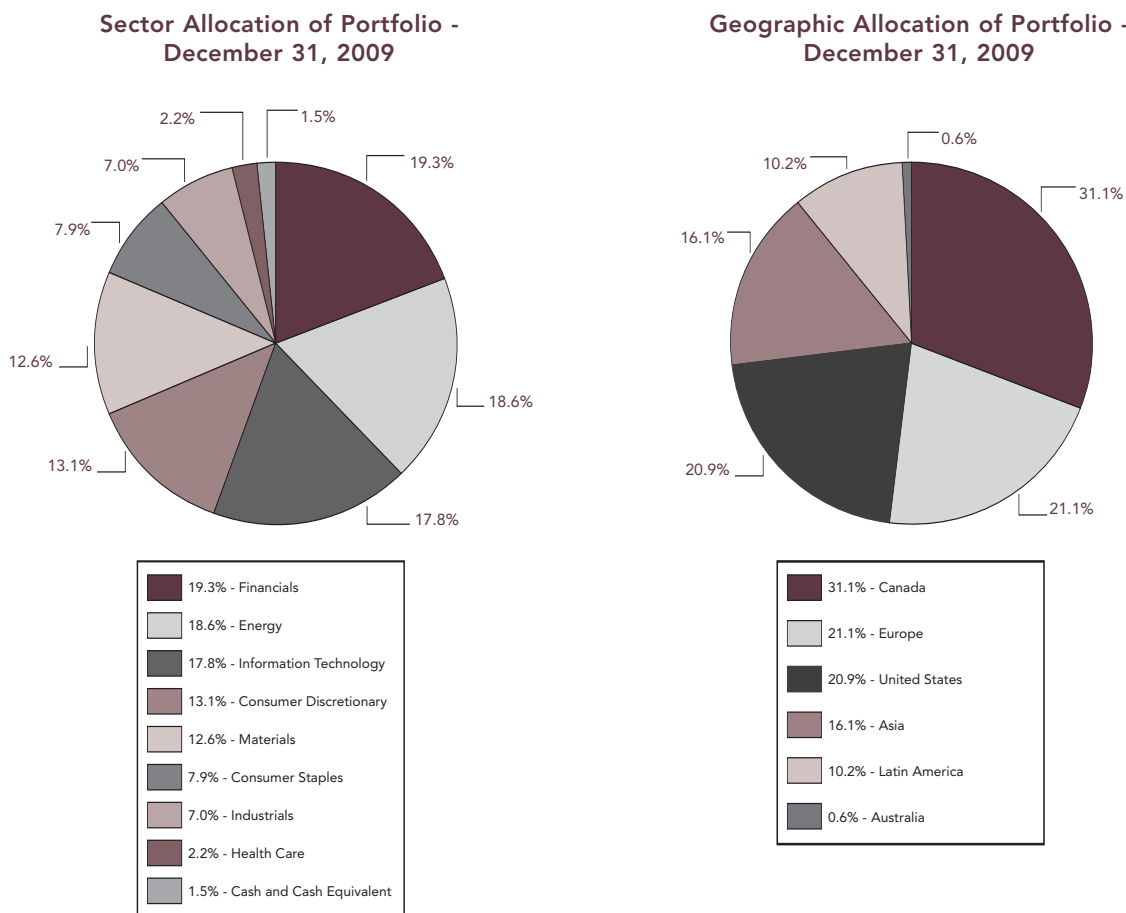
# GLOBAL OPPORTUNITIES

ANNUAL REPORT | 2009

## 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 primarily publicly traded 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, including the Canadian dollar, which is the currency of the Company.

CWF has been managed since its 1994 inception by Morgan Meighen & Associates Limited (website: [www.mmainvestments.com](http://www.mmainvestments.com)).



*Certain financial information contained in this report, including investment growth rates, rates of return and other such statistical information are historical values; past performance is no assurance or indicator of future returns. Share prices, net asset values and investment returns will fluctuate. Stated historical returns assume the reinvestment of all distributions. 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. Further information concerning risk can be found in the Management Report of Fund Performance of this Annual Report to Shareholders.*

*The Company is an investment fund, and as such, this Annual Report to Shareholders carries a variety of information concerning stocks and other investments, all for informational purposes only. The reader should assume that the Company and all individuals and entities (including the Manager and members of its staff) who have contributed to this publication may have a conflict of interest. Readers should therefore not rely solely on this Report in evaluating whether or not to buy or sell securities discussed herein.*

## LETTER TO SHAREHOLDERS



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

Canadian World Fund Limited's net asset value (NAV) surged an impressive 62.7% in 2009, its best annual gain since inception in 1994. The market value of its common shares, listed on the TSX, lifted 50.4%. This was, of course, after the steepest market decline in living memory and it put the Company only partially on the way to recovery, as was the case with the majority of appreciating stocks in 2009. The Company's benchmark, the Morgan Stanley Capital International All Country World Index, expressed in Canadian dollars, had a total return of only 12.4%. In the final quarter, when CWF's NAV rose 10.7% and its share price 14.7%, the benchmark managed only 1.8%. Notwithstanding this remarkable performance, CWF's market returns are still in negative territory over the longer term. The compound average annual return over the last ten years, a period which began with the tech bubble in 1999, is -4.1%, in line with the -4.4% of the benchmark.

Apples-to-apples comparison is difficult because the benchmark is nearly 50% U.S.-weighted, whereas CWF tends to have much more emerging market content. CWF also has a big Canadian component, mainly because of the winning strength of the Canadian dollar in many recent years. Also, the Company has a stock-picking team of managers and not an index weightings policy.

Among the external problems that contributed to CWF's 2008/2009 correction are the still simmering financial crisis, anaemic developed country economies, loose money policies, confusion about inflation or deflation threats and European regional weaknesses. Public indebtedness has been growing too fast and private indebtedness is contracting too slowly. We believe

the portfolio, with its global and sector diversifications, strong performance from some of its concentrated holdings and high weighting in Canadian dollar-based investments, is well positioned to meet the challenges and profit from the near-term opportunities. We hope to build on this year's recovery and provide long-term positive returns to shareholders.

A noteworthy event in November was the change of corporate offices. Canadian World Fund is now located in the historic building at 10 Toronto Street, depicted on the cover of this annual report. This move will not result in any increase in costs for the Company. Originally built in 1853 as a post office, this building was purchased privately by the Morgan family in 2006. After extensive renovation and restoration, it became the corporate offices of Morgan Meighen & Associates Limited, the Manager of CWF, and its affiliated companies, thereby re-establishing what is, in effect, an historic connection between our group and this elegant building.

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President & CEO*

## INVESTMENT COMMENTARY

The U.S. economy has emerged from the worst financial crisis since the Great Depression. The recession appeared to end in the summer of 2009, aided by accommodative monetary and fiscal policy, and the recovery is expected to remain gradual. It will take some time before confidence is fully restored and economic growth returns to its potential. In the near term, there is evidence that the economy can continue to build on recent improvements.

Equity markets were the best performing asset class globally in 2009. Risk assets outperformed significantly from the market lows in March, as evidence of an economic recovery supported by large fiscal and monetary stimulus programs allowed risk appetite to rise and volatility to fall. Falling risk premiums enabled the highest beta asset classes to outperform. High yield corporate bonds, commodities and real estate recorded impressive returns.

Canadian World Fund Limited (CWF) had an excellent year, posting an impressive net asset value (NAV) return of 62.7%, a five-fold outperformance of the 12.4% return of its benchmark, the Morgan Stanley Capital International All Country World Index, expressed in Canadian dollar terms. CWF's return outpaced that of Morningstar's top ranked Canadian managed global equity fund.

CWF's portfolio underwent a few changes during the second half. In particular, we purchased InterOil Corporation, a Canadian energy company operating in Papua New Guinea which recently announced very strong natural gas drilling results. This might prove to be a resource that can support the cost of construction of a liquefied natural gas (LNG) plant, serving Asian demand for clean-burning fuels. Also, we took advantage of recent weakness with the purchase of Research In Motion Limited (RIM), even though the company's margins going forward may suffer given the intense competition in smart phones. We think RIM's sales momentum will remain strong and we are reluctant to go negative on the stock in the near term.

The position in Freeport-McMoran Copper and Gold Inc. was eliminated, reducing exposure in the copper sector, booking a handsome gain. We trimmed our No.1 position, Alliance Grain Traders Inc., a growing Canadian-based pulse processor and exporter of specialty crops such as lentils, peas and beans. Through its subsidiary, Turkey Alliance Grain, it also produces pasta, rice and milled wheat products.

The success of CWF's outperformance was the result of strong advances in concentrated holdings as well as above average exposure in Canadian dollar-based investments, as the Canadian currency was one of the strongest during 2009. Key positive contributors to portfolio return were: Alliance Grain Traders; Lojas Renner S.A., the largest apparel retailer in Brazil which is

well positioned to benefit from growth in domestic demand; and, Petrominerales Ltd., a Canadian based oil and gas operator in Colombia with recent drilling successes and a growing production profile.

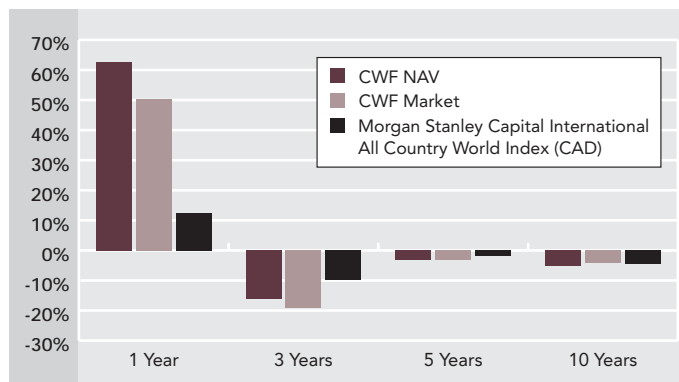
Additional impressive contributors were Mahindra & Mahindra Limited, India's leading utility vehicles and tractor manufacturer and Sberbank, Russia's largest lender, majority owned by the government where loan growth is accelerating, loan loss provision are declining and valuation remains undemanding.

Turning to our outlook for 2010, we expect a continuation of the cyclical recovery to support equity markets. Earnings should experience a strong rebound. Current valuations look fair on 2010 earnings expectations and further market advances will likely come from earnings improvement rather than multiple expansion. We think the drivers of the equity market going forward will be more broad-based, related to individual sector valuation and performance rather than purely cyclical. Emerging markets should continue to produce higher earnings growth and superior profitability than in the developed world, while relative valuations remain attractive.

Michael A. Smedley, *CEO and Chief Portfolio Officer of the Manager*

Alex Sulzer, *Vice-President of the Manager*

Compound Annual Returns for the Periods to December 31, 2009



# 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 superior long-term returns by investing globally in securities of primarily publicly traded growth companies.

The Manager, Morgan Meighen & Associates Limited (MMA), utilizes a bottom-up investment strategy in an effort to achieve CWF's objective. With this type of 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 Capital International All Country World Index (MSCI ACWI).

### RISK

As an equity fund, the Company's primary risk 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. A return to positive performance and a reduction in the level of market volatility was demonstrated in 2009. Some of the more significant changes or trends in economic conditions through the year and their effects are as follows:

- **Global economic recovery.** After going through one of the worst financial/economic crises in decades, the prospect that a global economic recovery was underway seemed to gather support over the course of 2009 as evidenced by increased confidence, improving financial conditions and stronger demand in many emerging market countries, particularly China. Tempering any optimism, however, are concerns over the strength and sustainability of a recovery, particularly given the level of government stimulus to date and the high level of unemployment.
- **Commodity prices.** 2009 saw a rebound in the prices of commodities. The S&P Goldman Sachs Commodity Index (an index that is comprised of the principal physical commodities of active, liquid markets) was up 13.5% for the year. Two of the best performing sub sectors of this index were Industrial Metals (82.4%) and Precious Metals (25.1%). For a commodities-based economy like Canada's, this had predictable outcomes: an improvement in the economy and a dramatic increase in stock prices in the sector.

- **Interest rates.** The Bank of Canada continued its aggressive interest rate reduction strategy through the first four months of 2009 reducing its benchmark interest rate to an all time low of 0.25%, and as a result, the prime bank rate decreased to 2.25% from 3.50% at the end of 2008. The intent of the policy is to encourage borrowing and thus spending. Although there is a risk that the economy could grow at too quick a pace, resulting in higher than desired inflation, it appears as if a slow-growing economy will be the reality in 2010.

In addition, investing globally may present political and economic considerations not typically found in Canada or the United States markets. Of particular significance in assessing risk is the fact that CWF invests in companies in some emerging markets. Expressed in Canadian dollar terms, the MSCI Emerging Market Index increased by 49.1% in 2009. At December 31, 2009, 33.4% of CWF's investment portfolio was invested in emerging markets, up from the 22.2% weighting at year-end 2008. CWF attempts to mitigate this risk by investing in companies in different geographic and economic sectors throughout the global market. For instance, at December 31, 2009, the Company held 10.1% of the investment portfolio in India. In that country, CWF had holdings in three economic sectors, namely consumer discretionary, financials and industrials.

Since CWF is a global equity fund, it holds investments denominated in many currencies, and is, therefore, exposed to 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 dollars. During 2009, the Canadian dollar strengthened relative to most currencies. At December 31, 2009, 69.5% of CWF's investment portfolio was denominated in currencies other than the Canadian dollar versus 60.9% at the end of 2008. The most prominent foreign currencies in the investment portfolio at year end were the U.S. dollar (39.5%), the British pound (8.7%), and the Brazilian real (6.6%). During 2009, the U.S. dollar and British pound depreciated by 14.5% and 5.5%, respectively and the Brazilian real appreciated by 13.5%, all compared to the Canadian dollar. Overall, foreign currency movements negatively impacted returns in 2009. CWF does not employ currency hedging as it does not consider this form of risk management to be cost effective or appropriate for maximizing growth. The global portfolio is well diversified and influenced by many currencies.

## MANAGEMENT REPORT OF FUND PERFORMANCE (CONTINUED)

Being a closed-end investment fund, CWF's shares generally trade at a discount to the net asset value per share (NAV). As a result, the return experienced by a shareholder (market return) can often differ from the underlying performance of the Company (portfolio performance). 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 premiums, include a fund's relative performance, the liquidity of a fund's shares, dividend yield, the use of a managed distribution policy, confidence in a fund's manager, investors' perceptions and expectations regarding the outlook of the countries/sectors/markets where a fund invests. Throughout 2009, CWF's shares traded at a discount ranging from 11.2% to 36.9%, ending the year at 26.6%.

From 1999 onward, CWF engaged in a leveraging strategy in an effort to enhance returns to shareholders. The purchase of securities using leverage (in CWF's case, bank borrowings) magnifies the gain or loss on the cash invested in securities and exposes the Company to interest rate risk. During the last half of 2008, the Company repaid most of its bank indebtedness, with the \$2.5 million still outstanding at December 31, 2008 fully repaid before the end of May 2009. The Company continues to have a credit facility available.

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

### RESULTS OF OPERATIONS

#### Performance

CWF's net asset value at December 31, 2009 was \$33,550,000, representing a 62.7% increase from the \$20,626,000 at the end of 2008. This compares with a 31.5% total return for the benchmark MSCI ACWI, or 12.4% when expressed in Canadian dollars. CWF's net asset value per share (NAV) at December 31, 2009 was \$4.67, up from \$2.87 at year-end 2008.

CWF's outperformance relative to the benchmark was largely due to a significant portfolio concentration in emerging markets, representing 33.4% of CWF's portfolio as at December 31, 2009. These markets were up strongly, as evidenced by the 49.1% return in the MSCI Emerging Markets Index, expressed in Canadian dollar terms. The recovery in world equity markets was largely driven by Brazil, Russia, India and China, where primary equity indices showed 108.5%, 96.4%, 62.7% and 54.6%, respectively over the year, also expressed in Canadian

dollars. CWF has investments in all four of these countries. The partial recovery in commodity prices benefitted the Canadian market, with the S&P/TSX Composite Index up 35.1% on a total return basis. At December 31, CWF had a 31.1% weighting in Canada. A majority of the assets and operations of the Canadian investee companies are located outside of Canada.

Although a continuation of negative market conditions in early 2009 led to the repayment of the \$2.5 million in bank borrowings outstanding at year-end 2008 and continued maintenance of high weightings in cash and short-term securities throughout most of the year, cash balances were invested in the last quarter of the year.

Investment income was \$354,000 for 2009, down 45.5% from 2008. Significant contributing factors were the reduction in the size of the portfolio as a result of the repayment of bank borrowings, the maintenance of high weightings in cash and short-term securities throughout most of the year, as well as the 2008 dispositions of certain high dividend paying securities, including PT Timah Tbk and Grupo Mexico S.A. de C.V.

Management fees, the largest expense of the Company, decreased by 32.0% over 2008 to \$420,000, driven by lower portfolio values. Interest, which had been the second largest expense in 2008, decreased by 90.5%, as a result of the low borrowings in 2009, culminating in complete repayment in May of that year.

#### Taxation

As a corporate entity, CWF is generally subject to taxes on its income and realized gains on the sale of investments at the rates of approximately 33% and 17%, respectively. In addition, CWF is subject to future income taxes on unrealized gains on investments at an effective rate of approximately 14%.

As at December 31, 2009, the Company has non-capital loss carry-forwards of approximately \$1,955,000, which can be offset against income in future years, and capital losses of approximately \$10,052,000, which can be utilized against future capital gains. Given the uncertainty that the benefit associated with these non-capital and capital losses will ultimately be realized, no benefit has been recorded in the financial statements.

### RECENT DEVELOPMENTS

#### Amendments to Existing Accounting Standards

In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), to enhance disclosure

regarding fair value measurement of financial instruments and liquidity risk exposures. The amendments introduce a three level hierarchy for disclosures intended to provide users of the financial statements with information on the relative reliability of the inputs used in fair value measurements.

In January 2009, the CICA issued Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires that an entity's own credit risk and the credit risk of counterparties be taken into account when determining the fair value of financial assets and financial liabilities.

The Company adopted both the amendment to Section 3862 and EIC-173 for the year ended December 31, 2009. Although neither impacted the financial position or results of operations of the Company, additional disclosures relating to Section 3862 are included in note 7 "Financial instruments" of the financial statements.

#### **Changeover to International Financial Reporting Standards**

Canadian publicly accountable enterprises, which include investment funds, are required to adopt international financial reporting standards (IFRS), which will replace Canadian generally accepted accounting principles (GAAP), for fiscal periods beginning on or after January 1, 2011. The Company's first set of financial statements to be reported on under IFRS will be for the semi-annual period ended June 30, 2011, which will provide corresponding comparative financial information for 2010, including an opening statement of net assets as at January 1, 2010. The Manager has established a project team responsible for the development and implementation of a transition plan to ensure that the Company is able to meet its reporting requirements. The three main elements of the transition plan include the following activities:

- Identification of the differences between the current accounting policies of the Company, which reflect current GAAP, and those expected to apply under IFRS and the likely financial statement impact resulting from the adoption of IFRS
- Analyzing the impact on business arrangements, including business and reporting processes
- Disclosure of the qualitative impact in the management reports of fund performance and disclosure of the quantitative impact, if any, in the December 31, 2010 management report of fund performance

Based on the Manager's analysis of the Company's current accounting policies and financial statement presentation under

GAAP against IFRS it is not expected that the adoption of IFRS will have a material effect on the Company's net assets or net asset value per share. The primary impact of IFRS on the Company's financial statements will be in the areas of presentation and note disclosure. In addition, based on its analysis to date, the Manager believes that the changeover to IFRS will not materially affect the Company's existing business arrangements.

However, additional changes to IFRS are expected to be issued during 2010 and, as a result there is some uncertainty regarding the expected accounting standards that will be in place in 2011. Accordingly, the Manager is not yet in a position to conclusively determine the impact on the Company's financial statements upon the adoption of IFRS.

Throughout the balance of 2010, the Manager will continue monitoring new standards and recommendations as they are issued by both the International Accounting Standards Board, who is responsible for the development and publication of IFRS, and the Canadian Accounting Standards Board to update its analysis as appropriate. By the fourth quarter of 2010, the Manager expects to complete this analysis, determine overall financial statement presentation, including note disclosure, and complete its assessment and initiate any changes required with respect to its business arrangements.

#### **Harmonized Sales Tax**

Effective July 1, 2010, Ontario provincial sales tax (PST) will be replaced with a value-added tax and combined with the federal Goods and Services Tax (GST) to create a federally administered Harmonized Sales Tax (HST). The HST will have a combined rate of 13% of which the provincial portion will be 8% and the federal portion will be 5%. Although management fees and certain other service costs of CWF are currently subject to the 5% GST, but not PST, these services will be subject to the new HST. Since the Company is not able to recover this tax, the 8% difference will represent an additional cost to CWF.

#### **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. For more details concerning the services that are provided by MMA and the management fee that is charged to the Company, see "Management Fees".

## MANAGEMENT REPORT OF FUND PERFORMANCE (CONTINUED)

### FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Company and are intended to help you understand the Company's financial performance for the past five financial years. Per share data is derived from the Company's audited annual financial statements. The net assets per share presented in the financial statements differs from the Company's daily net asset value due to differences in valuation techniques as described in the notes to the financial statements. Ratios and supplemental data are derived from the Company's net asset value.

#### The Company's Net Assets per Share <sup>(1)</sup>

	2009	2008	2007	2006	2005
Net assets, beginning of year	\$ 2.85	\$ 7.76	\$ 7.89	\$ 5.75	\$ 5.49
<b>Increase (decrease) from operations:</b>					
Total revenue	0.05	0.09	0.10	0.10	0.10
Total expenses	(0.10)	(0.17)	(0.23)	(0.22)	(0.19)
Income tax recovery	-	-	0.01	0.04	-
Realized gains (losses) for the year	(0.46)	(0.93)	0.00	0.44	0.64
Unrealized gains (losses) for the year	2.31	(3.90)	0.92	1.83	(0.29)
<b>Total increase (decrease) from operations</b>	<b>1.80</b>	<b>(4.91)</b>	<b>0.81</b>	<b>2.19</b>	<b>0.26</b>
Net assets, end of year <sup>(2)</sup>	\$ 4.65	\$ 2.85	\$ 7.76	\$ 7.94	\$ 5.75

(1) Net assets are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the year.

(2) This is not a reconciliation of the beginning and ending net assets per share.

#### Ratios and Supplemental Data

	2009	2008	2007	2006	2005
Total net asset value (000's) <sup>(1)</sup>	\$ 33,550	\$ 20,626	\$ 56,020	\$ 32,553	\$ 23,574
Number of shares outstanding <sup>(1)</sup>	7,190,091	7,190,091	7,190,091	4,101,350	4,101,350
Management expense ratio <sup>(2) (3)</sup>	2.81%	3.04%	3.00%	3.31%	3.51%
Trading expense ratio <sup>(4)</sup>	0.12%	0.22%	0.33%	0.24%	0.58%
Portfolio turnover rate <sup>(5)</sup>	17.36%	18.59%	25.88%	30.88%	67.45%
Net asset value per share	\$ 4.67	\$ 2.87	\$ 7.79	\$ 7.94	\$ 5.75
Closing market price <sup>(1)</sup>	\$ 3.43	\$ 2.28	\$ 5.96	\$ 6.45	\$ 4.35

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

(2) Management expense ratio (MER) is based on total expenses (including leverage costs but excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

(3) Excluding leverage costs (interest on bank borrowings), the Company's MERs were as follows: 2009 – 2.73%, 2008 – 2.44%, 2007 – 2.49%, 2006 – 2.65%, 2005 – 2.89%.

(4) 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.

(5) The Company's portfolio turnover rate indicates how actively the Manager manages the Company's 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 the turnover rate and the performance of a fund.

### MANAGEMENT FEES

The Company pays a management fee that is calculated and paid monthly 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, maintaining financial and corporate records, preparing financial statements and all required regulatory filings and assisting in promotion activities. The officers of the Company are remunerated by MMA in their capacity as directors and/or officers of MMA and receive no compensation from CWF.

## PAST PERFORMANCE

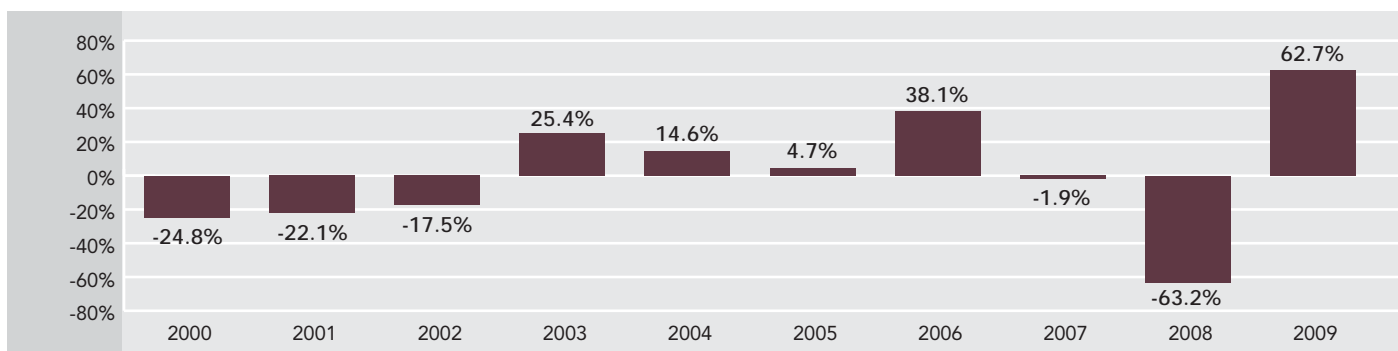
The performance information shown does not take into account broker commissions or other fees potentially payable by holders of the Company's shares that would have reduced returns or performance. How the Company has performed in the past does not necessarily indicate how it will perform in the future.

### YEAR-BY-YEAR RETURNS

The following bar charts show the Company's performance for each of the years shown, 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.

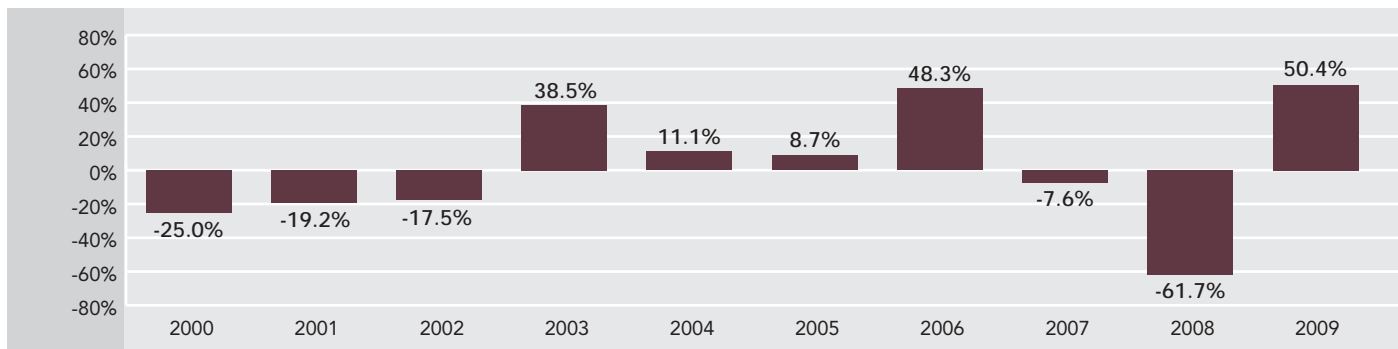
The bar chart below illustrates CWF's net asset value per share return.

#### Net Asset Value Return



The bar chart below illustrates CWF's market return.

#### Market Value Return



### ANNUAL COMPOUND RETURNS

This table shows the Company's historical annual compound total returns for the periods indicated, compared to the MSCI ACWI in both U.S. and Canadian dollars. The Index return is calculated on a total return basis, assuming that all distributions are reinvested.

	1 Year	3 Years	5 Years	10 Years
Canadian World Fund Limited - NAV	62.7%	-16.2%	-3.2%	-5.1%
Canadian World Fund Limited - Market	50.4%	-19.0%	-3.0%	-4.1%
Morgan Stanley Capital International All Country World Index (USD)	31.5%	-9.7%	-1.9%	-1.8%
Morgan Stanley Capital International All Country World Index (CAD)	12.4%	-9.9%	-1.8%	-4.4%

*The MSCI ACWI 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, 2009

### Sector Allocation

	% of Net Asset Value*	% of Investment Portfolio
Financials	19.4	19.3
Energy	18.7	18.6
Information Technology	17.9	17.8
Consumer Discretionary	13.1	13.1
Materials	12.6	12.6
Consumer Staples	7.9	7.9
Industrials	7.0	7.0
Health Care	2.2	2.2
Cash & Cash Equivalents	1.5	1.5

### Geographic Allocation

	% of Net Asset Value*	% of Investment Portfolio
Canada	31.2	31.1
Europe	21.3	21.1
United States	20.9	20.9
Asia	16.1	16.1
Latin America	10.2	10.2
Australia	0.6	0.6

### Top 25 Holdings

Issuer	Country	Sector	% of Net Asset Value*	% of Investment Portfolio
Apple Inc.	U.S.A.	Information Technology	4.6	4.6
Alliance Grain Traders, Inc.	Canada	Consumer Staples	4.5	4.5
Lojas Renner S.A.	Brazil	Consumer Discretionary	4.4	4.4
HDFC Bank Ltd.	India	Financials	4.1	4.1
Petrominerales Ltd.	Canada	Energy	4.0	4.0
Baidu, Inc.	China	Information Technology	3.8	3.8
Mahindra & Mahindra Limited	India	Industrials	3.6	3.6
Petrofac Limited	U.K.	Energy	3.2	3.2
International Business Machines Corp.	U.S.A.	Information Technology	2.9	2.9
East Asia Minerals Corporation	Canada	Materials	2.8	2.8
Silvercorp Metals Inc.	Canada	Materials	2.7	2.7
Gold Resource Corporation	U.S.A.	Materials	2.6	2.6
Deere & Company	U.S.A.	Industrials	2.5	2.5
Equinox Minerals Limited	Canada	Materials	2.4	2.4
Petrohawk Energy Corporation	U.S.A.	Energy	2.2	2.2
Sberbank	Russia	Financials	2.2	2.2
Biovail Corporation	Canada	Health Care	2.2	2.2
Hypermarcas S.A.	Brazil	Consumer Discretionary	2.1	2.1
Top Glove Corporation BHD	Malaysia	Consumer Discretionary	2.1	2.1
Grupo Financiero Banorte S.A.B. de C.V.	Mexico	Financials	2.1	2.1
Niko Resources Ltd.	Canada	Energy	2.1	2.0
Alcoa Inc.	U.S.A.	Materials	2.0	2.0
AmRest Holdings N.V.	Netherlands	Consumer Discretionary	2.0	2.0
InterOil Corporation	Canada	Energy	1.9	1.9
X5 Retail Group N.V.	Russia	Consumer Staples	1.8	1.8
			70.8*	70.7
Total Net Asset Value* (\$000's)				\$ 33,550
Total Investment Portfolio (\$000's)				\$ 33,615

\* Total Net Asset Value represents Total Investment Portfolio adjusted for 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.mmainsvestments.com](http://www.mmainsvestments.com), by calling 416-366-2931 (Toll Free: 1-866-443-6097), or by writing to the Company at 10 Toronto Street, Toronto, Ontario, Canada, M5C 2B7.

# 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.

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 judgements. The significant accounting policies which Management believes are appropriate for the Company are described in note 1 to 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 Board of 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*

March 3, 2010



Jonathan A. Morgan

*President & CEO*

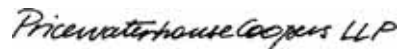
## AUDITORS' REPORT

### To the Shareholders of Canadian World Fund Limited

We have audited the accompanying statements of net assets of Canadian World Fund Limited (the Company) as at December 31, 2009 and 2008, the statement of investment portfolio as at December 31, 2009 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2009 and 2008. 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, 2009 and 2008 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, Licensed Public Accountants*

*Toronto, Canada*

March 3, 2010

# STATEMENTS OF NET ASSETS

As at December 31, 2009 and 2008

(in thousands of dollars, except per share amounts)

	2009	2008
	\$	\$
<b>Assets</b>		
Investments at fair value (cost - \$29,325; 2008 - \$34,683)	32,979	21,717
Cash	496	1,262
Dividends receivable	41	42
Income taxes recoverable	-	12
	33,516	23,033
<b>Liabilities</b>		
Accounts payable and accrued liabilities	93	91
Bank indebtedness (note 2)	-	2,477
Income taxes payable (note 6)	11	-
	104	2,568
	33,412	20,465
<b>Net Assets</b>		
<b>Shareholders' Equity</b>		
Capital stock (note 3)	39,220	39,220
Unrealized gain (loss) on investments	3,654	(12,966)
Retained deficit (note 4)	(9,462)	(5,789)
	33,412	20,465
<b>Number of shares outstanding</b> (note 3)	7,190,091	7,190,091
<b>Net assets per share</b> (note 10)	4.65	2.85

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

Approved by the Board of Directors



Director



Director

# STATEMENTS OF OPERATIONS

For the years ended December 31, 2009 and 2008

(in thousands of dollars, except per share amounts)

	2009	2008
	\$	\$
<b>Investment income</b>		
Dividends	311	634
Interest	65	63
	376	697
Withholding taxes on foreign dividends	(22)	(48)
	354	649
<b>Expenses</b>		
Management fees (note 5)	420	618
Directors' fees and expenses	95	74
Security holder reporting costs	42	37
Listing and regulatory costs	39	39
Custodial fees	37	94
Audit fees	23	22
Interest	22	237
Investor relations	14	14
Legal fees	14	3
Independent review committee fees and expenses	12	20
Capital taxes (recovery)	(2)	13
Other	24	29
	740	1,200
<b>Net investment loss</b>	(386)	(551)
<b>Realized and unrealized gains (losses) on investments</b>		
Net realized loss on investments, net of income taxes of \$nil (2008 - \$nil)	(3,233)	(6,628)
Change in unrealized gain (loss) on investments, net of decrease (increase) in future income taxes of \$nil (2008 - \$2,520)	16,620	(28,059)
Transaction costs on purchase and sale of investments	(33)	(85)
<b>Net gain (loss) on investments</b>	13,354	(34,772)
<b>Increase (decrease) in net assets resulting from operations for the year</b>	12,968	(35,323)
<b>Increase (decrease) in net assets resulting from operations per share</b> (based on 7,190,091 (2008 - 7,190,091) weighted-average shares outstanding during the year)	1.80	(4.91)

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

## STATEMENTS OF CHANGES IN NET ASSETS

<i>For the years ended December 31, 2009 and 2008</i>	<b>2009</b>	<b>2008</b>
<i>(in thousands of dollars)</i>	\$	\$
<b>Increase (decrease) in net assets resulting from operations for the year</b>	12,968	(35,323)
Net increase in refundable dividend tax on hand (note 6)	(21)	(6)
<b>Increase (decrease) in net assets during the year</b>	12,947	(35,329)
<b>Net assets, beginning of year</b>	20,465	55,794
<b>Net assets, end of year</b>	33,412	20,465

## STATEMENTS OF CASH FLOWS

<i>For the years ended December 31, 2009 and 2008</i>	<b>2009</b>	<b>2008</b>
<i>(in thousands of dollars)</i>	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net investment loss	(386)	(551)
Purchase of investments	(9,526)	(12,973)
Proceeds of disposition of investments	11,651	17,646
Transaction costs on purchase and sale of investments	(33)	(85)
Net change in non-cash balances related to operations	26	43
	1,732	4,080
<b>Financing activities</b>		
Decrease in bank indebtedness	(2,477)	(2,922)
Net increase in refundable dividend tax on hand	(21)	(6)
	(2,498)	(2,928)
<b>Net increase (decrease) in cash during the year (note 8)</b>	(766)	1,152
<b>Cash, beginning of year</b>	1,262	110
<b>Cash, end of year</b>	496	1,262

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

# STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2009

NUMBER	INVESTMENT	COST \$	FAIR VALUE \$
<i>(in thousands of dollars)</i>			
<b>ASIA (16.1%) (2008-0.5%)</b>			
3,000	Baidu, Inc., ADR (China)	685	1,291
10,000	HDFC Bank Ltd., ADR (India)	579	1,363
50,000	Mahindra & Mahindra Limited (India)	407	1,219
4,020	Pantaloon Retail (India) Limited, B (India)	-	25
155,000	Parsvnath Developers Limited (India)	419	434
209,500	SREI Infrastructure Finance Limited (India)	754	368
231,000	Top Glove Corporation BHD (Malaysia)	635	709
<b>TOTAL ASIA</b>		<b>3,479</b>	<b>5,409</b>
<b>AUSTRALIA (0.5%) (2008-0.8%)</b>			
300,000	Bannerman Resources Ltd.	1,026	203
<b>TOTAL AUSTRALIA</b>		<b>1,026</b>	<b>213</b>
<b>EUROPE (21.1%) (2008-23.0%)</b>			
<b>Europe, Excluding United Kingdom (11.0%) (2008-11.2%)</b>			
21,999	AmRest Holdings N.V. (Netherlands)	399	660
18,000	Central European Distribution Corporation (Poland)	445	536
20,000	IMAREX NOS ASA (Norway)	352	206
8,800	LUKOIL, ADR (Russia)	791	527
39,000	Oslo Bors VPS Holding ASA, unlisted (Norway)	207	408
250,000	Sberbank (Russia)	512	738
18,332	X5 Retail Group N.V., GDR (Russia)	357	612
<b>Total Europe, Excluding United Kingdom</b>		<b>3,063</b>	<b>3,687</b>
<b>United Kingdom (10.1%) (2008-11.8%)</b>			
20,000	Autonomy Corporation plc	136	511
900,000	Blinkx plc	509	247
21,803	London Stock Exchange Group plc	588	264
250,000	Midas Capital plc	1,386	72
60,000	Petrofac Limited	631	1,055
585,552	PLUS Markets Group plc	382	50
230,000	Serica Energy plc	316	221
112,500	Stanley Gibbons Group plc	116	253
300,000	Tethys Petroleum Limited	903	234
20,950	Tullow Oil plc	429	463
<b>Total United Kingdom</b>		<b>5,396</b>	<b>3,370</b>
<b>TOTAL EUROPE</b>		<b>8,459</b>	<b>7,057</b>

NUMBER	INVESTMENT	COST \$	FAIR VALUE \$
<i>(in thousands of dollars)</i>			
<b>LATIN AMERICA (10.2%) (2008-4.9%)</b>			
15,000	Desarrolladora Homex, S.A.B. de C.V., ADR (Mexico)	755	527
180,000	Grupo Financiero Banorte, S.A.B. de C.V. (Mexico)	300	680
30,000	Hypermarcas S.A. (Brazil)	601	707
63,000	Lojas Renner S.A. (Brazil)	767	1,486
<b>TOTAL LATIN AMERICA</b>		<b>2,423</b>	<b>3,400</b>
<b>NORTH AMERICA (50.6%) (2008-33.0%)</b>			
<b>Canada (29.6%) (2008-14.5%)</b>			
50,500	Alliance Grain Traders Inc.	628	1,510
50,000	Biovail Corporation	689	731
200,000	East Asia Minerals Corporation	590	908
330,000	El Nino Ventures Inc., warrants 02/28/2010	119	11
200,000	Equinox Minerals Limited	176	808
1,250	Fairfax Financial Holdings Limited, SV	493	512
8,000	InterOil Corporation	520	643
30,000	Logibec Groupe Informatique Ltd.	411	597
7,000	Niko Resources Ltd.	303	687
325,000	Peer 1 Network Enterprises, Inc.	527	335
70,000	Petrominerales Ltd.	263	1,312
7,000	Research In Motion Limited	473	497
130,000	Silvercorp Metals Inc.	983	901
8,852	TMX Group Inc.	413	293
200,000	WesternZagros Resources Ltd.	524	154
<b>Total Canada</b>		<b>7,112</b>	<b>9,899</b>
<b>United States (21.0%) (2008-18.5%)</b>			
40,000	Alcoa Inc.	1,275	675
7,000	Apple Inc.	548	1,544
30,000	Bank of America Corporation	548	474
1,731	CME Group Inc.	647	609
15,000	Deere & Company	1,071	848
2,000	First Solar, Inc.	615	283
75,000	Gold Resource Corporation	574	866
7,000	International Business Machines Corporation	748	958
30,000	Petrohawk Energy Corporation	865	754
<b>Total United States</b>		<b>6,891</b>	<b>7,011</b>
<b>TOTAL NORTH AMERICA</b>		<b>14,003</b>	<b>16,910</b>
<b>TOTAL EQUITIES</b>		<b>29,390</b>	<b>32,979</b>

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

## STATEMENT OF INVESTMENT PORTFOLIO (CONTINUED)

NUMBER	INVESTMENT	COST \$	FAIR VALUE \$
<i>(in thousands of dollars)</i>			
	TRANSACTION COSTS	(65)	-
	<b>TOTAL INVESTMENTS (98.5%)</b>	<b>29,325</b>	<b>32,979</b>
	CASH (1.5%)	496	496
	<b>INVESTMENT PORTFOLIO (100.0%)</b>	<b>29,821</b>	<b>33,475</b>

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

### **RECONCILIATION OF INVESTMENT PORTFOLIO TO NET ASSETS:**

INVESTMENT PORTFOLIO (100.2%)	33,475
OTHER ASSETS AND LIABILITIES, NET (-0.2%)	(63)
<b>NET ASSETS (100.0%)</b>	<b>33,412</b>

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

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

# NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Amendments to existing accounting standards

In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance disclosure regarding fair value measurement of financial instruments and liquidity risk exposures. The amendments introduce a three level hierarchy for disclosures intended to provide users of the financial statements with information on the relative reliability of the inputs used in fair value measurements. The Company adopted these amendments for the year ended December 31, 2009. Refer to note 7 for new disclosures relating to the adoption of the amendments.

In January 2009, the CICA issued Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires that an entity's own credit risk and the credit risk of counterparties be taken into account when determining the fair value of financial assets and financial liabilities. The Company adopted EIC-173 for the year ended December 31, 2009 and its requirements did not have an impact on the financial position or result of operations of the Company.

### Valuation of investments

Publicly listed securities are valued at the most recent bid price. Unlisted securities that trade on an over-the-counter market and other securities, in special circumstances where a market quotation is not readily available or is considered inappropriate (such as a stale price), are valued using available sources of information and commonly used valuation techniques, using primarily observable inputs.

### Investment transactions

Investment transactions are recorded on the trade date. Realized and unrealized gains and losses from investment transactions are calculated on an average cost basis. The Company recognizes realized gains (losses) on investments and the net change in unrealized gains on investments in the statement of operations. Within shareholders' equity, net realized gains (losses) on investments are accumulated in retained earnings, while net changes in unrealized gain on investments, a component of retained earnings, are accumulated and separately presented as unrealized gain on investments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. These costs are expensed and are included in the statements of operations.

### 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 2 BANK INDEBTEDNESS

The Company has a revolving demand credit facility of \$8.0 million, comprising bankers' acceptances, subject to specified covenants, with interest based on the prime bankers' acceptance rate (plus 60 basis points). The Company must comply with specified covenants during the terms of the loans.

The Company has no outstanding loans as at December 31, 2009. The bank indebtedness as at December 31, 2008 had a combined weighted-average interest rate of 4.22% per annum and was repaid over various maturity dates in 2009.

During 2009, the Company utilized between \$nil and \$2.5 million (2008 - between \$5.4 and \$7.0 million) of its revolving demand credit facility.

### 3 CAPITAL STOCK

The Company is authorized to issue unlimited preferred shares issuable in series and an unlimited number of common shares. As at December 31, 2009, there are 7,190,091 (2008 - 7,190,091) 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>2009</b> \$	<b>2008</b> \$
Retained earnings (deficit), beginning of year	(5,789)	1,481
Net investment loss	(386)	(551)
Net realized loss on investments, net of transaction costs	(3,266)	(6,713)
Net increase in refundable dividend tax on hand	(21)	(6)
Deficit, end of year	(9,462)	(5,789)

### 5 RELATED PARTY INFORMATION

Management fees are paid monthly to Morgan Meighen & Associates Limited (the Manager), 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 monthly basis at the annual rate of 1.5% of net asset value (NAV), without a deduction for income tax liabilities. Values for fee calculation purposes are determined on the basis of the financial statements of the Company as at the last day of the applicable month.

### 6 TAXATION

The Company, as a public corporation, is subject to income taxes on its net investment income and net realized gain (loss) on investments at the rates of approximately 33% (2008 - 34%) and 17% (2008 - 17%), respectively. Taxable dividends receivable from taxable Canadian corporations, as defined by the Income Tax Act (Canada), are excluded from taxable income.

Temporary differences between the carrying values of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. The most significant temporary difference for the Company is the difference between the fair value of investments in its portfolio and their adjusted cost base (ACB) for income tax purposes. To the extent that the fair value of investments is greater than their ACB, a future income tax liability arises. When the ACB of investments is greater than their fair value, a future income tax asset is created.

As at December 31, 2009, the Company has non-capital loss carry-forwards of approximately \$1,955,000. These can be offset against income in future years and begin to expire in 2027. In addition, the Company has capital losses of approximately \$10,052,000, which can be utilized against future capital gains and are not subject to expiry. Given the uncertainty that the benefit associated with these non-capital and capital losses will ultimately be realized, a full valuation allowance has been taken to offset the future income tax asset, such that no benefit has been recorded in the financial statements.

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 \$55,000 as at December 31, 2009 (2008 - \$34,000).

## **7 FINANCIAL INSTRUMENTS**

The Company is a closed-end equity fund that endeavours to provide superior long-term returns by investing globally in securities of primarily publicly traded growth companies.

In the normal course of operations, the Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (defined as interest rate risk, currency risk and other price risk). In general, the Manager seeks to minimize the potential adverse effects of these risks on the Company's performance by employing professional, experienced portfolio managers, by daily monitoring of the Company's positions and market events, and by diversifying the investment portfolio within the policies and guidelines set by the Board of Directors of the Company in a manner consistent with the investment objective. Pursuant to the Manager's bottom-up selection mandate, security selection is the primary criteria for managing risk. In order to mitigate risk, depending on conditions, the Manager considers other criteria such as asset class, industry, country and currency.

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main exposure to credit risk may consist of investments in debt instruments, including short-term securities, bonds and preferred shares, as well as amounts due from brokers. The fair value of debt instruments includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt instruments, as presented on the statement of investment portfolio, represents the maximum credit risk exposure as at December 31, 2009. This also applies to other assets, as these have a short term to settlement. As at December 31, 2009, the Company had no investments in debt instruments (2008 - \$3,998,000 or 17.4% of the investment portfolio).

All transactions in listed securities are settled/paid for on delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the Company's custodian has received payment. Payment is made on a purchase once the securities have been received by the Company's custodian. The trade will fail if either party fails to meet its obligation.

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

As the Company is a publicly traded, closed-end investment fund with a fixed number of common shares outstanding, unlike an open-ended mutual fund, it is not exposed to the liquidity risk associated with daily cash redemptions of securities. However, as part of a leverage strategy, the Company currently has a revolving demand credit facility of \$8.0 million (note 2).

Liquidity risk is managed by investing the majority of the Company's assets in investments that are traded in an active market and which can be readily disposed of and by retaining sufficient cash and cash equivalent positions to maintain liquidity. Restricted and unlisted securities, if any, are identified in the statement of investment portfolio. There were no restricted securities in the investment portfolio as at December 31, 2009. Leverage decisions, whether in the form of bank borrowings or bond or preference share issues from treasury, are at the discretion of the Company's Board of Directors.

All financial liabilities of the Company as at December 31, 2009 and 2008 fall due within twelve months.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Market risk

#### Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Although the Company may invest in interest-bearing financial instruments, the substantial majority of the Company's financial assets and financial liabilities are non-interest-bearing or have short maturities. As a result, the Company is not subject to significant amounts of risk on its investments due to fluctuations in the prevailing levels of market interest rates.

As at December 31, 2009, the Company had no investments in debt instruments. At December 31, 2008, the Company's investments in debt instruments were limited to short-term securities with maturity dates of less than one year. The Company has minimal sensitivity to changes in interest rates on these securities, as it is anticipated that they are usually held to maturity and are short-term in nature.

The Company's revolving credit facility is subject to interest rates based on the prime bankers' acceptance rate which exposes the Company to interest rate risk as any new borrowings will be subject to the prevailing interest rate environment at that time. At December 31, 2009, the Company has no loans outstanding (2008 - \$2,477,000). As at December 31, 2009, a 1% increase or decrease in interest rates would have nil impact on net assets over a one-year period (2008 - decrease or increase of \$25,000).

#### Currency risk:

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Company's reporting currency. The Company is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. Equities trading in foreign markets are also exposed to currency risk, as the price in local terms in the foreign market is converted to Canadian dollars to determine fair value. The Company's policy is not to enter into any hedging arrangements.

As at December 31, 2009, the Company's investment portfolio had a 69.5% (2008 - 60.9%) weighting in foreign currencies. The five most significant foreign currencies as at December 31, 2009 and 2008 were as follows:

	<b>Currency exposure CA\$</b>	<b>Percentage of investment portfolio %</b>
<i>As at December 31, 2009 (in thousands of dollars)</i>		
U.S. dollar	13,248	39.6
U.K. pound sterling	2,915	8.7
Brazilian real	2,193	6.6
Indian rupee	2,046	6.1
Malaysia ringgit	709	2.1
<i>As at December 31, 2008 (in thousands of dollars)</i>		
U.S. dollar	7,138	31.1
U.K. pound sterling	2,434	10.6
Indian rupee	1,317	5.7
Norwegian Krone	819	3.6
Brazilian real	515	2.2

The statement of investment portfolio lists all investments held by region and country of domicile.

As at December 31, 2009, had the Canadian dollar strengthened or weakened by 5% in relation to all currencies represented in the portfolio as at December 31, 2009, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$1,163,000 or approximately 3.5% of total net assets (2008 - \$700,000 or approximately 3.4% of total net assets).

Other price risk:

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether these changes are caused by factors specific to an individual investment or its issuer, or by factors affecting all similar instruments traded in a market or market segment. All securities present a risk of loss of capital. The Manager moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy and by maintaining a well diversified portfolio. The maximum risk resulting from financial instruments is equivalent to their fair value. The Company's equity and debt (if any) instruments are susceptible to other price risk arising from uncertainty about future prices of the instruments.

The statement of investment portfolio groups the securities by geographic area.

As at December 31, 2009, a 5% increase or decrease in market prices in the investment portfolio, excluding short-term securities, with all other variables held constant, would have resulted in the net assets of the Company increasing or decreasing, respectively, by approximately \$1,649,000 or approximately 4.9% of total net assets (2008 - \$886,000 or approximately 4.3% of total net assets).

Sensitivity analysis are provided for information purposes only. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

**Fair value measurement**

The Company classifies its investments within a fair value hierarchy, based on the inputs used in their fair value measurement. The hierarchy of inputs is summarized below:

Level 1: Unadjusted quoted prices at the measurement date in active markets for identical assets

Level 2: Directly or indirectly observable inputs other than quoted prices included in Level 1, such as quoted prices for identical or similar assets in markets that are not active

Level 3: Inputs for the assets that are not based on observable market data

The following table indicates the fair value hierarchy of the inputs used in valuing the Company's investments at December 31, 2009:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Equity investments	32,560	419	-	32,979

All other financial instruments of the Company, which may include cash, receivable on securities sold or payable on securities purchased, interest and dividends receivable, income taxes recoverable or payable, accounts payable and accrued liabilities and bank indebtedness, are carried at amortized cost, which approximates their fair value.

During the year ended December 31, 2009, there were no investments transferred between Level 1 and Level 2.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 8 SUPPLEMENTAL CASH FLOW INFORMATION

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

	2009	2008
<i>(in thousands of dollars)</i>	\$	\$
Interest paid	37	237
Income taxes paid	20	67

### 9 CAPITAL MANAGEMENT

The Company considers capital to be comprised of its shareholders' equity. The balances are as follows:

	2009	2008
<i>(in thousands of dollars)</i>	\$	\$
Shareholders' equity	33,412	20,465

The Company's primary objective when managing its capital is to ensure that activities are carried out in accordance with the investment objective of the Company, as described in note 7. In addition, with respect to the \$8.0 million credit facility as described in note 2, the Company monitors its adherence to loan covenants, including a required minimum two times asset coverage ratio. The Company was in full compliance with all such covenants for the years ended December 31, 2009 and 2008.

### 10 COMPARISON OF NET ASSET VALUE PER SHARE AND NET ASSETS PER SHARE

In accordance with Section 3.6(1) of National Instrument 81-106, the Company's net asset value per share, the net assets per share, calculated in accordance with Canadian GAAP for financial reporting purposes, and an explanation of the differences between such amounts, are required disclosures in the notes to the financial statements. For investments that are traded in an active market, Canadian GAAP requires that bid prices be used in the fair value of instruments, rather than the use of the last traded price, as currently used for the purpose of determining net asset value. This change accounts for the difference between net asset value and net assets.

	2009	2008
	\$	\$
Net asset value per share	4.67	2.87
Canadian GAAP adjustment	(0.02)	(0.02)
Net assets per share	4.65	2.85

# *No 10 Toronto Street*

## *A Brief History*

Since it opened in 1853, the building at 10 Toronto Street has served numerous purposes and has undergone several renovations. Originally constructed as Toronto's 7th Post Office, the building descended in three tiers from the three storey neo-classical façade down to one storey at the rear. At this time it sported two entrances: one for ladies and one for gentlemen.

No. 10 was made an office for the Internal Revenue in 1872. In conjunction with its change of purpose, it was renovated and the 'his & hers' entrances were replaced by a single 'unisex' door. In 1936, it became a branch of the Bank of Canada.

Endangered by what was understood to be urban renewal in 1959, No. 10 was saved from the wrecking ball by E.P. Taylor and made into the headquarters for Argus Corporation. A third floor was added onto the front half of the building and the interior underwent considerable renovations.

Argus was one of the most powerful conglomerates of the 1960's and '70's, with companies such as British Columbia Forest Products, Dominion Stores, Domtar, Hollinger Mines, Massey-Ferguson and Standard Broadcasting in its stable. The founder of Morgan Meighen & Associates, Maxwell Meighen, and one of its original senior executives, Alex Barron, were directors and officers of Argus. Control of Argus passed to Conrad Black in 1978 and No. 10 became the headquarters of Hollinger Inc., which it remained until Mr. Black's well publicized fall from grace.

We, Jonathan Morgan and Vanessa Morgan, children of E. Louise Morgan, another original Morgan Meighen executive, purchased it personally in 2006, to serve as the new offices for Morgan Meighen and the companies affiliated with it, including Canadian World Fund.

## *A Long Renovation*

When we learned No. 10 would be offered for sale, we recognized a once in a lifetime opportunity. We also knew that we were in for a big job. While the exterior remained impressive and parts of the interior elegant, the building overall was showing signs of dysfunction, neglect and decay. The interior had been repurposed so many times that it had become a rabbit warren, water damage was visible on several of the walls, and bits of masonry were falling from the cornice. There was asbestos throughout the building, PCBs in the light fixtures, a leaky roof and an odd ramp on the third floor.

All this we knew before we embarked on our renovations. Some surprises which we met once they got underway were: more and different asbestos, a 1950's ceiling above the 1980's ceiling, hiding a 1930's ceiling, and two mysterious, unmarked 'voids' in the basement. Our hopes that these voids might contain skeletons, Bank of Canada bullion or even hooch were dashed when they turned out to contain nothing more than rubble, an empty cigar package and an old newspaper.

Our aim in renovating was to restore a lovely and rare historical building and to create a pleasant environment for our clients and staff. Key to this latter aim was the creation of a central atrium with a skylight illuminating what had been a dark interior. The skylight harkens back to the cupola on top of the original public hall. We have also incorporated green technology where practical, including a geothermal system and cutting-edge heating and cooling panels. A new urban green space will take over part of the parking lot.

We are pleased we were able to restore No. 10 in a way that allowed it to meet the needs of a modern office, while being sensitive to its long legacy. We look forward to an enduring and successful future for Canadian World Fund in its new offices at No. 10 Toronto Street.



# 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 (Chairman)  
Jack H.B. Nederpelt  
Richard O'C. Whittall

### CORPORATE GOVERNANCE COMMITTEE

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

### INDEPENDENT DIRECTORS COMMITTEE

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

### OFFICERS

Vanessa L. Morgan  
*Chairman*

Jonathan A. Morgan  
*President & CEO*

Colin D. Smith  
*Secretary*

Frank C. Fuernkranz, MBA, CA, CFA  
*Treasurer & CFO*

Christopher J. Esson, CA, CFA, MBA  
*Assistant-Treasurer*

### OFFICE OF THE COMPANY

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Telephone: (416) 366-2931  
Toll Free: 1-866-443-6097  
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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.

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 General Meeting of shareholders of Canadian World Fund Limited will be held at 10:00am (Toronto time), Wednesday, April 28, 2010 in the Austin Gallery, One King West Hotel & Residence, 1 King Street West, 12th Floor, Toronto, Ontario, M5H 1A1.  
Telephone: (416) 548-8100  
Website: [www.onekingwest.com](http://www.onekingwest.com)

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

Managed by:



CANADIAN WORLD FUND LIMITED

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