



CWF

Canadian World Fund  
Limited



# Investing *in* global opportunities

CANADIAN WORLD FUND LIMITED

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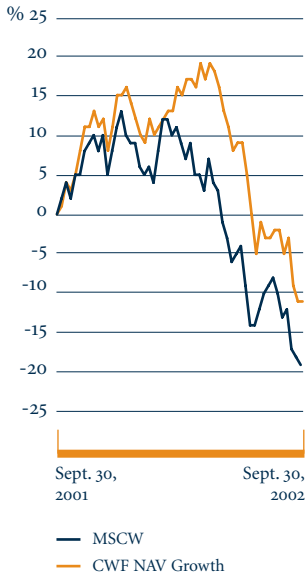
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THIRD QUARTER REPORT

September 30, 2002

**COMPARISON OF NAV GROWTH TO MORGAN STANLEY ALL-COUNTRY WORLD FREE INDEX (MSCW)**

Twelve months ended  
September 30, 2002



CANADIAN WORLD FUND (CWF) COMPLETED THE THIRD QUARTER ended September 30, trading around all time lows although year-to-date portfolio results were performing ahead of the global benchmark, the Morgan Stanley All-Country World Free Index (MSCW). Compared to the Index, CWF's net asset value per share over twelve months was down 11.1% vs. 18.9%, while year-to-date the Fund was down 22.0% vs. 26.3%, all expressed in Canadian dollar terms.



Volatility this year has been so pronounced that global funds have been trading, even on a daily basis, up or down 4% to 6%. The volatility stems from the numerous familiar concerns – the war atmospherics, accounting investigations, bank loans risk and the general corrective malaise that has affected all developed markets, and now the emerging markets, which had a superior showing early in the year.

The next general upturn seems unlikely until investors are satisfied that the U.S. is going to lead the rest of the world with a strong economic rebound. In the end, better markets might result from many factors, presumably including healthier technology and communications sectors, improved investor confidence and greater stability in problematic countries and regions. Events over the past two years have been particularly punishing.

**Portfolio**

We have continued our diversification strategy in the portfolio and this has assisted performance. However, the market damage in the United States, the United Kingdom and China, has been serious. In the nine months ended September 30, the S&P 500 was down a huge 29.3% and the U.K.'s FTSE 100 Index was down 23.3 %, both expressed in Canadian dollar terms. China's stock markets have mirrored these performances despite the country's high growth profile.

CWF has enjoyed good individual stock performances year-to-date. In particular, we have done well with Taisei Lamick Co., Ltd. of Japan, which makes packaging film and machinery for its manufacturing operations. Positive performance has also been accomplished with investments in Slovenia, Argentina and Canada, where TVX Gold Inc. proved to be the top portfolio performer, up more than 100%. We have been realizing gains in this stock and several other positions, including Xinao Gas Holdings Limited in China, Mercator Poslovni Sistem, a dominant foods retailer in Slovenia, Alliance and Leicester PLC in the U.K. and Panera Bread Company in the U.S. We also trimmed Weight Watchers International, Inc. in the U.S., although this could yet be our best growth stock going forward.

New directions in the latest quarter included Turkey, a market currently at one of its low points after currency and inflation crises and now awaiting the completion of the national election process. We hold Anadolu Efes Biracilik ve Malt Sanayii A.S., a respected brewer and soft drinks distributor in Turkey, Russia and other countries. Haci Omer Sabanci Holding A.S. is a major holding company with interests across the Turkish economy. In Russia, we recently bought LUKOIL Oil Company when the company retreated from issuing new shares on the grounds that the market price of this low cost, major operator was too low.

In recent months, we have tended to put more emphasis on dividend paying stocks, lifting this form of income by about one-third despite the decline in the assets under management. We hope to apply this strategy further in these stormy times. Yields on many depressed quality shares are the highest available to investors in many decades and we expect to capitalize further on this in the months ahead.



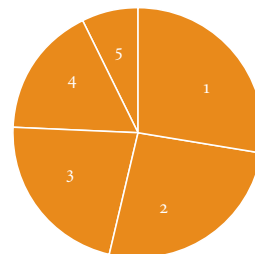
Vanessa L. Morgan, *Chairman*



Michael A. Smedley, *President*

#### GEOGRAPHIC WEIGHTING OF PORTFOLIO INVESTMENTS AT MARKET

September 30, 2002



	%
1 North America	27.6
2 Europe (excluding U.K.)	26.1
3 United Kingdom	22.0
4 Asia	17.0
5 Latin America	7.3

#### TOP TEN INVESTMENTS\* AT MARKET

*Excluding cash*

September 30, 2002

	%
Corin Group PLC – <i>United Kingdom</i>	3.1
TVX Gold Inc. – <i>Canada</i>	3.1
Cheung Kong (Holdings) Limited – <i>China/ Hong Kong</i>	3.0
PLIVA d.d. – <i>Croatia</i>	3.0
Renault S.A. – <i>France</i>	2.9
Grupo Aeroportuario del Sureste S.A. de C.V. – <i>Mexico</i>	2.9
Tesco PLC – <i>United Kingdom</i>	2.8
Mercator Poslovni Sistem – <i>Slovenia</i>	2.8
Interbrew S.A./N.V. – <i>Belgium</i>	2.7
Weight Watchers International, Inc. – <i>United States</i>	2.6
<b>Total</b>	<b>28.9</b>

\* Portfolio details on pages 8-9

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net Assets at September 30, 2002

In a continuing bear market, Canadian World Fund Limited's (CWF) net assets of \$14,822,000 at September 30, 2002 were down 22.0% from the end of 2001. Its benchmark, the Morgan Stanley All-Country World Free Index, was down 26.3% over the same period. For the third quarter, the CWF and index returns were -18.5% and -15.0%, respectively. All returns are expressed in Canadian dollar terms. The Corporation does not employ currency hedging, as its global portfolio is well diversified and influenced by many currencies. The net asset value per share (NAV) at September 30, 2002 was \$3.61. This compares to values of \$4.43 and \$4.63 at June 30, 2002 and December 31, 2001, respectively.

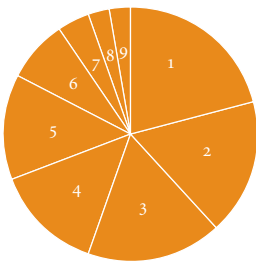
### Operations

Total investment income for the three and nine-month periods to September 30, 2002 increased by 16.7% and 26.5%, respectively, from the corresponding periods in 2001. Income in 2002 was boosted by extraordinary dividends from Grupo Aeroportuario del Sureste S.A. de C.V., a Mexico based airport manager and shopping centre developer, in the second quarter and Oslo Bors Holding ASA, the privatized Norwegian Stock Exchange, in the third quarter. Total dividends received from these two investments represented approximately 23.6% of total dividend income earned in the first nine months of 2002.

Total expenses for the three and nine-month periods to September 30 this year dropped by 11.8% and 18.1%, respectively, compared to 2001, driven by significant decreases in the two largest items, management fees and interest. Management fees were down 15.9% for the nine-month period as a result of the decline in portfolio value. The fees are calculated quarterly in arrears at 1.5% per annum of net asset value without deduction for tax liabilities. Interest expense was 38.3% lower than last year for the nine-month period due to lower interest rates which commenced their decline during 2001.

As a result of CWF's taxable loss position for accounting purposes, the Corporation does not meet the defined criteria required for recognition of a tax recovery. Therefore, no recovery was recorded for the realized loss on investments incurred in the nine months of 2002. Similarly, no recovery was recorded for the corresponding period of 2001. No income tax provision has been recorded for the net investment income earned in the first three quarters of this year, as CWF has carryforward losses available from prior years.

WEIGHTING OF PORTFOLIO INVESTMENTS AT MARKET\*  
September 30, 2002



	%
1 Consumer Staples	20.9
2 Financials	17.3
3 Consumer Discretionary	17.2
4 Materials	13.8
5 Health Care	13.4
6 Industrials	7.9
7 Energy	4.1
8 Utilities	2.7
9 Information Technology	2.7

\* Using the Global Industry Classification Standard developed by Morgan Stanley Capital International and Standard & Poor's.

The net investment loss for the three-month period to September 30, 2002 was \$52,000 as compared to a loss of \$77,000 for the same period last year. Year-to-date, CWF had net investment income of \$15,000, significantly improved from the loss of \$290,000 recorded for the corresponding nine-month period last year.

Net realized loss on investments for the quarter and year-to-date were \$941,000 and \$1,455,000, respectively. During the third quarter, significant losses were realized on the sale of British Energy PLC and deCODE GENETICS, INC. For the corresponding periods in 2001, realized losses were \$847,000 and \$882,000, respectively. The unrealized loss on investments increased by \$2,358,000 and \$2,737,000 for the quarter and the first nine months, respectively. This compares to increases in unrealized losses of \$2,784,000 and \$6,566,000 for the same periods last year. As at September 30, 2002, CWF had an unrealized loss on investments of \$3,234,000, compared to an unrealized loss of \$497,000 at the 2001 year-end and \$2,966,000 at September 30, 2001.

### Discount

CWF's market price per share closed the quarter at \$2.60, down 10.3% from June 30, 2002 and 17.5% from the end of last year. The discount to NAV ranged from 20.3% to 33.3% during the third quarter, closing at 28.0%, down from the 34.5% level at June 30, 2002. The discount was 32.0% at year-end 2001.

### Leverage

Bank borrowings employed for leverage purposes were reduced from \$4.1 million to \$3.9 million during the third quarter. The weighted average borrowing rate was 3.6% at September 30, 2002, significantly lower than the corresponding 4.8% rate at September 30, 2001 and 4.9% for the year 2001.

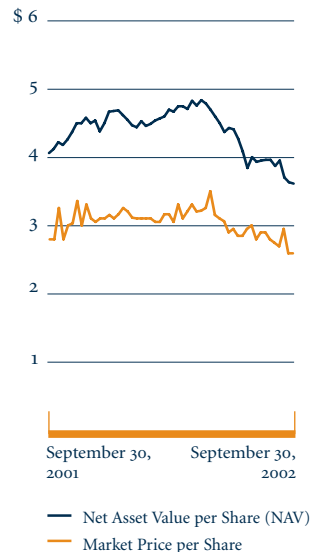
CWF has its borrowing facility with the Bank of Montreal. With the steady decline in the value of investments during the quarter, the bank and the Corporation recognize that the asset coverage of the bank borrowings at quarter-end was 4.8 times, as opposed to the 5.0 times required by the borrowing agreement. If necessary, due to a continuation of depressed market values, CWF will undertake steps to assure the necessary coverage concurrent with the next borrowing maturity on November 8, 2002.

### Outlook

CWF's primary objectives will continue to be the maintenance of a diversified portfolio, utilizing bottom-up stock selection, while minimizing volatility. Income generating securities and Canadian investments are components of the strategy, which is mainly intended to provide investors with a position in the global market.

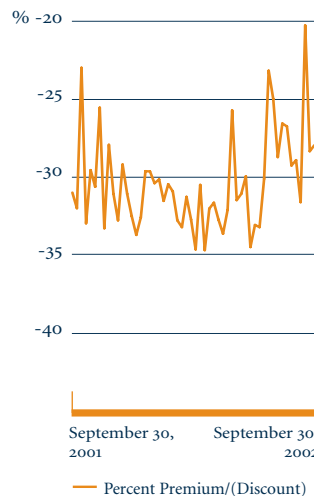
#### COMPARISON OF MARKET PRICE TO NAV

Twelve months ended  
September 30, 2002



#### PREMIUM/(DISCOUNT) TO NAV

Twelve months ended  
September 30, 2002



## STATEMENTS OF NET ASSETS

<i>(in thousands of dollars, except per share amounts)</i>	As at September 30, 2002 <i>(Unaudited)</i> \$	As at December 31, 2001 <i>(Audited)</i> \$	As at September 30, 2001 <i>(Unaudited)</i> \$
<b>Assets</b>			
Investments	<b>18,209</b>	21,414	18,559
Cash	<b>373</b>	1,496	1,105
Receivable on securities sold	<b>170</b>	922	215
Accrued interest and dividends	<b>41</b>	29	36
Income taxes recoverable	<b>4</b>	365	437
	<b>18,797</b>	24,226	20,352
<b>Liabilities</b>			
Bank indebtedness	<b>3,867</b>	4,068	3,688
Payable on securities purchased	<b>84</b>	1,108	—
Accounts payable and accrued liabilities	<b>24</b>	47	30
	<b>3,975</b>	5,223	3,718
<b>Net Assets</b>	<b>14,822</b>	19,003	16,634
<b>Shareholders' Equity</b>			
Capital stock	<b>20,507</b>	20,507	20,507
Unrealized loss on investments	<b>(3,234)</b>	(497)	(2,966)
Deficit	<b>(2,451)</b>	(1,007)	(907)
	<b>14,822</b>	19,003	16,634
<b>Number of shares outstanding</b>	<b>4,101,350</b>	4,101,350	4,101,350
<b>Net asset value per share</b>	<b>3.61</b>	4.63	4.06

### Note to Financial Statements

The accompanying financial statements should be read in conjunction with the notes to the company's audited financial statements for the year ended December 31, 2001. These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

## STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands of dollars)	Three months ended		Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
	\$	\$	\$	\$
<b>Investment income</b>				
Dividends	88	79	417	313
Interest	10	5	32	42
	98	84	449	355
<b>Expenses</b>				
Management fees	73	82	227	270
Interest	34	46	95	154
Directors' fees	8	8	25	22
Other	27	25	87	84
	142	161	434	530
Investment income (loss) before income taxes	(44)	(77)	15	(175)
Income tax provision	8	—	—	115
Net investment income (loss)	(52)	(77)	15	(290)
<b>Realized and unrealized loss on investments</b>				
Net realized loss on investments	(941)	(847)	(1,455)	(882)
Change in unrealized depreciation of investments	(2,358)	(2,784)	(2,737)	(6,566)
Net loss on investments	(3,299)	(3,631)	(4,192)	(7,448)
Decrease in net assets resulting from operations	(3,351)	(3,708)	(4,177)	(7,738)

## STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(Unaudited)

(in thousands of dollars)	Three months ended		Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
	\$	\$	\$	\$
Retained earnings (deficit) – Beginning of period	(1,456)	17	(1,007)	265
Net investment income (loss) for the period	(52)	(77)	15	(290)
Net realized loss on investments	(941)	(847)	(1,455)	(882)
Provision for refundable dividend tax on hand	(2)	—	(4)	—
Deficit – End of period	(2,451)	(907)	(2,451)	(907)

## STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

(in thousands of dollars)	Three months ended		Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Decrease in net assets resulting from operations	\$ (3,351)	\$ (3,708)	\$ (4,177)	\$ (7,738)
Increase in refundable dividend tax on hand	(2)	—	(4)	—
Net assets – Beginning of period	18,175	20,342	19,003	24,372
Net assets – End of period	14,822	16,634	14,822	16,634

## STATEMENTS OF NET LOSS ON INVESTMENTS

(Unaudited)

(in thousands of dollars)	Three months ended		Nine months ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Proceeds from disposition of investments	\$ 2,997	\$ 3,821	\$ 10,564	\$ 14,645
Investments at cost, beginning of period	22,175	23,631	21,911	21,264
Investments purchased during the period	3,206	2,562	11,551	15,788
Investments at cost, end of period	(21,443)	(21,525)	(21,443)	(21,525)
Cost of investments disposed of during the period	3,938	4,668	12,019	15,527
Net realized loss on investments	(941)	(847)	(1,455)	(882)
Change in unrealized depreciation of investments	(2,358)	(2,784)	(2,737)	(6,566)
Net loss on investments	(3,299)	(3,631)	(4,192)	(7,448)

## STATEMENT OF INVESTMENTS

September 30, 2002

Number of Shares or Par Value	Investment	Cost	Market Value
<i>(in thousands of dollars)</i>			
<b>ASIA – 17.0%</b>			
8,800,000	Anadolu Efes Biracilik ve Malt Sanayii A.S. (Turkey)*	\$ 234	\$ 222
54,000	Cheung Kong (Holdings) Limited (China/Hong Kong)	823	540
940,000	China Rare Earth Holdings Limited (China/Hong Kong)	459	151
2,160	CK Life Sciences Int'l, (Holdings) Inc. (China/Hong Kong)*	1	1
496,000	COFCO International Limited (China/Hong Kong)*	230	204
492,000	Convenience Retail Asia Limited (China/Hong Kong)	231	223
8,000	Dr. Reddy's Laboratories Limited ADR (India)	231	213
1,904,000	Euro-Asia Agricultural (Holdings) Company Limited (China/Hong Kong)+	629	147
42,000,000	Haci Omer Sabanci Holding A.S. (Turkey)*	156	150
18,750	ICICI Bank Limited ADR (India)	152	178
2,300	Nitori Co., Ltd. (Japan)*	147	141
6,500	Taisei Lamick Co., Ltd. (Japan)	303	409
670,000	Tingy (Cayman Islands) Holding Corp. (China/Hong Kong)*	314	289
700,000	Xinao Gas Holdings Limited (China/Hong Kong)	190	221
<b>TOTAL ASIA</b>		<b>4,100</b>	<b>3,089</b>

### EUROPE – 48.1%

#### Europe Excluding United Kingdom

19,000	Anglo Irish Bank Corporation PLC (Ireland)	92	179
14,000	Arcelor SA (France)	301	225

Number of Shares or Par Value	Investment	Cost	Market Value
<i>(in thousands of dollars)</i>			
7,880	Autoroutes du Sud de la France SA (France)	\$ 298	\$ 333
11,000	Bang & Olufsen A/S B (Denmark)	488	325
19,000	Ekornes ASA (Norway)	317	303
13,000	Interbrew S.A./N.V. (Belgium)	521	488
3,400	LUKOIL Oil Company ADR (Russia)*	318	333
2,950	Mercator Poslovni Sistem (Slovenia)	280	501
6,000	NEG Micon A/S (Denmark)	319	183
10,000	Oslo Bors Holding ASA (Norway)	212	214
27,600	PLIVA d.d. GDR Reg. S (Croatia)*	513	538
7,700	Renault S.A. (France)	541	526
13,000	Union Fenosa, S.A. (Spain)	312	265
13,000	Wimm-Bill-Dann Foods OJSC ADR (Russia)+	423	353
<b>Total Europe (Excluding United Kingdom) – 26.1%</b>		<b>4,935</b>	<b>4,766</b>
<b>United Kingdom</b>			
20,000	Alliance & Leicester PLC	260	391
66,000	BG Group PLC	457	410
11,500	Bloomsbury Publishing PLC	226	180
175,000	Corin Group PLC+	557	564
85,000	The Establishment Investment Trust PLC	193	204
140,000	Goshawk Insurance Holdings PLC	352	309
93,500	Legal & General Group PLC	313	201
24,310	Legal & General Group PLC rights*	27	17
300,000	Pilkington PLC	816	409
32,000	Shire Pharmaceuticals Group PLC	606	410
24,000	Standard Chartered PLC	467	391
100,000	Tesco PLC	587	512
<b>Total United Kingdom – 22.0%</b>		<b>4,861</b>	<b>3,998</b>
<b>TOTAL EUROPE</b>		<b>9,796</b>	<b>8,764</b>

STATEMENT OF INVESTMENTS (continued)

Number of Shares or Par Value	Investment	Cost	Market Value
<i>(in thousands of dollars)</i>			
<b>LATIN AMERICA – 7.3%</b>			
10,000	Bunge Limited (Argentina)	\$ 255	\$ 384
25,000	Companhia de Bebidas das Americas (Ambev) ADR preference shares (Brazil)	911	425
30,000	Grupo Aeroportuario del Sureste S.A. de C.V. ADR (Mexico)	780	523
<b>TOTAL LATIN AMERICA</b>		<b>1,946</b>	<b>1,332</b>
<b>NORTH AMERICA – 27.6%</b>			
<i>Canada</i>			
34,900	Cinram International Inc.	358	244
20,000	Imax Corporation	217	143
35,000	Magna Entertainment Corp. A	420	302
25,000	Noranda Inc.	463	374
25,000	Repadre Capital Corporation	203	211
30,000	Sun Gro Horticulture Income Fund	300	323
25,000	TVX Gold Inc.	268	562
<b>Total Canada – 11.9%</b>		<b>2,229</b>	<b>2,159</b>

Number of Shares or Par Value	Investment	Cost	Market Value
<i>(in thousands of dollars)</i>			
<b>United States</b>			
10,000	Arch Coal, Inc.	\$ 429	\$ 263
10,000	Carolina Group	463	298
5,000	Kraft Foods Inc.	265	289
25,000	The Nasdaq Stock Market, Inc.*	390	371
14,500	Navigant International, Inc.	274	241
6,000	Panera Bread Company A*	251	257
5,000	Pfizer Inc.	334	230
4,000	The Robert Mondavi Corporation A	206	193
10,000	UTStarcom, Inc.	381	242
7,000	Weight Watchers International, Inc.	379	481
<b>Total United States – 15.7%</b>		<b>3,372</b>	<b>2,865</b>
<b>TOTAL NORTH AMERICA</b>		<b>5,601</b>	<b>5,024</b>

**TOTAL INVESTMENTS – 100.0%**

– September 30, 2002	\$ 21,443	\$ 18,209
– December 31, 2001	\$ 21,911	\$ 21,414
– September 30, 2001	\$ 21,525	\$ 18,559

Changes from June 30, 2002: \* New Holdings; + Increased Holdings

## CORPORATE INFORMATION

### CANADIAN WORLD FUND LIMITED

#### OFFICE OF THE COMPANY

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#### MANAGER

Morgan Meighen & Associates Limited  
Toronto

#### AUDITORS

PricewaterhouseCoopers LLP  
Toronto

#### BANKERS

Bank of Montreal  
Toronto

#### SOLICITORS

Blake Cassels & Graydon LLP  
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#### CANADIAN REGISTRAR AND TRANSFER AGENT

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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

#### STOCK DATA

September 30, 2002:

Price	\$ 2.60
Net Asset Value	\$ 3.61
Discount	28.0%

#### PUBLICATION

Net asset value per share (NAV) and/or market price, market return, and discount information are published daily/weekly in various media in Canada and the United States. These include: Globe and Mail, National Post, New York Times, Wall Street Journal and Barron's.

The Corporation posts ongoing top 10 portfolio investments (priced at market), together with current discount and market return information on its website. Similar information is available directly from the Corporation upon request.

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

