

*Central Fund of Canada Limited*



**39TH ANNUAL REPORT  
OCTOBER 31, 2000**

## ***The Role of Central Fund***

**To serve investors as “The Sound Monetary Fund”.**

**To hold gold and silver bullion on a secure basis for the convenience of investors.**

### *Investment Policies & Restrictions*

**A**rticles of incorporation require that at least 75% of Central Fund’s non-cash assets be in gold and silver related investments. This cannot be changed without shareholder approval.

The stated investment policy of the Board of Directors requires Central Fund to maintain a minimum of 90% of its net assets in gold and silver bullion of which at least 85% must be in physical form. On October 31, 2000, 97% of Central Fund’s net assets were invested in gold and silver bullion.

Central Fund’s physical gold and silver bullion holdings may not be loaned, subjected to options or otherwise encumbered in any way.

### *Safeguards*

**B**ullion is stored on a fully segregated basis in the underground vaults of the Canadian Imperial Bank of Commerce, one of the largest banks in North America in terms of total assets.

The bank may release physical bullion holdings only upon receipt of an authorizing resolution of Central Fund’s Board of Directors.

The physical gold and silver bullion holdings are insured against destruction, disappearance or wrongful abstraction.

Bullion holdings and bank vault security are inspected twice annually by directors and/or officers of Central Fund. On every occasion, inspections are required to be performed in the presence of both Central Fund’s external auditors and bank personnel.

Central Fund is subject to the regulations and reporting requirements of the United States Securities and Exchange Commission, two stock exchanges and various Canadian provincial regulatory authorities.

### *Conveniences*

**C**entral Fund’s Class A shares are listed on the American Stock Exchange (CEF) and on The Toronto Stock Exchange Inc. (CEF.A). Making a gold and silver bullion investment through Central Fund is as easy as calling one’s stockbroker.

Stock exchange listings provide a readily quoted, liquid market for the Class A shares of Central Fund. The bid/ask spread is considerably less than the buying and selling prices of outright bullion purchases, especially for small transactions.

All expenses of handling, storage and insurance of bullion are paid by Central Fund. Unlike most other forms of bullion investment, there are no storage costs paid by the investor. As well, there are no assay charges to the shareowner on sale, redemption or liquidation of the Class A shares of Central Fund.

# Central Fund of Canada Limited

## Directors' 39th Report to Shareowners

Central Fund of Canada Limited is a low-cost and most convenient facility for the ownership of gold and silver bullion. At October 31, 2000, the Class A shares of Central Fund were backed 97% by gold and silver bullion and may be purchased and/or sold with ease on either the American Stock Exchange or The Toronto Stock Exchange. The Class A shares of Central Fund are an excellent alternative to the high costs of bullion buying, selling, handling, recording, storage, insurance and assay costs at time of sale. Central Fund is also a desirable alternative to bullion coins which have an added sales tax cost in most North American jurisdictions. The role of Central Fund is more thoroughly described on page 1.

During the year, the net asset value per Class A share as reported in U.S. dollars decreased by 11.6% from \$3.98 to \$3.52. Gold prices decreased by 11.6% during the year and silver prices decreased by 10.4%. A further decrease resulted from the small net loss incurred during the year and the dividend paid on Class A shares. The net asset value per Class A share, as reported in Canadian dollars, while subject to the same effects described above, decreased by a lesser percentage, 8.2% as a result of the 3.8% increase in the U.S. dollar relative to the Canadian dollar.

The change in net assets during the year was comprised of the following:

<i>Per Class A share</i>	<i>U.S. \$ terms</i>	<i>Cdn. \$ terms</i>
<i>Net asset value, October 31, 1999</i>	<i>\$ 3.98</i>	<i>\$ 5.86</i>
<b>Changes due to:</b>		
<i>Change in gold price</i>	<i>(.23)</i>	<i>(.35)</i>
<i>Change in silver price</i>	<i>(.19)</i>	<i>(.28)</i>
<i>Change in U.S./Cdn. \$ exchange rate</i>	<i>—</i>	<i>.21</i>
<i>Loss from operations and other</i>	<i>(.03)</i>	<i>(.05)</i>
<i>Dividends paid</i>	<i>(.01)</i>	<i>(.01)</i>
<i>Net asset value, October 31, 2000</i>	<i>\$ 3.52</i>	<i>\$ 5.38</i>

For the year ended October 31, 2000, the net loss decreased by 43.5%. Sufficient working capital reserves were maintained during the year such that the Company did not need to sell any bullion, whereas, in 1999, realized losses on the sales of bullion certificates for working capital purposes were \$371,490, or 35.1% of the net loss. Certificates representing 1,000 fine ounces of gold and 50,000 ounces of silver were sold during 1999 in order to generate cash for ongoing operating purposes. The other main contributor to the reduction in the net loss was a 116.6% increase in interest income over 1999. Higher cash and cash equivalent balances were maintained throughout the year, primarily as a result of the net proceeds from the exercise of the Series 2 Warrants in November 1999. The net proceeds of \$1,187,860 were deposited into interest-bearing instruments to be used for ongoing operating purposes. Operating expenses increased nominally by 1.5% over the prior year.

A more detailed analysis of Central Fund's Results of Operations is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section on page 13 of this Annual Report.

On November 24, 1999, the Company concluded the final stage of its rights offering, being the exercise of the Series 2 Warrants. The results of that offering, including the Series 1 and Series 2 Warrants that formed part of this offering, are referred to in note 3 to the financial statements on page 9 herein.

There was no change in the mix of Central Fund's holdings of gold and silver bullion in both total quantity and their respective breakdowns between physical bars and certificates. In both years, 98.1% of Central Fund's gold bullion was in physical bar form and 97.5% of its silver bullion was in physical bar form.

# Central Fund of Canada Limited

Gold and silver have traditionally been known as real money because of their unique characteristics such as scarcity, consistency of quality and non-corrosiveness. These characteristics provide a trustworthy intrinsic value. Solid gold and silver, being real money, are both a store of value and a medium of exchange. Unlike a bond or share issued by a corporation, or even dollar bills issued by a government, gold and silver do not depend on anything but their intrinsic nature for lasting value. Prudence and history suggest that a part of everyone's savings be held in solid gold and silver or their share equivalent as insurance for their own ultimate economic well-being. Central Fund of Canada Limited continues to fulfil its mandate of providing a sound monetary alternative for conservative investors in its role as "The Sound Monetary Fund".

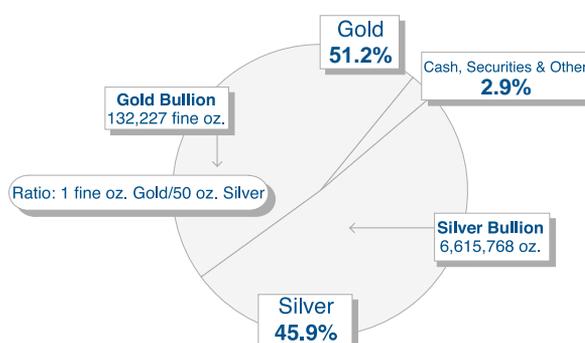
Respectfully submitted,  
on behalf of the Board of Directors



Philip M. Spicer, President

December 15, 2000

## Net Asset Summary at October 31, 2000



## Financial Highlights

	2000		As at October 31, 1999		1998	
	U.S. \$	Cdn. \$	U.S. \$	Cdn. \$	U.S. \$	Cdn. \$
Total net assets (in millions)	\$ 68.4	104.4	76.2	111.5	70.9	109.4
Net asset value per Class A share	\$ 3.52	5.38	3.98	5.86	3.92	6.04
<b>Net assets:</b>						
Gold bullion		51.2%	51.9%	53.7%		
Silver bullion		45.9%	45.9%	46.5%		
Cash, securities & other		2.9%	2.2%	(0.2)%		
		100.0%	100.0%	100.0%		
Gold – per fine ounce	U.S. \$	264.50	299.10	292.30		
Silver – per ounce	U.S. \$	4.74	5.29	5.06		
Exchange Rate	\$1.00 U.S. = Cdn. \$	1.5271	1.4718	1.5425		

## ***Management's Responsibility for Financial Reporting***

The accompanying financial statements of Central Fund of Canada Limited and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the financial statements.

Central Fund maintains systems of internal accounting, administrative and regulatory compliance controls of high quality, for a reasonable cost. Hard copies of transactions and monthly statements are retained in the Company's files. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, retrievable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit and Corporate Governance Committee.

The Audit and Corporate Governance Committee is appointed by the Board and all but one of its members are non-related directors. The Committee meets annually with management and the external auditors to discuss internal controls, auditing matters, the financial reporting process and related internal controls to satisfy itself that each party is properly discharging its responsibilities. The Committee also reviews the Annual Report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. In addition to corporate governance matters, the Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit and Corporate Governance Committee.



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*President*

*November 23, 2000*



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*Vice-President, Finance*

# *Central Fund of Canada Limited*

## **Statement of Net Assets** **(expressed in U.S. dollars)**

	<i>As at October 31,</i>	
<b>Net Assets:</b>	<b>2000</b>	<b>1999</b>
Gold bullion, at market (note 2)	\$ 34,974,049	39,549,104
Silver bullion, at market (note 2)	31,358,741	34,997,414
Marketable securities, at market (average cost - \$1,005,250)	37,663	74,478
Interest - bearing cash deposits	2,264,246	1,902,890
Prepaid insurance, interest receivable and other	47,300	53,874
	68,681,999	76,577,760
Accrued liabilities	(123,071)	(167,406)
Dividends payable (note 3)	(194,129)	(191,146)
<b>Net assets representing shareholders' equity</b>	<b>\$ 68,364,799</b>	<b>76,219,208</b>
<b>Represented by:</b>		
Capital stock (note 3)	\$ 89,721,052	88,533,192
Contributed surplus and retained earnings (note 4)	31,777,345	32,569,071
Unrealized depreciation of investments	(53,133,598)	(44,883,055)
	\$ 68,364,799	76,219,208
<b>Net asset value per share (expressed in U.S. dollars)(note 1(c)(ii)):</b>		
Class A shares	\$ 3.52	3.98
Common shares	\$ 0.52	0.98
<b>Net asset value per share (expressed in Canadian dollars):</b>		
Class A shares	\$ 5.38	5.86
Common shares	\$ 0.79	1.45
<b>Exchange rate at end of year:</b>	<b>U.S. \$1.00 = Cdn. \$ 1.5271</b>	<b>1.4718</b>

See accompanying notes to financial statements.

On behalf of the Board:

"Douglas E. Heagle"  
Director

"Philip M. Spicer"  
Director

# *Central Fund of Canada Limited*

## **Statement of Loss** (expressed in U.S. dollars)

	<i>Years ended October 31,</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
<b>Income:</b>			
Interest	\$ 143,935	66,453	6,273
Dividends	277	198	314
Realized loss on sale of bullion certificates	-	(371,490)	(292,411)
	<b>144,212</b>	<b>(304,839)</b>	<b>(285,824)</b>
<b>Expenses:</b>			
Administration fees (note 5)	358,572	359,714	369,711
Shareholders' information	72,778	67,192	76,376
Safekeeping, insurance and bank charges	70,462	78,169	98,271
Directors' fees and expenses	39,001	35,307	37,500
Registrar and transfer agents' fees	30,180	32,480	28,409
Professional fees	27,170	26,517	21,250
Miscellaneous	1,561	2,720	3,128
Foreign exchange loss (gain)	2,801	(8,464)	3,476
	<b>602,525</b>	<b>593,635</b>	<b>638,121</b>
Loss from operations before income taxes	(458,313)	(898,474)	(923,945)
Income taxes (note 6)	(139,284)	(160,000)	(144,775)
<b>Net loss</b>	<b>\$ (597,597)</b>	<b>(1,058,474)</b>	<b>(1,068,720)</b>
<b>Net loss per share:</b>			
Class A shares	\$ (0.03)	(0.06)	(0.06)
Common shares	\$ (0.04)	(0.07)	(0.07)

## **Statement of Changes in Net Assets** (expressed in U.S. dollars)

	<i>Years ended October 31,</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
<b>Net assets at beginning of year</b>	<b>\$ 76,219,208</b>	<b>70,947,732</b>	<b>72,864,171</b>
<b>Add (Deduct):</b>			
Unrealized appreciation (depreciation) of investments during the year	(8,250,543)	2,405,024	(959,137)
Realized loss on investments during the year	-	371,490	292,411
Net loss	(597,597)	(1,058,474)	(1,068,720)
Net issuance of Class A shares	1,187,860	3,744,582	-
Dividends on Class A shares	(194,129)	(191,146)	(180,993)
Increase (decrease) in net assets during the year	<b>(7,854,409)</b>	<b>5,271,476</b>	<b>(1,916,439)</b>
<b>Net assets at end of year</b>	<b>\$ 68,364,799</b>	<b>76,219,208</b>	<b>70,947,732</b>

See accompanying notes to financial statements.

# *Central Fund of Canada Limited*

## **Statement of Shareholders' Equity** (expressed in U.S. dollars)

	<i>Years ended October 31,</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
<b>Capital Stock (note 3):</b>			
19,412,860 (1999; 19,114,645 and 1998; 18,099,300) retractable Class A shares issued	\$ 89,701,594	88,513,734	84,769,152
40,000 Common shares issued	19,458	19,458	19,458
	89,721,052	88,533,192	84,788,610
<b>Contributed surplus:</b>			
Balance at beginning of year	32,569,071	33,818,691	35,068,404
Transfer to retained earnings on elimination of deficit (note 4)	(791,726)	(1,249,620)	(1,249,713)
Balance at end of year	31,777,345	32,569,071	33,818,691
<b>Retained earnings:</b>			
Balance at beginning of year	—	—	—
Net loss	(597,597)	(1,058,474)	(1,068,720)
Dividends on Class A shares	(194,129)	(191,146)	(180,993)
	(791,726)	(1,249,620)	(1,249,713)
Transfer from contributed surplus on elimination of deficit (note 4)	791,726	1,249,620	1,249,713
Balance at end of year	—	—	—
<b>Unrealized depreciation of investments:</b>			
Balance at beginning of year	(44,883,055)	(47,659,569)	(46,992,843)
Unrealized appreciation (depreciation) of investments during the year	(8,250,543)	2,405,024	(959,137)
Realized loss on investments during the year	—	371,490	292,411
Balance at end of year	(53,133,598)	(44,883,055)	(47,659,569)
<b>Shareholders' equity</b>	<b>\$ 68,364,799</b>	<b>76,219,208</b>	<b>70,947,732</b>

See accompanying notes to financial statements.

# *Central Fund of Canada Limited*

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## **Notes to Financial Statements**

October 31, 2000, 1999 and 1998

(amounts expressed in U.S. dollars unless otherwise stated)

### **1. Summary of significant accounting policies:**

Central Fund of Canada Limited (“Central Fund” or the “Company”) was incorporated under the Business Corporations Act, 1961 (Ontario), and was continued under the Business Corporations Act (Alberta) on April 5, 1990. The Company operates as a specialized investment holding company investing most of its assets in gold and silver bullion.

The Company’s accounting policies, which conform with accounting principles generally accepted in Canada, are summarized below.

(a) Foreign exchange translation:

Canadian dollar cash deposits are translated at the rates of exchange prevailing at year end. Any difference between the year-end exchange rate and the exchange rate at the time such deposits were acquired is recorded in the statement of loss as a foreign exchange loss (gain).

Purchases and sales of investments traded in foreign currencies and the related income are translated at the rates of exchange prevailing when the transactions occur. Market values of investments quoted in foreign currencies are translated at the rates of exchange prevailing at year end.

(b) Investments:

Bullion and marketable securities are valued at market value. Gold bullion is valued at the afternoon London fixing and silver bullion is valued at the daily London fixing. Marketable securities are valued at prices as reported at the close of trading on recognized stock exchanges or over-the-counter markets.

Unrealized depreciation of investments represents the difference between the market value and average cost of investments.

Investment transactions are accounted for on the trade date. Realized gains and losses and unrealized appreciation or depreciation are calculated on the average cost basis.

Dividend income is recorded on the ex-dividend date.

(c) Per share amounts:

(i) Net loss per share:

The calculation of net loss per share is based on the weighted average number of Class A and Common shares outstanding during the year. The net loss per Class A share is reduced by U.S. \$.01 as the Class A shares are entitled to receive a U.S. \$.01 preferential non-cumulative annual dividend. The remaining loss for the year is attributed equally to each Class A share and Common share, without preference or distinction.

(ii) Net asset value per share:

The calculation of net asset value per share is based on the number of shares outstanding at the end of the year and gives effect to the Class A shares’ entitlement to U.S. \$3.00 per share on liquidation, before any remaining net assets are attributed equally to each Class A share and Common share then outstanding.

(d) Effect of recently issued accounting standards:

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133, “Accounting for Derivative Instruments and Hedging Activities”, which was to be effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. As a result of the issuance of SFAS No. 137, the required adoption date was deferred to years beginning on or after June 15, 2000. The Company does not expect

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that the adoption of SFAS No. 133 will have a material impact on its financial statements because the Company does not hold any derivative instruments. Accordingly, adoption of this statement will not impact the Company's financial position, results of operations or cash flows and any effect will be limited to the form and content of disclosures.

(e) Income taxes:

The company follows the deferral method of income tax allocation. Deferred income taxes result from the timing differences between deductions claimed for income tax purposes and deductions recorded in the accounts.

## 2. Gold and silver bullion:

<i>Holdings at October 31:</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
<b>Gold bullion:</b>			
<i>Fine ounces</i> – 100 and 400 oz. bars	129,725	129,725	123,788
– bank certificates	2,502	2,502	6,612
	132,227	132,227	130,400
<i>Cost</i> –	\$ 55,750,650	55,750,650	55,365,493
<i>Market value</i> –	\$ 34,974,049	39,549,104	38,115,920
<i>Market value</i> – per fine ounce	\$ 264.50	299.10	292.30
<b>Silver bullion:</b>			
<i>Ounces</i> – 1,000 oz. bars	6,450,252	6,450,252	6,138,615
– bank certificates	165,516	165,516	381,385
	6,615,768	6,615,768	6,520,000
<i>Cost</i> –	\$ 62,748,151	62,748,151	62,514,953
<i>Market value</i> –	\$ 31,358,741	34,997,414	32,958,600
<i>Market value</i> – per ounce	\$ 4.7400	5.2900	5.0550

## 3. Capital stock:

The authorized capital consists of 100,000,000 Class A non-voting shares without nominal or par value and 50,000 Common shares without nominal or par value.

Since October 1989, holders of the Company's Class A shares have had the option to require the Company to redeem their Class A shares on the last day of each fiscal quarter of the Company (each a "Retraction Date") for 80% of the Company's net asset value per Class A share on the Retraction Date (as calculated in accordance with note 1(c)(ii)). Class A shareholders who wish to exercise this retraction right must submit their written redemption request at least 90 days prior to the desired Retraction Date. The Articles of the Company provide for the suspension of redemptions during specified unusual circumstances such as suspensions of normal trading on certain stock exchanges or the London bullion market or to comply with applicable laws or regulations.

The holders of the Class A shares are entitled to receive a preferential non-cumulative annual dividend of U.S. \$.01 per share. Any further dividends declared are to be paid rateably on the Class A shares and Common shares then outstanding, without preference or distinction. The Company has adopted a policy that any dividends declared shall be to shareholders of record at the close of business each October 31, with payment of such dividends being made during November of the same year.

On November 3, 1998, the Company approved a rights offering to holders of its Class A shares and Common shares on the basis of one right for each Class A share and each Common share. Four rights and U.S. \$4.00 entitled a holder to subscribe for one unit ("A Unit"). Each A Unit consisted of one Class A share and one transferable Series 1 Warrant. Each Series 1 Warrant, exercisable during the period from

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May 3, 1999 until May 26, 1999, entitled the holder to acquire one unit ("B Unit") for an additional U.S. \$4.00. Each B Unit consisted of one Class A share and one transferable Series 2 Warrant. Each Series 2 Warrant, exercisable during the period from November 1, 1999 until November 24, 1999, entitled the holder to acquire one Class A share for an additional U.S. \$4.00.

As at October 31, 1999, 1,015,345 Class A shares were issued in exchange for the rights and Series 1 Warrants for gross proceeds of \$4,061,379. Costs of these offerings were U.S. \$316,797 (inclusive of dealer commission costs of U.S. \$44,000) and net proceeds were U.S. \$3,744,582. Upon expiry of the Series 2 Warrants on November 24, 1999, the Company issued an additional 298,215 Class A shares for gross proceeds of \$1,192,860. Costs of exercising the Series 2 Warrants were \$5,000 and net proceeds were \$1,187,860.

The stated capital and recorded capital of the Company as at and for the years ended October 31, 2000, 1999 and 1998 are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>Stated capital – 19,412,860 Class A shares</i> <i>(1999; 19,114,645 and 1998; 18,099,300)</i>			
<i>Class A shares</i>	\$ 96,822,735	95,629,875	91,568,496
<i>Net share issue costs</i>	(7,121,141)	(7,116,141)	(6,799,344)
<i>Recorded capital – Class A shares</i>	89,701,594	88,513,734	84,769,152
<i>– 40,000 Common shares</i>	19,458	19,458	19,458
<i>Capital stock</i>	\$ 89,721,052	88,533,192	84,788,610

#### **4. Contributed surplus and retained earnings:**

On September 26, 1985, the shareholders authorized the use of contributed surplus to eliminate any deficit that may arise from losses and on the payment of the Class A shares' stated dividend per share. Accordingly, \$791,726, \$1,249,620 and \$1,249,713 were transferred from contributed surplus to retained earnings on October 31, 2000, 1999 and 1998 respectively.

This change did not affect the net asset value of the Company.

#### **5. Administration fees:**

The Company is party to an agreement with The Central Group Alberta Ltd., which is related to the Company through certain of its officers and directors. The Central Group Alberta Ltd. furnishes administrative and consulting services to the Company. For such services, the Company pays an administrative fee, payable monthly, at an annual rate of 1/2 of one percent based on the Company's net assets up to U.S. \$50,000,000, 3/8 of one percent on the next U.S. \$50,000,000 in net assets and 1/4 of one percent on any excess over U.S. \$100,000,000.

#### **6. Income taxes:**

The Company is subject to the Canadian Federal Government large corporations tax based on its taxable capital employed in Canada at the end of its fiscal year. At October 31, 2000, the Company had an accumulated large corporations tax balance of \$1,091,000 which is available to be applied against future years' corporation surtax, if any. The potential tax benefits of these amounts have not been recognized in the accounts of the Company.

At October 31, 2000, the Company had \$4,421,000 of accumulated non-capital losses and \$1,307,000 of accumulated net capital losses for income tax purposes which are available to reduce future years' taxable income. The potential tax benefits of these amounts have not been recognized in the accounts of the Company.

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The following table details the amount and year of expiry of losses being carried forward:

<i>Year of Expiry</i>	<i>Amounts Carried Forward</i>		
	<i>Non-Capital Loss</i>	<i>Large Corporations Tax</i>	<i>Net Capital Loss</i>
2001	\$ 726,000	\$ 165,000	
2002	708,000	174,000	
2003	731,000	165,000	
2004	624,000	143,000	
2005	595,000	145,000	
2006	611,000	160,000	
2007	426,000	139,000	
	\$ 4,421,000	\$ 1,091,000	\$ 1,307,000

## 7. Difference between Canadian and United States generally accepted accounting principles:

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ from the accounting principles and practices prescribed in the United States with regard to the presentation of the Company's unrealized appreciation (depreciation) of investments.

Under accounting principles generally accepted in Canada, the Company records the unrealized appreciation (depreciation) of its investments as a component of shareholders' equity, and changes therein are presented in the statement of shareholders' equity. Under accounting principles generally accepted for investment companies in the United States, these amounts are reflected in the statement of loss. As a result, the following additional information is provided for the benefit of United States shareholders:

	<i>Years ended October 31,</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
<i>Net loss as reported under</i>			
<i>Canadian principles</i>	\$ (597,597)	(1,058,474)	(1,068,720)
<i>Unrealized appreciation (depreciation) of investments during the year</i>	(8,250,543)	2,405,024	(959,137)
<i>Net income (loss) under</i>			
<i>United States principles</i>	\$ (8,848,140)	1,346,550	(2,027,857)
<i>Net income (loss) per share under</i>			
<i>United States principles:</i>			
<i>Class A shares</i>	\$ (0.46)	0.07	(0.11)
<i>Common shares</i>	\$ (0.47)	0.06	(0.12)

The net assets of the Company are identical under accounting principles generally accepted in both Canada and the United States.

# *Central Fund of Canada Limited*

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## **Auditors' Report To The Shareholders**

We have audited the statement of net assets of Central Fund of Canada Limited as at October 31, 2000 and 1999 and the statements of loss, changes in net assets and shareholders' equity for each of the years in the three-year period ended October 31, 2000. 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 auditing standards generally accepted in Canada. 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 October 31, 2000 and 1999 and the results of its operations and the changes in its net assets for each of the years in the three-year period ended October 31, 2000 in accordance with accounting principles generally accepted in Canada.

Toronto, Canada  
November 23, 2000

*Ernst & Young LLP*

Chartered Accountants

# *Central Fund of Canada Limited*

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion is based on Central Fund's financial statements which are prepared in accordance with accounting principles generally accepted in Canada.

### **Results of Operations - Changes in Net Assets**

The change in net assets as reported in U.S. dollars from period to period is primarily a result of the changing market prices of gold and silver and the proportion of each held by the Company. Also, because gold and silver are initially denominated in U.S. dollars, changes in the value of the U.S. dollar relative to the Canadian dollar will also have an impact on net assets when reported in Canadian dollars. The following table summarizes the changes in net assets in both U.S. and Canadian dollars, gold and silver prices, and the exchange rate between U.S. and Canadian dollars:

	<i>Years ended October 31</i>					
	<i>2000</i>		<i>1999</i>		<i>1998</i>	
	<i>U.S. \$</i>	<i>Cdn. \$</i>	<i>U.S. \$</i>	<i>Cdn. \$</i>	<i>U.S. \$</i>	<i>Cdn. \$</i>
<i>Change in net assets from prior year (in millions)</i>	\$ (7.8)	\$ (7.1)	\$ 5.3	\$ 2.1	\$ (1.9)	\$ 6.7
<i>% change from prior year</i>	(10.3)%	(6.4)%	7.4%	1.9%	(2.6)%	6.6%
<i>Change in net assets per Class A share from prior year</i>	\$ (0.46)	\$ (0.48)	\$ 0.06	\$ (0.18)	\$ (0.10)	\$ 0.37
<i>% change per Class A share from prior year</i>	(11.6)%	(8.2)%	1.5%	(3.0)%	(2.5)%	6.5%
<i>Gold price (U.S. \$ per fine ounce)</i>	\$ 264.50		\$ 299.10		\$ 292.30	
<i>% change from prior year</i>	(11.6)%		2.3%		(6.1)%	
<i>Silver price (U.S. \$ per ounce)</i>	\$ 4.74		\$ 5.29		\$ 5.06	
<i>% change from prior year</i>	(10.4)%		4.6%		5.0%	
<i>Exchange rate: \$1.00 U.S. = Cdn.</i>	\$ 1.5271		\$ 1.4718		\$ 1.5425	
<i>% change from prior year</i>	3.8%		(4.6)%		9.5%	

In 2000, net assets as reported in U.S. dollars and Canadian dollars decreased by 10.3% and 6.4% respectively. Gold prices decreased by 11.6% and silver prices by 10.4% during the year. Also contributing to this decrease were the net loss incurred during the year and the dividend paid on Class A shares. These decreases in net assets were partially offset by the net proceeds from exercise of the Series 2 Warrants in November 1999 of U.S. \$1,187,860 (Cdn. \$1,749,480), a 1.6% (Cdn. 1.6%) increase over net assets as at October 31, 1999. The percentage decrease in net assets as reported in Canadian dollars, while subject to the same effects described above, was lower than in U.S. dollars as a result of the 3.8% increase in the U.S. dollar relative to the Canadian dollar.

The proceeds from the exercise of the Series 2 Warrants were held in interest-bearing deposits for subsequent use in meeting requirements for operating expenses, tax payments and Class A share dividends.

There were no purchases or sales of gold or silver bullion during the year.

In 1999, net assets as reported in U.S. dollars and Canadian dollars increased by 7.4% and 1.9% respectively. Net proceeds of the rights offering in December 1998 and subsequent Series 1 Warrants in May 1999 were U.S. \$3,744,582 (Cdn. \$5,668,000), a 5.3% (Cdn. 5.2%) increase over net assets as at October 31, 1998. Gold prices increased by 2.3% and silver prices by 4.6% during the year. These increases in net assets were partially offset by the net loss incurred during the year (before realized losses on the sale of bullion certificates) and the dividend paid on Class A shares. The percentage increase in net assets as reported in Canadian dollars, while subject to the same effects described above, was lower than in U.S. dollars as a result of the 4.6% decrease in the U.S. dollar relative to the Canadian dollar.

# *Central Fund of Canada Limited*

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A portion of the proceeds from the rights offering was used to purchase 2,827 fine ounces of gold in physical bar form and 145,768 ounces of silver in physical bar form.

In 1999, Central Fund transferred 3,110 fine ounces of gold from certificate form into physical bars and 165,869 ounces of silver from certificate form into physical bars. At October 31, 1999, 98.1% of Central Fund's gold bullion was in physical bar form (1998, 94.9%) and 97.5% of its silver bullion was in physical bar form (1998, 94.2%).

In 1998, net assets as reported in U.S. dollars declined by 2.6%. Gold prices declined by 6.1% during the year whereas silver prices increased by 5.0%. Based on the Company's proportionate holdings of gold and silver bullion, the net result of these price changes was a small decrease in net assets. Net assets were further reduced by the net loss incurred during the year (before realized losses on the sales of bullion certificates) and the dividend paid on Class A shares. Net assets, as reported in Canadian dollars, while subject to the same effects described above, increased by 6.6% as a result of the 9.5% increase in the U.S. dollar relative to the Canadian dollar.

It is possible to predict the impact that changes in the market prices of gold and silver will have on the net asset value per Class A share. Assuming as a constant exchange rate the rate which existed on October 31, 2000 of \$1.5271 Cdn. for each U.S. dollar together with holdings of gold and silver bullion which existed on that date, a 10% change in the price of gold would increase or decrease the net asset value per share by approximately U.S. \$0.18 per share or Cdn. \$0.28 per share. A 10% change in the price of silver would increase or decrease the net asset value per share by approximately U.S. \$0.16 per share or Cdn. \$0.24 per share. If both gold and silver prices were to change by 10% simultaneously in the same direction, the net asset value per share would increase or decrease by approximately U.S. \$0.34 per share or Cdn. \$0.52 per share.

When expressed in U.S. dollar terms, Central Fund's net asset value per Class A share is largely unaffected by changes in the U.S./Canadian dollar exchange rate due to the fact that nearly all of Central Fund's net assets are priced internationally in U.S. dollar terms. However, changes in the value of the U.S. dollar relative to the Canadian dollar have a direct impact on net assets as expressed in Canadian dollars. This arises because over 99% of Central Fund's net assets are initially denominated in U.S. dollars as at October 31, 2000, including gold and silver bullion and some U.S. cash. An increase in the value of the Canadian dollar versus the U.S. dollar means that the aforementioned U.S. dollar denominated assets are worth less when expressed in Canadian dollar terms.

It is also possible to predict the impact that changes in the value of the U.S. dollar relative to the Canadian dollar will have on the net asset value per Class A share as reported in Canadian dollars. As previously mentioned, over 99% of Central Fund's net assets are denominated in U.S. dollars. Assuming constant gold and silver prices, a 10% increase or decrease in the value of the U.S. dollar relative to the Canadian dollar would change the net asset value per share as expressed in Canadian dollars in the same direction by approximately the same percentage.

## ***Results of Operations - Net Loss***

Central Fund's income objective is secondary to its investment objective of holding the vast majority of its net assets in gold and silver bullion. Generally, Central Fund only seeks to maintain adequate cash reserves to enable it to pay operating expenses, taxes and Class A share dividends. Because gold and silver bullion do not generate revenue, Central Fund's revenues are a low percentage of its net assets. Accordingly, in the last three fiscal years, Central Fund has incurred net losses. Central Fund expects to generate cash flow from its holdings of cash equivalents and marketable securities, and sells bullion certificates only if necessary to replenish cash reserves. Administration fees, which have ranged from 58% to 61% of Central Fund's operating expenses before income taxes in the three-year period ended October 31, 2000, are calculated monthly based on an annualized percentage (not exceeding 1/2 of 1%) of Central Fund's net assets. Accordingly, these fees vary directly with changes in net assets.

## ***Fiscal 2000 Compared to Fiscal 1999***

The net loss of \$597,597 during the 2000 fiscal year is 43.5% less than the 1999 net loss of \$1,058,474. Interest income increased by 116.6% as the proceeds from exercise of the Series 2 Warrants were held in interest-bearing deposits. These higher cash balances also eliminated the need to sell bullion in the current year, whereas certificates representing 1,000 fine ounces of gold and 50,000 ounces of silver were sold in 1999 resulting in losses of \$371,490 in that year.

# *Central Fund of Canada Limited*

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Operating expenses were higher in 2000 from the prior year by 1.5%. This nominal increase is primarily due to a weaker Canadian dollar in the current year resulting in a foreign currency exchange loss as opposed to a gain in the prior year.

Operating expenses (which exclude income taxes) were still less than 1.0%, being 0.9% of net assets at October 31, 2000.

## *Fiscal 1999 Compared to Fiscal 1998*

The net loss of \$1,058,474 during the 1999 fiscal year is 1.0% less than the 1998 net loss of \$1,068,720. Interest income increased substantially, as a portion of the proceeds from the rights offering and Series 1 Warrant issue was held in interest-bearing deposits. However, realized losses on the sales of bullion certificates were \$79,079 higher than in 1998. Certificates representing 1,000 fine ounces of gold were sold in the year compared to 900 fine ounces in 1998 at an average price which was U.S. \$8.25 per fine ounce lower than the price received in 1998. Certificates representing 50,000 ounces of silver were sold in the year compared to 45,000 ounces in 1998 at an average price which was U.S. \$0.75 per ounce lower than the price received in 1998. In both years, sales were made to generate cash for ongoing operating purposes. Operating expenses declined by 7.0% over the prior year. Administration fees, which are calculated monthly based on net assets, were lower in 1999 as average monthly net assets were lower in the year despite being higher at year end. Safekeeping fees and printing costs were reduced as a result of adjustments relating to 1998. A stronger Canadian dollar resulted in a foreign currency exchange gain in the year as opposed to a loss in 1998.

Operating expenses (which exclude income taxes) were less than 1.0%, being 0.8% of net assets at October 31, 1999.

## *United States Generally Accepted Accounting Principles*

Net income (loss) as it would be determined under accounting principles generally accepted in the United States (whereby the change in unrealized appreciation/depreciation of investments is reflected in the statement of loss) has been, and is expected to be, volatile, as a result of the changing market prices of gold and silver.

## *Liquidity and Capital Resources*

Central Fund's liquidity objective is to hold cash reserves primarily for the generation of cash flow to be applied to pay operating expenses, tax payments and Class A share dividends. At October 31, 2000, Central Fund's cash reserves including cash equivalents were \$2,264,000. The comparable figure at October 31, 1999 was \$1,903,000.

The ability of Central Fund to have sufficient cash for operating expenses, tax and dividend payments, and demands for redemption (if any), is primarily dependent upon its ability to realize cash flow from its cash equivalents and marketable securities. Should Central Fund not have sufficient cash to meet its needs, portions of Central Fund's bullion holdings and/or marketable securities portfolio may be sold to fund tax and dividend payments, provide working capital and pay for redemptions (if any) of Class A shares. Sales of such investments could result in Central Fund realizing capital losses or gains. Central Fund qualifies as a Mutual Fund Corporation for Canadian income tax purposes. As a Mutual Fund Corporation, any Canadian tax payable by Central Fund to the extent that it relates to taxable capital gains is fully refundable when the realized gains are distributed to shareholders through redemptions. Should Central Fund not qualify as a Mutual Fund Corporation at any time in the future, Central Fund would have to pay non-refundable tax on such capital gains, if any. Payments for such distributions or tax would be a further use of Central Fund's cash resources.

During the fiscal year ended October 31, 2000, Central Fund's cash reserves increased by \$361,000 from those which existed at October 31, 1999. The primary sources and uses of cash are described below:

### *Sources of Cash*

The primary inflow of cash resulted from the exercise of the Series 2 Warrants in November 1999. Net proceeds on this transaction totalled \$1,188,000. Central Fund received \$144,000 primarily in interest on short-term securities and, to a nominal extent, dividends on marketable securities.

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## Uses of Cash

The ongoing payments of Central Fund's operating expenses represented a significant portion of the use of cash. Central Fund paid \$619,000 during the 2000 fiscal year for this purpose, \$158,000 of which related to amounts which had been accrued at October 31, 1999 and were reflected in the accounts of that year. Other cash outflows during the year included \$161,000 in net payments of the Canadian Federal large corporations tax, and \$191,000 paid in the 2000 fiscal year with respect to Central Fund's October 31, 1999 Class A share dividend declared. Central Fund's board of directors made the decision to build up cash reserves by maintaining a portion of the proceeds from the rights offering (including the exercising of the Series 1 and Series 2 Warrants) in cash and cash equivalents. The initial rights offering was not completed until mid-December of 1998 however, and the low cash level that existed at October 31, 1998 necessitated a sale of certificates representing 1,000 fine ounces of gold and certificates representing 50,000 ounces of silver in early November 1998 for gross proceeds of \$533,000. These sales were made to fund current and future obligations relating to operations, taxes and dividends on Class A shares. Management is mindful of Central Fund's normal trend of diminishing cash reserves, but monitors its cash position with an emphasis on maintaining its gold and silver bullion holdings as opposed to generating income. Management's mandate and Central Fund's stated objective are to hold the maximum portion of its assets in the form of gold and silver bullion as it deems reasonable. Although holding bullion does not generate income as noted above, Central Fund has the ability to generate any necessary cash by liquidating a small portion of its holdings, as evidenced above. At low cash reserve levels such as that which existed at October 31, 1998, and in the absence of other sources of capital, liquidations such as those which have occurred in recent years may be made regardless of market conditions and could result in Central Fund realizing losses on its bullion or marketable security holdings.

## Inflation

Because Central Fund's financial statements are prepared on a market price basis, the impact of inflation and changing prices on the price of gold and silver is reflected in these financial statements.

## The Relationship between Gold, Silver and Central Fund

The following chart shows the price movements of gold, silver and Central Fund's Class A shares (in U.S. dollars) over the past three years:

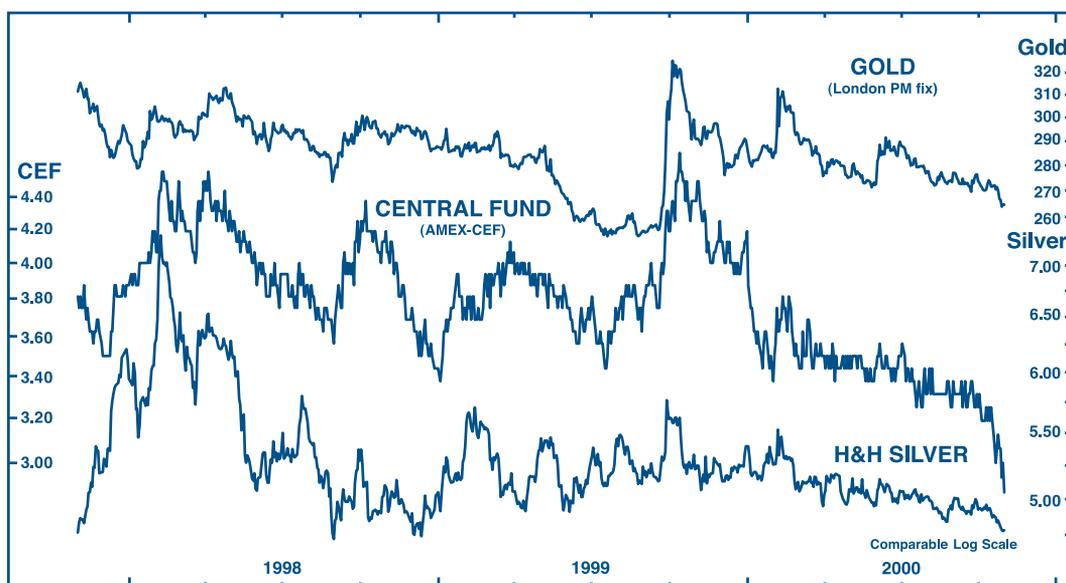


Chart courtesy of Topline Investment Graphics, P.O. Box 2340, Boulder, Colorado © 2000

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# *Central Fund of Canada Limited*

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## ***Class A Shares Stock Exchange Listings***

	<i>Electronic Ticker Symbol</i>	<i>Newspaper Quote Symbol</i>
<i>American Stock Exchange</i>	CEF	CFCda
<i>The Toronto Stock Exchange</i>	CEF.A	CFund A

## ***Net Asset Value Information***

The net asset value per Class A share is calculated twice daily and is available by calling Central Fund Investor Inquiries at (905) 648-7878. Weekly, the Thursday net asset value is published in financial newspapers as follows:

*In the United States (figures published in U.S. \$):*

In the Monday *Wall Street Journal's* Publicly Traded Funds table, Specialized Equity and Convertible Funds section.

In the *Barrons* Closed-End Funds table, Specialized Equity Funds section.

In the Sunday *New York Times* Closed-End Funds table, Specialized Equity Funds section.

*In Canada (figures published in Canadian \$):*

In the *National Post's* weekend edition, Closed-End Funds table.

It is also published daily in the *Globe and Mail Report on Business* Fund Asset Values table.

## ***Form 40-F***

Copies of Central Fund's S.E.C. Form 40-F are available, free of charge, by contacting Central Fund of Canada Limited or its Administrator.

# *Central Fund of Canada Limited*

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## **Corporate Information**

### **Directors**

John S. Elder Q.C. (AC)(R)  
Douglas E. Heagle (AC)(E)  
Ian M.T. McAvity (E)(R)  
Michael A. Parente CMA, CFP (R)  
Robert R. Sale (AC)  
Dale R. Spackman Q.C. (E)(R)  
J.C. Stefan Spicer (R)  
Philip M. Spicer (E)(R)  
Malcolm A. Taschereau (AC)

### **Officers**

Philip M. Spicer, President  
Michael A. Parente CMA, CFP, Vice President, Finance  
J.C. Stefan Spicer, Vice-President  
John S. Elder Q.C., Secretary  
Catherine A. Spackman CMA, Treasurer  
Teresa E. Poper, Assistant Treasurer

### **Advisors to the Administrator**

Ian M.T. McAvity, Toronto, Ontario - Market Analyst  
Dr. Hans F. Sennholz, Grove City, PA - Monetary Advisor

(AC) – Member of Audit and Corporate Governance Committee

(E) – Member of Executive Committee

(R) – May be regarded as business related

### **Administrator**

The Central Group Alberta Ltd., Calgary, Alberta

### **Auditors**

Ernst & Young LLP, Calgary and Toronto

### **Legal Counsel**

Fraser Milner Casgrain, Toronto, Ontario  
Parlee McLaws, Calgary, Alberta

### **Custodian**

Canadian Imperial Bank of Commerce at Calgary, Toronto and Vancouver

### **Registrar and Transfer Agents**

Mellon Investor Services LLC, New York  
CIBC Mellon Trust Company at Calgary, Montreal, Toronto and Vancouver

### **Share Ownership Certificates**

Certificates of share ownership registered in shareholders' names at their own addresses for delivery to them for their own safekeeping may be obtained upon the request of holders and payment of any applicable fees to the relevant Registrar and Transfer Agent of the Company.

### **Head Office**

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