

# Central Fund of Canada Limited

## 3<sup>rd</sup> QUARTER REPORT

Central Fund is currently 97.6% invested in unencumbered gold and silver bullion. At July 31, 2003, Central Fund's gold holdings were 291,894 fine oz. of physical bullion and 5,151 fine oz. of gold bullion certificates. Silver holdings were 14,600,809 oz. of physical bullion and 245,572 oz. of silver bullion certificates. The physical bullion is insured and held in safekeeping by a Canadian chartered bank in segregated vault storage. Central Fund continues to fulfil its mandate as "The Sound Monetary Fund".

On behalf of the Board of Directors:

J.C. Stefan Spicer, President & CEO

## FINANCIAL REVIEW

### Results of Operations – Change in Net Assets

Net assets increased by approximately \$52,825,000 during the nine months ended July 31, 2003. Of this amount, \$37,793,154 was the result of the issuance of 3,500,000 Class A shares in January 2003 and 5,448,800 Class A shares in February 2003 through private placements. In both cases, these shares were issued at a premium to net asset value such that there was no dilution of existing Class A shareholders' interests. Details of the private placements are provided in Note 3 to the accompanying financial statements. The balance of the nine months increase (approximately \$15,031,846) in net assets as well as the increase in net assets for the most recent three months ended July 31, 2003 (approximately \$12,054,000) were primarily the result of higher gold and silver prices at July 31, 2003 compared to October 31, 2002 (nine months) as described below and April 30, 2003 (three months).

The \$0.44 or 11.9% increase in net assets per Class A share expressed in U.S. dollar terms during the past nine months was due primarily to the 11.9% increase in the price of gold and the 13.5% increase in the price of silver during the period. In contrast, net assets per Class A share as expressed in Canadian dollar terms increased by \$0.06, or 1.0%, as the increases described above were, to a large extent, offset by the 9.8% decrease in the U.S. dollar relative to the Canadian dollar. The components of the change in net asset value per Class A share in U.S. and Canadian dollars are summarized in the adjacent table.

|                  | U.S.\$ | Cdn. \$ |
|------------------|--------|---------|
|                  | Terms  | Terms   |
| October 31, 2002 | \$3.70 | \$5.77  |
| Changes due to:  |        |         |
| Gold price       | .26    | .40     |
| Silver price     | .20    | .31     |
| Stronger Cdn. \$ | N/A    | (.62)   |
| Other            | (.02)  | (.03)   |
| Total changes    | .44    | .06     |
| July 31, 2003    | \$4.14 | \$5.83  |

### Results of Operations – Net Loss

The net losses for the three and the nine-month periods ended July 31, 2003 were higher than the net losses for the same periods in 2002. The net proceeds from the Class A share issuances completed by the Company over the past sixteen months, (approximately \$101,400,615) have, as expected, had an impact on both income and expenses. The Company has used the bulk of the proceeds from these Class A share issuances to purchase gold and silver bullion, primarily in bar form. The balance has been retained in interest-bearing cash deposits. As such, interest income has increased as a result of maintaining higher average cash balances.

Certain expenses vary in proportion to net asset levels, such as administration fees (that are scaled) and income taxes. These expenses rose as a result of increased net assets. The increase in shareholder information costs reflects higher levels of activity brought about by the increased number of shareholders. Safekeeping fees and bullion insurance costs increased as a result of the purchases of additional physical gold and silver discussed above. Professional fees increased as a result of legal and audit work required to comply with new corporate governance rules and regulations.

Despite an increase in overall expense levels, the operating expenses (before income taxes) as a percentage of average monthly net assets was 0.51% for the nine months ended July 31, 2003 compared to 0.63% for the same nine-month period in 2002. The decline reflects a broadening of the expenses over an increasing asset base.

### Liquidity and Capital Resources

Central Fund's dollar liquidity objective is to hold cash reserves primarily for the payment of operating expenses, taxes and Class A share dividends. Should Central Fund not have sufficient cash to meet its needs, a nominal portion of Central Fund's bullion holdings may be sold to fund tax and dividend payments, provide working capital, and pay for redemptions of Class A shares (if any).

For the nine months ended July 31, 2003, Central Fund's cash reserves increased by \$811,337 as amounts used to pay operating expenses, taxes and the Class A share dividend were more than offset by amounts retained in interest-bearing cash deposits for working capital purposes from the private placements completed in January and February 2003. Management monitors Central Fund's cash position with an emphasis on maintaining its mandate to hold maximum amounts of gold and silver bullion.

# Central Fund of Canada Limited

## Statements of Net Assets

(expressed in U.S. dollars, unaudited)(note 1)

|  | July 31<br>2003           | October 31<br>2002 |
|--|---------------------------|--------------------|
| <b>Net Assets:</b>   |                           |                    |
| Gold bullion at market, average cost \$111,164,364 (2002: \$89,697,793) (note 2)   | \$ 105,376,609            | 75,716,165         |
| Silver bullion at market, average cost \$103,068,226 (2002: \$89,046,426) (note 2) | 75,419,617                | 53,460,056         |
| Marketable securities at market, average cost \$89,430                             | 55,208                    | 41,486             |
| Interest-bearing cash deposits   | 4,709,786                 | 3,898,449          |
| Prepaid insurance, interest receivable and other                                   | 85,010                    | 33,557             |
|  | 185,646,230               | 133,149,713        |
| Accrued liabilities  | (374,000)                 | (344,138)          |
| Dividends payable  | -                         | (357,975)          |
|  | \$ 185,272,230            | 132,447,600        |
| <b>Represented by:</b>   |                           |                    |
| Capital Stock (note 3):  |                           |                    |
| 44,746,320 (2002: 35,797,520) Class A shares issued                                | \$ 191,142,209            | 153,349,055        |
| 40,000 Common shares issued  | 19,458                    | 19,458             |
|  | 191,161,667               | 153,368,513        |
| Contributed surplus (note 4)   | 27,581,150                | 28,695,029         |
| Unrealized depreciation of investments   | (33,470,587)              | (49,615,942)       |
|  | \$ 185,272,230            | 132,447,600        |
| <b>Net Asset Value Per Share (expressed in U.S. dollars):</b>                      |                           |                    |
| Class A shares   | \$ 4.14                   | 3.70               |
| Common shares  | \$ 1.14                   | 0.70               |
| <b>Net Asset Value Per Share (expressed in Canadian dollars):</b>                  |                           |                    |
| Class A shares   | \$ 5.83                   | 5.77               |
| Common shares  | \$ 1.60                   | 1.09               |
| <b>Exchange rate:</b>  | <b>U.S. \$1.00 = Cdn.</b> |                    |
|  | \$ 1.4073                 | 1.5603             |

### Notes:

1. The accounting policies used in the preparation of these unaudited interim financial statements conform with those presented in Central Fund's October 31, 2002 audited annual financial statements. These interim financial statements do not include all of the disclosures included in the annual financial statements and accordingly should be read in conjunction with the annual financial statements.

2. Details of gold and silver bullion holdings at July 31, 2003, are as follows:

| Holdings               | Gold                  | Silver       | Silver           |
|------------------------|-----------------------|--------------|------------------|
| 100 & 400 fine oz bars | 291,894               | 1000 oz bars | 14,600,809       |
| Certificates           | 5,151                 | Certificates | 245,572          |
| Total fine ounces      | 297,045               | Total ounces | 14,846,381       |
| <b>Market Value:</b>   |                       |              |                  |
|                        | <b>Per Fine Ounce</b> |              | <b>Per Ounce</b> |
| October 31, 2002       | U.S. \$ 316.90        |              | U.S. \$ 4.4750   |
| July 31, 2003          | U.S. \$ 354.75        |              | U.S. \$ 5.0800   |

3. On January 30, 2003, the Company, through a private placement, issued 3,500,000 Class A shares for gross proceeds, net of underwriting fees of \$611,800, of \$14,683,200. Costs relating to this private placement were approximately \$125,000 and net proceeds were approximately \$14,558,200. These costs were \$180,900 lower than that estimated and disclosed in the first quarter report.

The Company used the net proceeds from this private placement to purchase 22,517 fine ounces of gold at a cost of \$8,110,651 and 1,120,000 ounces of silver at a cost of \$5,488,000 both in physical bar form. The balance of the net proceeds, approximately \$959,549, was retained by the Company in interest-bearing cash deposits for working capital purposes.

On February 14, 2003, the Company, through a private placement, issued 5,448,800 Class A shares for gross proceeds, net of underwriting fees of \$1,039,767, of \$23,425,345. Costs relating to this private placement were approximately \$190,391 and net proceeds were approximately \$23,234,954. These costs were \$40,000 lower than that estimated and disclosed in the second quarter report and this is reflected in the net proceeds for the three months ended July 31, 2003.

# Central Fund of Canada Limited

## Statements of Changes in Net Assets (expressed in U.S. dollars, unaudited)(note 1)

|   | Nine months ended July 31 |                    | Three months ended July 31 |                    |
|---|---------------------------|--------------------|----------------------------|--------------------|
|   | 2003                      | 2002               | 2003                       | 2002               |
| Net assets at beginning of period                                       | \$ 132,447,600            | 66,351,795         | \$ 173,217,792             | 87,404,311         |
| <b>Add (deduct):</b>  |                           |                    |                            |                    |
| Unrealized appreciation (depreciation) of investments during the period | 16,145,355                | 3,105,464          | 12,409,611                 | (2,778,069)        |
| Net loss  | (1,113,879)               | (731,269)          | (395,173)                  | (297,752)          |
| Net issuance of Class A shares  | 37,793,154                | 63,622,354         | 40,000                     | 48,022,354         |
| Increase in net assets during the period                                | <u>52,824,630</u>         | <u>65,996,549</u>  | <u>12,054,438</u>          | <u>44,946,533</u>  |
| Net assets at end of period   | <u>\$ 185,272,230</u>     | <u>132,348,344</u> | <u>\$ 185,272,230</u>      | <u>132,350,844</u> |

## Statements of Loss (expressed in U.S.dollars, unaudited)(note 1)

|  | Nine months ended July 31 |                  | Three months ended July 31 |                  |
|--|---------------------------|------------------|----------------------------|------------------|
|  | 2003                      | 2002             | 2003                       | 2002             |
| <b>Income:</b>                           |                           |                  |                            |                  |
| Interest                                 | \$ 36,443                 | 24,140           | \$ 12,901                  | 14,548           |
| Dividends                                | 199                       | 346              | 84                         | 147              |
| Realized gain on investments             | -                         | 1,409            | -                          | 1,409            |
|  | <u>36,642</u>             | <u>25,895</u>    | <u>12,985</u>              | <u>16,104</u>    |
| <b>Expenses:</b>                         |                           |                  |                            |                  |
| Administration fees                      | 483,495                   | 308,102          | 170,389                    | 131,549          |
| Safekeeping, insurance and bank charges  | 114,288                   | 76,556           | 44,834                     | 32,341           |
| Shareholder information                  | 107,261                   | 72,443           | 35,664                     | 10,288           |
| Professional fees                        | 52,600                    | 24,886           | 15,160                     | 9,677            |
| Directors' fees and expenses             | 39,992                    | 35,590           | 14,474                     | 9,071            |
| Registrar and transfer agents' fees      | 34,596                    | 26,731           | 10,262                     | 4,155            |
| Miscellaneous                            | 1,064                     | 1,126            | 275                        | 420              |
| Foreign currency exchange loss (gain)    | 16,608                    | (971)            | 4,078                      | (2,653)          |
|  | <u>849,904</u>            | <u>544,463</u>   | <u>295,136</u>             | <u>194,848</u>   |
| Loss from operations before income taxes | (813,262)                 | (518,568)        | (282,151)                  | (178,744)        |
| Income taxes                             | (300,617)                 | (212,701)        | (113,022)                  | (121,508)        |
| Net loss (note 5)                        | <u>\$ (1,113,879)</u>     | <u>(731,269)</u> | <u>\$ (395,173)</u>        | <u>(300,252)</u> |
| <b>Net loss per share:</b>               |                           |                  |                            |                  |
| Class A shares                           | \$ (.02)                  | (.02)            | \$ (.01)                   | (.01)            |
| Common shares                            | \$ (.02)                  | (.02)            | \$ (.01)                   | (.01)            |

### Notes:

The Company used the net proceeds from this private placement to purchase 35,600 fine ounces of gold (33,838 ounces in physical bar form and 1,762 ounces in certificate form) at a cost of \$13,355,920, and 1,780,000 ounces of silver (1,700,000 ounces in physical bar form and 80,000 ounces in certificate form) at a cost of \$8,533,800.

The balance of the net proceeds, approximately \$1,305,234, was retained by the Company in interest-bearing cash deposits for working capital.

4. In 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. Accordingly, \$1,113,879 (2002, \$731,269) has been transferred from contributed surplus on July 31, 2003 and 2002 representing the

net loss for the nine months then ended. This change did not affect the net asset value of the Company.

5. Under Canadian generally accepted accounting principles, the Company records the unrealized appreciation (depreciation) of its investments as a component of shareholders' equity. Under accounting principles generally accepted for investment companies in the United States, these amounts are reflected in the statements of loss. Net income for the nine months ending July 31, 2003 would be \$15,031,476; (2002, \$2,374,195) under United States principles. The net assets of the Company are identical under both Canadian and United States generally accepted accounting principles.