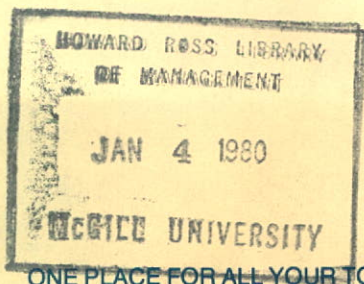


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EATON/  ay
**COMMONWEALTH
FUND
LTD.**

annual report
december 31st, 1978



ONE PLACE FOR ALL YOUR TOMORROWS

To the Shareholders:

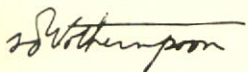
In 1978 the Toronto Stock Exchange Composite rose 23.6% and the Standard & Poor's 400 Industrials 2.4%, while the Dow-Jones Industrials declined 3.1%. The Tokyo Dow-Jones increased 23.4%. The foreign exchange value of the Canadian dollar declined again in 1978 against nearly all currencies, which increased the value of foreign holdings. The U.S. dollar was worth 8.5% more and the Japanese yen 34.2% more Canadian currency. The net asset value per share of your Fund increased 28.0%, including the dividend paid in December.

The decline of the Canadian dollar over the past two years improved the competitive position of Canadian producers. This was hurt by greater rises in costs, especially wages, than other countries experienced in the last several years. If costs of Canadian production are kept under control, that is rise no faster in future than those of competing foreign producers, Canada will continue to benefit. As the U.S. dollar has declined against most major currencies except the Canadian dollar similar benefits are being felt in the U.S. It appears that declines in these currencies against other currencies may be sufficient to restore equilibrium, and if this is so the currencies will stabilize.


The outlook in the U.S. is for a year of slower growth, and possibly a mild recession, after four years of expansion. Greatly increased consumer debt and an historically-low savings rate reduce the ability and desire to spend, especially on durables and housing. There are relatively few imbalances in inventories and production capacities and a few quarters of pause would improve financial liquidity in both the consumer and corporate sectors. Growth in Western Europe and Japan is expected to be stronger than in the U.S., which, together with more competitive prices as a result of the cheaper dollar, will mean an improved balance of trade for the U.S.

The geographic diversification of your Fund's investments has been rewarding over the past few years, and is likely to be rewarding in the future. We continue to believe that equities are priced reasonably and that the return over the next few years will be attractive.

On Behalf of the Board



Chairman



President

Toronto, Canada
March 7, 1979

statement of financial position

December 31, 1978

	1978	1977
ASSETS:		
Investments, at quoted value:		
(Average cost 1978 —		
\$21,741,441; 1977 —		
\$23,495,264)		
Canadian common stocks ..	\$10,446,875	\$10,210,625
Foreign common stocks	16,164,958	14,101,726
Canadian preferred stocks ..	2,334,375	2,262,350
Canadian bonds	4,282,200	4,343,725
Foreign bonds	852,172	446,934
	<u>34,080,580</u>	<u>31,365,360</u>
Cash, interest-bearing	61,792	104,967
Short-term notes	1,980,173	794,840
Accrued investment income	352,233	390,662
Accounts receivable	554,896	133,117
	<u>37,029,674</u>	<u>32,788,946</u>
LIABILITIES:		
Accounts payable	125,685	73,981
Redemptions payable	72,822	309,932
Income taxes payable (note 5) ...	131,778	67,701
	<u>330,285</u>	<u>451,614</u>
NET ASSETS REPRESENTING SHAREHOLDERS'		
EQUITY (note 3)	<u>\$36,699,389</u>	<u>\$32,337,332</u>
1,845,340 no par value mutual fund shares outstanding in 1978 (2,035,066 \$1 par value shares in 1977)		
NET ASSET VALUE		
PER SHARE	<u>\$19.89</u>	<u>\$15.89</u>

On behalf of the Board:
W. R. Livingston, Director
G. D. deS. Wotherspoon, Director

(See accompanying notes)

statement of earnings

for the year ended December 31, 1978

	1978	1977
INVESTMENT INCOME:		
Dividends	\$ 1,378,086	\$ 1,406,860
Interest	475,472	372,058
	<u>1,853,558</u>	<u>1,778,918</u>
EXPENSE:		
Management fee (note 6)	<u>391,765</u>	<u>389,069</u>
Earnings before provision for income taxes	1,461,793	1,389,849
Provision for income taxes (note 5)	<u>331,294</u>	<u>229,231</u>
NET EARNINGS	<u>\$ 1,130,499</u>	<u>\$ 1,160,618</u>
NET EARNINGS PER SHARE —		
Based on average number of shares outstanding during year	<u>59.0¢</u>	<u>54.3¢</u>
EARNINGS DISTRIBUTED AS DIVIDENDS	<u>\$ 803,024</u>	<u>\$ 933,167</u>
EARNINGS DISTRIBUTED PER SHARE —		
Based on number of shares outstanding at dividend date ...	<u>44.0¢</u>	<u>47.0¢</u>

(See accompanying notes)

statement of changes in net assets

for the year ended December 31, 1978

	1978	1977
NET ASSETS, BEGINNING OF YEAR	<u>\$32,337,332</u>	<u>\$36,404,899</u>
ADDITIONS TO NET ASSETS:		
Net earnings	1,130,499	1,160,618
Proceeds from issue of shares	1,720,152	2,032,280
Unrealized appreciation of investments (note 3)	4,469,043	263,266
*Net gain on sales of securities	<u>2,886,608</u>	<u>89,414</u>
	<u>10,206,302</u>	<u>3,545,578</u>
DEDUCTIONS FROM NET ASSETS:		
Dividends —		
Out of net earnings —		
44.0¢ per share (1977 —		
47.0¢ per share)	803,024	933,167
Payment on redemption of shares	<u>5,041,221</u>	<u>6,679,978</u>
	<u>5,844,245</u>	<u>7,613,145</u>
INCREASE (DECREASE) IN NET ASSETS	<u>4,362,057</u>	<u>(4,067,567)</u>
NET ASSETS, END OF YEAR ...	<u><u>\$36,699,389</u></u>	<u><u>\$32,337,332</u></u>
NET ASSET VALUE PER SHARE:		
Beginning of year	<u>\$ 15.89</u>	<u>\$ 15.66</u>
End of year	<u>\$ 19.89</u>	<u>\$ 15.89</u>
*NET GAIN ON SALES OF SECURITIES:		
Proceeds from sales of securities	<u>\$ 4,769,631</u>	<u>\$ 4,796,474</u>
Cost of securities sold:		
Securities at cost, beginning of year	25,495,264	27,866,089
Purchases	<u>129,200</u>	<u>336,235</u>
	23,624,464	28,202,324
Securities at cost, end of year	<u>21,741,441</u>	<u>23,495,264</u>
Cost of securities sold	<u>1,883,023</u>	<u>4,707,060</u>
Net gain on sales of securities	<u>\$ 2,886,608</u>	<u>\$ 89,414</u>

(See accompanying notes)

statement of investments and other net assets

December 31, 1978

COMMON STOCKS — 72.51%

BANKS AND FINANCE COMPANIES — 8.91%

The Bank of Nova Scotia	
Canadian Imperial Bank of Commerce	
IAC Limited	
The Royal Bank of Canada	

ELECTRICAL AND ELECTRONICS — 15.54%

Canadian General Electric Company Limited	
*Hitachi Ltd.	
*Matsushita Electric Industrial Co., Ltd.	

LEISURE — 8.84%

*Fuji Photo Film Co., Ltd.	
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METALS AND MINING — 3.16%

Alcan Aluminium Limited	
Pine Point Mines Limited	

OFFICE SYSTEMS AND EQUIPMENT — 9.94%

*International Business Machines Corporation	
*The Rank Organization Limited	

OIL — 2.73%

*Continental Oil Company	
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PUBLIC UTILITIES — 10.11%

Bell Canada	
British Columbia Telephone Company	
*General Telephone & Electronics Corporation	

STEEL AND HEAVY INDUSTRIES — 2.61%

Canron Inc.	
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TRANSPORTATION — 2.78%

Canadian Pacific Limited	
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MISCELLANEOUS — 7.89%

*Campbell Soup Company	
*Interco Incorporated	

TOTAL COMMON STOCKS

PREFERRED STOCKS — 6.36%

Consolidated-Bathurst Limited 6%	
Rothmans of Pall Mall Canada Ltd. 6.85% "A"	

TOTAL PREFERRED STOCKS

BONDS — 13.99%

GOVERNMENT AND GOVERNMENT GUARANTEED — 7.01%

Canadian National Railway Co., 4% February 1, 1981	
Government of Canada 5¼% May 1, 1990	
Government of Canada 9% February 1, 1980	

PROVINCIAL — 2.11%

Province of Ontario 9% July 1, 1998-83	
----------------------------------------------	--

CORPORATE — 4.87%

Hudson's Bay Company 6% Conv. Deb. July 15, 1993 (exchangeable into common shares of Hudson's Bay Oil & Gas Ltd.)	
*Matsushita Electric Industrial Co., Ltd. Conv. Deb. 6¾% November 20, 1990	
Roynat Limited 6% January 15, 1979	

TOTAL BONDS

TOTAL INVESTMENT PORTFOLIO — 92.86%

Short-term notes — 5.40%	
Other — 1.74%	

TOTAL NET ASSETS — 100.00%

*Foreign Securities
(See accompanying notes)

Number of shares or par value	Quoted value	Diversification of \$10,000 of net assets
35,000	\$835,625	\$ 228
33,000	952,875	260
40,000	715,000	195
20,000	762,500	208
60,000	1,680,000	458
1,600,000	2,573,688	701
330,000	1,448,411	395
800,000	3,244,631	884
25,000	1,000,000	272
7,000	161,000	44
7,000	2,475,555	674
200,000	1,175,000	320
30,000	1,000,898	273
30,000	1,953,750	532
24,000	408,000	111
40,000	1,352,325	368
35,000	958,125	261
40,000	1,020,000	278
40,000	1,613,300	440
30,000	1,281,150	349
	<u>26,611,833</u>	<u>7,251</u>
55,000	1,051,875	287
15,000	1,282,500	349
	<u>2,334,375</u>	<u>636</u>
\$1,300,000	1,173,900	320
1,000,000	710,000	193
700,000	690,550	188
800,000	773,000	211
400,000	436,000	119
350,000	852,172	232
500,000	498,750	136
	<u>5,134,372</u>	<u>1,399</u>
	34,080,580	9,286
	1,980,173	540
	638,636	174
	<u>\$36,699,389</u>	<u>\$10,000</u>

auditors' report

To the Shareholders of
Eaton/Bay Commonwealth Fund Ltd.:

We have examined the statements of financial position and investments and other net assets of Eaton/Bay Commonwealth Fund Ltd. (formerly Eaton Commonwealth Fund Ltd.) as at December 31, 1978 and the statements of earnings, and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 15, 1979.

Clarkson, Gordon & Co.
Chartered Accountants

notes to financial statements

December 31, 1978

1. CONTINUANCE UNDER THE CANADA BUSINESS CORPORATIONS ACT

On April 12, 1978, the company was continued under the Canada Business Corporations Act pursuant to a Certificate of Continuance and Articles of Continuance which provided for:

- (a) The change of the company's name from Eaton Commonwealth Fund Ltd., to Eaton/Bay Commonwealth Fund Ltd.,
- (b) The change of the authorized capital stock from 1,000 deferred shares of \$1.00 par value each and 2,146,745 common shares (net of redemption) of \$1.00 par value each to an unlimited number of mutual fund shares without nominal or par value, and
- (c) The change of status of each issued and outstanding common share into one mutual fund share.

The aggregate number of issued and outstanding shares and the total paid-up capital remained unchanged as at April 12, 1978, except that the contributed surplus was transferred to the capital stock account. The value assigned to the issued and outstanding capital stock now includes all contributed surplus as at April 12, 1978.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in the light of information available up to February 15, 1979 and within the framework of the accounting policies summarized below.

- (a) Investments are recorded in the accounts at their quoted value at the close of each business day, with the difference between this amount and the average cost being shown as unrealized appreciation (depreciation) of investments.
- (b) The quoted value of foreign investments is translated to Canadian dollars at exchange rates prevailing at the close of each business day.
- (c) Purchases and sales of foreign securities and the related income are translated to Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.
- (d) Average cost is used to determine the gain or loss on sales of securities.
- (e) The accrual method of recording income and expenses is followed by the company with dividends being recorded on their ex-dividend date.
- (f) For each mutual fund share sold, the company receives an amount equal to the net asset value per share at the date of sale, which amount is included in shareholders' equity. The mutual fund shares are redeemable at the option of shareholders at their net asset value on the redemption date. For each share redeemed the issued and outstanding capital stock is reduced at the date of redemption, and shareholders' equity is reduced by the related net asset value.

3. SHAREHOLDERS' EQUITY

Shareholders' equity includes the amounts representing capital stock, contributed surplus (up to April 12, 1978, the date of continuance filing), retained earnings, and unrealized appreciation of investments. The authorized capital stock as at December 31, 1978 is an unlimited number of mutual fund shares without nominal or par value. The issued and outstanding capital stock is summarized as follows:

1978 — 1,845,340 mutual fund shares

1977 — 2,035,066 shares (Note 1)

The unrealized appreciation of investments is:

	1978	1977
Balance, beginning of year	\$ 7,870,096	\$ 7,606,830
Unrealized appreciation of investment	4,469,043	263,266
Balance, end of year	<u>\$12,339,139</u>	<u>\$ 7,870,096</u>

4. CAPITAL STOCK TRANSACTIONS

Capital Stock transactions during the year were as follows:

	1978		1977	
	Shares	Amount	Shares	Amount
Subscriptions	92,315	\$1,720,152	127,259	\$2,032,280
Redemptions	282,041	\$5,041,221	416,841	\$6,679,978

5. INCOME TAXES

The company qualifies as a mutual fund corporation for income tax purposes. Income taxes payable on taxable capital gains and federal income taxes payable on dividends from Canadian corporations are refundable and accordingly are not deducted in arriving at the net earnings for the year. The provision for income taxes on the statement of earnings includes all taxes on interest income and dividends from foreign corporations.

6. MANAGEMENT FEE

Under the terms of an agreement between the company and Eaton/Bay Fund Management Limited, all expenses, including remuneration of directors and officers, incurred in the ordinary course of business, other than brokerage fees and all taxes, are paid by Eaton/Bay Fund Management Limited. In return for this and other investment management and administrative services, Eaton/Bay Fund Management Limited receives a management fee based on the average net assets of the company.

Charges to the company over the last five years were as follows:

	Net Asset Value per Share Beginning of Year	Net Asset Value per Share End of Year	Total Fees Charged to the Company	Total Fees Charged to the Company as a % of Average Net Assets
1974	\$13.19	\$10.76	\$450,370	1.1130%
1975	10.76	12.82	407,649	1.1319
1976	12.82	15.66	399,585	1.1346
1977	15.66	15.89	389,069	1.1390
1978	15.89	19.89	391,765	1.1379

(a) All charges under the terms of the management agreement were paid by the company. Administrative charges and fees for services provided to shareholders on an elective basis are not included.

(b) Average net assets are calculated to be the average of the net asset values determined at the end of each month.

(c) Management fee charges vary from one mutual fund to another.

7. DIRECTORS AND OFFICERS

During the year, the company had fifteen directors and five officers. Three of the officers also served as directors.

officers

GORDON D. deS. WOTHERSPOON	Chairman of the Board
WILLIAM R. LIVINGSTON	President
PETER W. WOOD	Vice-Chairman
ROBERT H. POWER	Treasurer
KENNETH L. BEAUGRAND	Secretary

directors

CHARLES W. BRAZIER	Vancouver, B.C.
EDMOND J. COURTOIS	Montreal, Que.
J. V. RAYMOND CYR	Montreal, Que.
ROBERT E. DAVIES	Banff, Alta.
JOHN C. EATON	Toronto, Ont.
THOR E. EATON	Toronto, Ont.
DOUGLAS D. EVERETT	Winnipeg, Man.
MURRAY J. HOWE	Burlington, Ont.
DAVID KINNEAR	Toronto, Ont.
WILLIAM R. LIVINGSTON	Toronto, Ont.
CHARLES R. MacFADDEN	Halifax, N.S.
TREVOR F. MOORE	Toronto, Ont.
ARTHUR G. WEAVER	Toronto, Ont.
PETER W. WOOD	Toronto, Ont.
GORDON D. deS. WOTHERSPOON	Uxbridge, Ont.

business office

1235 Bay Street,
Toronto, Ontario M5R 3L4

manager and distributor

Eaton/Bay Fund Management Limited
Toronto, Ontario

transfer agent and registrar

Eaton/Bay Trust Company

custodian

A Canadian Chartered Bank
Toronto, Ontario

auditors

Clarkson, Gordon & Co.
Toronto, Ontario



fund highlights

- Principal Protection Insurance available on new investments.
- No initial sales charges.
- Low initial investment. \$200 minimum plus a \$10 administrative fee.
- Voluntary investments. No long term contract.
- Convenient payment system. Automatic monthly transfers from your bank account.
- Annual inter-fund transfer privilege.
- A balanced portfolio invested internationally.
- Service at any Eaton or Bay Financial Centre.

For further information, please contact your nearest
Eaton or Bay Financial Centre.