



**EATON BAY  
VIKING FUND LIMITED**

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**annual report**  
**december 31st, 1985**

HOWARD RESEARCH

OF NA...

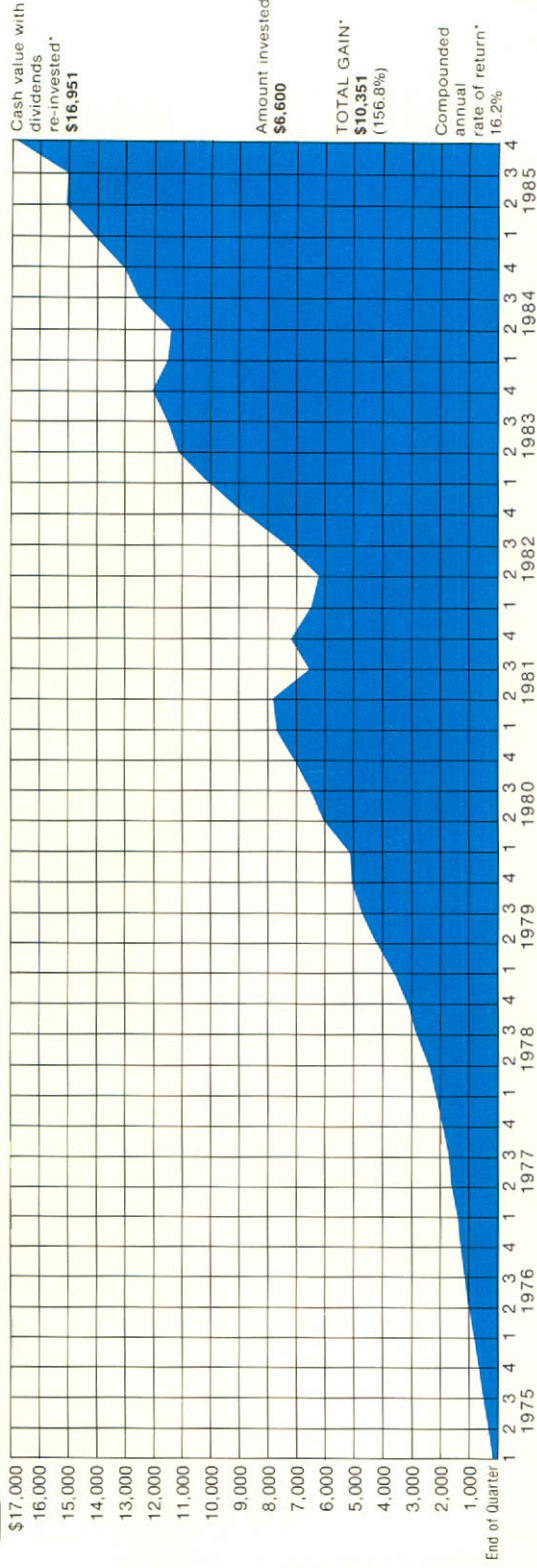
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WILLIAMS DRIVE



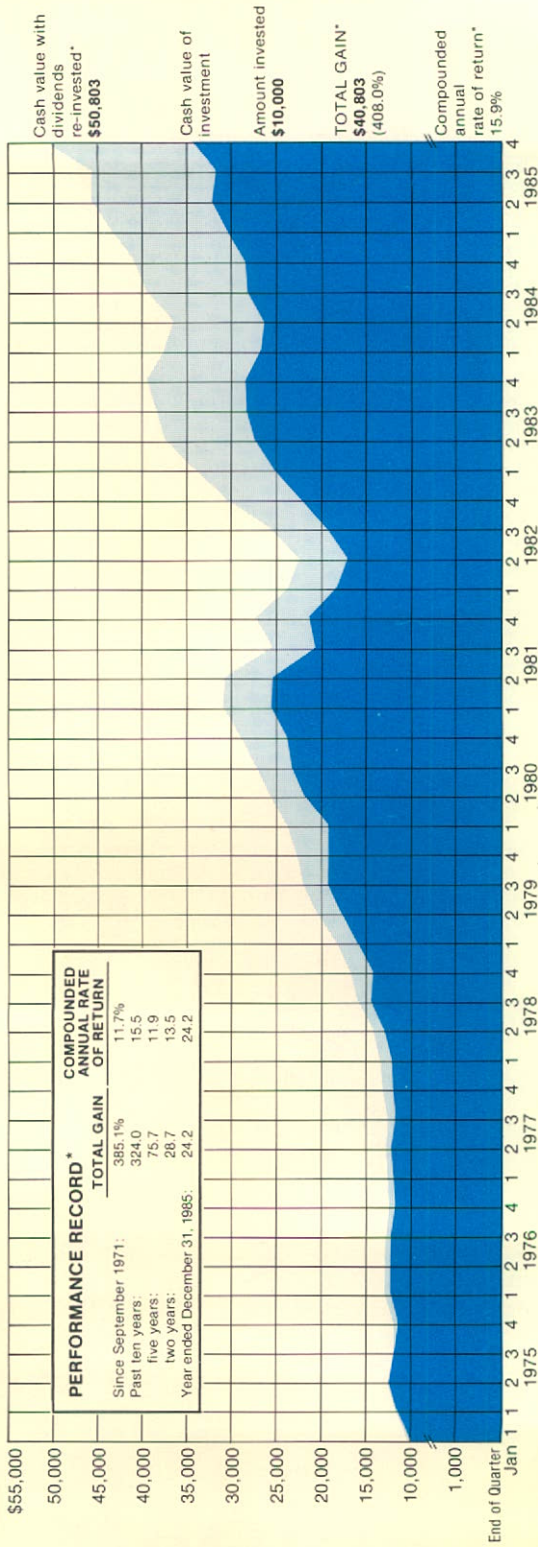
## EATON BAY VIKING FUND LIMITED

INITIAL \$50 INVESTED ON JANUARY 1, 1975 AND SUBSEQUENT INVESTMENTS OF \$50  
INVESTED ON THE 1ST OF EACH MONTH FOR 11 YEARS. DIVIDENDS RE-INVESTED.  
VALUES END OF QUARTERS\*





\$10,000 INVESTMENT MADE ON JANUARY 1, 1975, INVESTED FOR 11 YEARS.  
VALUES AT END OF QUARTERS:



\* The results shown should not be considered as a representation of the dividend income, or capital gain or loss which may be realized from an investment made in the Fund today. Acquisition and Redemption Fees are not deducted in the illustrations.

## to the shareholders:

In 1985, the net asset value per share of your Fund, including dividends paid, increased 24.2%. The Toronto Stock Exchange Composite Index gained 20.8%, while the Dow Jones Industrials and the Standard & Poor's 400 Industrials rose 27.7% and 25.9%. The Tokyo Stock Exchange Index gained 14.9%. The U.S. dollar appreciated 5.9% and the Japanese yen 30.9% relative to the Canadian dollar. At year-end, total net assets of your Fund were \$144.0 million, up from \$103.1 million the year before.

Economic growth in 1985 slowed in Canada and the U.S. In contrast to 1984, the Canadian economy was the more buoyant of the two. Consumer demand was strong in both countries. Inflation remained low, contained by competitive forces worldwide and by moderate wage settlements in North America. While inventory changes and net exports had a positive effect in Canada, U.S. performance was especially hampered by the high exchange value of the U.S. dollar, which further aggravated that country's large trade deficit. At the same time, large inflows of foreign capital and an accommodative monetary policy in a disinflationary setting allowed the slide in U.S. interest rates to continue. Equity and fixed income security prices benefited in both countries. During the second half, the gain in your Fund, including dividends paid, was 10.6%, compared to 12.3% in the first half.

We expect economic expansion to continue at a moderate pace through 1986. Although the growth in consumer demand is likely to level off, an improvement in the external trade balance following the recent drop of the U.S. dollar relative to the major overseas currencies should lend strength to the U.S. economy, as will the re-building of inventories. Since the Canadian dollar has declined in terms of the U.S. currency, the outlook for Canadian exports is reasonably good as well. Continued ample productive capacity should permit productivity gains, which would help to avert a revival of inflation.

The performance of your Fund in 1985 was good, as previously indicated. With our outlook for continued economic growth and subdued inflation, we anticipate another positive return for your Fund in 1986.

On Behalf of the Board



*Chairman*



*President*

Toronto, Canada  
March 10, 1986



(Incorporated under the Canada Business Corporations Act)

## statements of financial position

December 31, 1985 and 1984

	1985	1984
<b>ASSETS:</b>		
Investments, at quoted value (Average cost 1985 — \$87,593,617; 1984 — \$74,705,247):		
Canadian common stocks .....	\$112,647,357	\$ 83,395,041
Foreign common stocks .....	15,355,469	10,876,103
	<u>128,002,826</u>	<u>94,271,144</u>
Cash, interest-bearing .....	77,040	121,239
Short-term notes, at cost which approximates market value .....	15,095,675	8,345,940
Accrued investment income .....	1,053,162	716,733
Accounts receivable:		
Shares issued .....	201,448	255,775
Refundable income taxes .....	63,062	—
	<u>144,493,213</u>	<u>103,710,831</u>
<b>LIABILITIES:</b>		
Accounts payable:		
Investment securities purchased .....	—	307,000
Shares redeemed .....	215,381	185,660
Dividends .....	83,329	58,058
Income taxes payable (note 4) ....	63,008	36,943
Call options, at market (premium received 1985 — \$80,775; 1984 — \$107,320) .....	144,954	44,250
	<u>506,672</u>	<u>631,911</u>
<b>NET ASSETS REPRESENTING     SHAREHOLDERS' EQUITY     (notes 2 and 3) .....</b>	<b><u>\$143,986,541</u></b>	<b><u>\$103,078,920</u></b>
<b>NET ASSET VALUE PER     SHARE .....</b>	<b><u>\$14.20</u></b>	<b><u>\$11.71</u></b>

On behalf of the Board:

A.L. Beattie, Director

W.R. Livingston, Director

(See accompanying notes)

# statements of earnings

for the years ended December 31, 1985 and 1984

	1985	1984
<b>INVESTMENT INCOME:</b>		
Dividends		
— Canadian .....	\$3,560,518	\$3,023,769
— Other .....	420,980	369,483
Interest .....	1,375,186	1,482,358
Premium earned on expired options .....	<u>104,625</u>	<u>350,080</u>
	5,461,309	5,225,690
<b>EXPENSE:</b>		
Management fee (note 5) .....	<u>2,118,261</u>	<u>1,539,128</u>
Earnings before provision for income taxes .....	3,343,048	3,686,562
Provision for income taxes (note 4) .....	<u>82,300</u>	<u>167,091</u>
<b>NET EARNINGS FOR THE YEAR .....</b>	<u><u>\$3,260,748</u></u>	<u><u>\$3,519,471</u></u>
<b>NET EARNINGS PER SHARE —</b>		
Based on average number of shares outstanding during the year .....	<u><u>34.3¢</u></u>	<u><u>42.8¢</u></u>

(See accompanying notes)

# statements of changes in net assets

for the years ended December 31, 1985 and 1984

	1985	1984
<b>NET ASSETS, BEGINNING OF YEAR</b> .....	<u>\$103,078,920</u>	<u>\$ 77,938,619</u>
<b>ADDITIONS TO NET ASSETS:</b>		
Net earnings for the year .....	3,260,748	3,519,471
Proceeds from issue of mutual fund shares (note 3) ...	39,835,896	39,559,348
Unrealized appreciation of investments (note 2) .....	20,716,063	664,935
Net gain on sales of securities* .....	<u>2,765,625</u>	<u>282,083</u>
	<u>66,578,332</u>	<u>44,025,837</u>
<b>DEDUCTIONS FROM NET ASSETS:</b>		
Dividends (note 5) .....	3,369,328	2,852,829
Payments on redemption of mutual fund shares (note 3) ...	<u>22,301,383</u>	<u>16,032,707</u>
	<u>25,670,711</u>	<u>18,885,536</u>
<b>INCREASE IN NET ASSETS</b> .....	<u>40,907,621</u>	<u>25,140,301</u>
<b>NET ASSETS, END OF YEAR</b> .....	<u><u>\$143,986,541</u></u>	<u><u>\$103,078,920</u></u>
<b>NET ASSET VALUE PER SHARE (note 5):</b>		
Beginning of year .....	<u>\$11.71</u>	<u>\$11.62</u>
End of year .....	<u>\$14.20</u>	<u>\$11.71</u>
<b>*NET GAIN ON SALES OF SECURITIES:</b>		
Proceeds from sales of securities (a) .....	<u>\$ 10,071,745</u>	<u>\$ 3,689,147</u>
Cost of securities sold —		
Securities at cost, beginning of year .....	74,705,247	47,802,660
Purchases .....	<u>20,194,490</u>	<u>30,309,651</u>
	94,899,737	78,112,311
Securities at cost, end of year .....	<u>87,593,617</u>	<u>74,705,247</u>
Cost of securities sold .....	<u>7,306,120</u>	<u>3,407,064</u>
Net gain on sales of securities	<u><u>\$ 2,765,625</u></u>	<u><u>\$ 282,083</u></u>

(a) Excluding short-term debt instruments redeemed during the year of \$51,429,616 (1984 — \$68,790,002)

(See accompanying notes)

# statement of investments and other net assets

December 31, 1985

## COMMON STOCKS — 88.90%

### BANKS AND FINANCIAL COMPANIES — 16.94%

The Bank of Nova Scotia .....  
Canadian Imperial Bank of Commerce .....  
Crownx Inc. ....  
Montreal Trustco Ltd. ....  
The Royal Bank of Canada .....  
The Toronto-Dominion Bank .....

### OFFICE SYSTEMS AND EQUIPMENT — 6.31%

\*International Business Machines Corporation\*\* .....  
Moore Corporation Limited .....

### COMMUNICATIONS — 3.66%

Selkirk Communications Limited "A" .....  
Torstar Corporation "B" .....

### CONSUMER SPECIALTY — 8.02%

\*Eastman Kodak Company .....  
The Heritage Group Incorporated "A" .....  
Hiram Walker Resources Ltd. ....  
John Labatt Limited "A" .....

### HOLDING COMPANIES — 1.79%

Federal Industries Ltd. "A" .....

### MERCHANDISING — 8.10%

Canadian Tire Corporation Ltd. "A" .....  
Reitman's (Canada) Limited "A" .....  
Wajax Limited Class "A" .....  
Westburne International Industries Ltd. ....

### METALS AND MINING — 7.79%

Alcan Aluminium Limited\*\* .....  
Falconbridge Ltd. ....  
Noranda Inc. ....  
Placer Development Limited .....

### OIL AND GAS — 9.33%

Dome Canada Limited .....  
Gulf Canada Limited .....  
Imperial Oil Limited "A" .....  
Norcen Energy Resources Limited .....  
Norcen Energy Resources Limited "A" .....  
Shell Canada Limited\*\* .....

### PAPER AND FOREST PRODUCTS — 2.08%

Domtar Inc. ....

### PUBLIC UTILITIES — 9.20%

Bell Canada Enterprises Inc. ....  
NOVA, an Alberta Corporation "A" .....  
TransAlta Utilities Corporation "A" .....  
Union Enterprises Ltd. ....

### STEEL AND HEAVY INDUSTRIES — 9.04%

AMCA International Limited .....  
\*Hitachi Ltd. ADR .....  
Ipsco Incorporated .....  
Slater Steel Industries Limited "A" .....  
Slater Steel Industries Limited "B" .....  
\*Stanadyne Inc. ....  
\*Tyler Corporation .....

### TRANSPORTATION — 6.64%

Canadian Pacific Limited .....  
\*Roadway Services, Inc. ....  
\*Santa Fe Southern Pacific Corporation .....

### TOTAL COMMON STOCKS .....

### TOTAL INVESTMENT PORTFOLIO — 88.90% .....

Short-term notes — 10.48% .....

Other assets less liabilities and unearned option premiums — 0.62%

### TOTAL NET ASSETS — 100.00% .....

\*Foreign Securities

\*\*Outstanding call options written

Alcan Aluminium Limited .....  
Alcan Aluminium Limited .....  
International Business Machines Corporation .....  
Shell Canada Limited .....  
Shell Canada Limited .....



Number of shares	Average cost	Quoted value	Diversification of \$10,000 of net assets
339,383	\$ 3,142,648	\$ 4,836,208	\$ 336
129,033	4,017,923	5,516,161	383
118,100	944,079	2,716,300	189
160,000	2,599,175	2,520,000	175
99,999	2,532,926	3,462,465	240
216,867	2,722,026	5,340,350	371
16,000	1,572,894	3,468,900	241
199,775	3,256,515	5,618,672	390
81,930	690,914	1,966,320	137
100,000	1,589,863	3,300,000	229
34,500	2,099,053	2,436,972	169
102,600	1,730,928	1,987,875	138
105,944	2,575,784	3,429,937	238
120,000	2,281,878	3,690,000	257
187,800	1,371,024	2,582,250	179
225,000	2,232,750	2,671,875	186
136,100	1,227,074	3,470,550	241
219,000	2,405,733	3,668,250	255
107,000	1,483,473	1,845,750	128
134,722	4,835,919	5,439,401	378
108,412	2,163,538	2,222,446	154
90,000	1,941,400	1,406,250	98
90,500	1,636,578	2,149,375	149
260,000	1,451,495	2,080,000	144
140,000	2,321,041	2,922,500	203
76,329	2,596,396	3,892,779	270
117,500	1,852,911	1,953,438	136
33,000	489,747	511,500	36
90,000	2,065,935	2,070,000	144
128,666	1,654,438	2,991,485	208
112,352	2,414,277	4,732,828	329
330,123	2,269,870	2,352,126	163
172,582	2,799,467	4,789,151	333
113,400	1,170,392	1,374,975	95
174,420	2,723,199	2,747,115	191
35,000	1,438,870	1,897,055	132
224,750	2,353,392	3,062,219	213
70,000	490,949	945,000	65
70,000	490,949	945,000	65
36,000	719,842	1,523,239	106
92,000	615,916	1,898,104	132
289,963	4,622,155	5,436,806	378
60,000	1,566,968	2,926,884	203
24,688	431,313	1,204,315	83
	<u>87,593,617</u>	<u>128,002,826</u>	<u>8,890</u>
	87,593,617	128,002,826	8,890
	15,095,675	15,095,675	1,048
	952,219	888,040	62
	<u>\$103,641,511</u>	<u>\$143,986,541</u>	<u>\$10,000</u>

Shares subject to call	Date/Price	Premium received	Market value of option
15,000	May/\$40	\$15,150	\$ 34,500
10,000	February/\$35	13,200	56,250
1,000	January/\$140	5,505	23,254
20,000	February/\$22½	40,200	25,000
7,000	May/\$25	6,720	5,950
		<u>\$80,775</u>	<u>\$144,954</u>

upon request without charge from the registered office of the corporation.

# auditors' report

To the Shareholders of  
Eaton Bay Viking Fund Limited:

We have examined the statements of financial position of Eaton Bay Viking Fund Limited as at December 31, 1985 and 1984, the statement of investments and other net assets as at December 31, 1985 and the statements of earnings and changes in net assets for each of the years in the two year period ended December 31, 1985. Our examinations were 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 corporation as at December 31, 1985 and 1984, the investments and other net assets as at December 31, 1985 and the results of its operations and the changes in its net assets for each of the years in the two year period ended December 31, 1985 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada,  
February 4, 1986.

(Signed) Clarkson Gordon  
Chartered Accountants

## notes to financial statements

December 31, 1985

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared within the framework of the accounting policies summarized below.

- (a) Investments are recorded in the accounts at their quoted value in Canadian currency 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, other assets and liabilities are translated into 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 into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.
- (d) The gain or loss on sales of securities is calculated with reference to the average cost of the related securities.
- (e) The corporation follows the accrual method of recording income and expenses. Security transactions are recorded on the trade date. Dividends are recorded on the ex-dividend dates.
- (f) For each mutual fund share sold, the corporation receives an amount equal to the net asset value per share at the date of sale, which amount is included in shareholders' equity. 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 and shareholders' equity is reduced by the related net asset value at the date of redemption.
- (g) Premiums received by the corporation upon writing a call option are recorded as a deferred credit and are adjusted daily to the current market value of the call. If the option is exercised, the premium is included as part of the proceeds on disposition of the underlying security. If the option expires, the premium is taken into income.

### 2. SHAREHOLDERS' EQUITY

Shareholders' equity consists of amounts paid for capital stock and retained earnings and realized and unrealized appreciation of investments.

The authorized capital stock as at December 31, 1985 is an unlimited number of mutual fund shares without nominal or par value. The issued and outstanding capital stock is summarized as follows:

1985 — 10,143,123 mutual fund shares  
1984 — 8,804,823 mutual fund shares

The net unrealized appreciation of investments and call options is:

	1985	1984
Balance, beginning of year .....	\$19,628,967	\$18,964,032
Unrealized appreciation of investments during the year	<u>20,716,063</u>	<u>664,935</u>
Balance, end of year .....	<u>\$40,345,030</u>	<u>\$19,628,967</u>

### 3. CAPITAL STOCK TRANSACTIONS

Capital stock transactions during the year were as follows:

	1985		1984	
	Number of shares	Amount	Number of shares	Amount
Subscriptions ....	3,052,328	\$39,835,896	3,523,208	\$39,559,348
Redemptions ....	1,714,028	22,301,383	1,427,803	16,032,707

### 4. INCOME TAXES

Eaton Bay Viking Fund Limited qualifies as a mutual fund corporation for income tax purposes. The provision for income taxes in the statement of earning includes taxes on interest income and dividends from foreign corporations. Federal income taxes of 25% payable on dividends from Canadian corporations are refundable on the basis of one dollar for each four dollars that the fund distributes as dividends to its shareholders. Income taxes on taxable capital gains are refundable when the realized gains are distributed, or deemed to be distributed to shareholders through redemptions. Accordingly these refundable taxes are not deducted in arriving at

### 5. MANAGEMENT FEE AND DIVIDENDS

Under the terms of an agreement between the corporation and Eaton Bay Funds 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 Funds Management Limited. In return for this and other investment management and administrative services, Eaton Bay Funds Management Limited receives a management fee based on the average net assets of the corporation.

Effective May 1, 1984, after approval by the shareholders, the management fee was increased. Under the new fee structure in 1984, the fee would have been \$1,616,456 if it had been in effect for the full year. As a result the total fee charged to the corporation as a percentage of net assets in 1984 would have been 1.7500%.

Net asset values per share, charges to the corporation, and dividends paid per share over the last five years were as follows:

	Net asset value per share		Dividends per share		Total fees charged to the corporation	Total fees charged to the corporation as a % of average net assets
	Beginning of year	End of year	Out of net earnings	Out of capital gains	fees charged to the corporation	
1981	\$ 9.80	\$ 8.85	37.1¢	Nil	\$ 534,269	1.6500%
1982	8.85	9.26	34.3	29.7¢	562,605	1.6486
1983	9.26	11.62	30.8	Nil	1,005,639	1.5698
1984	11.62	11.71	33.3	Nil	1,539,128	1.6663
1985	11.71	14.20	34.0	Nil	2,118,261	1.7007

(a) Under the terms of the management agreement all charges were paid by the corporation. 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 on a daily basis.

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

### 6. BROKERAGE FEES

During the year, the corporation paid brokerage commissions amounting to \$89,914 (1984 — \$143,585) with respect to security transactions.

### 7. DIRECTORS AND OFFICERS

During 1985 the corporation had twelve directors (1984 — fourteen) and seven officers (1984 — six). Three of the officers also served as directors.

## directors

ALLAN L. BEATTIE .....	Toronto, Ont.
CHARLES W. BRAZIER .....	Vancouver, B.C.
EDMOND J. COURTOIS .....	Montreal, Que.
J. V. RAYMOND CYR .....	Montreal, Que.
GEORGE R. EATON .....	Toronto, Ont.
JOHN C. EATON .....	Toronto, Ont.
The Honorable DOUGLAS D. EVERETT .....	Winnipeg, Man.
MURRAY J. HOWE .....	Toronto, Ont.
DAVID KINNEAR .....	Toronto, Ont.
WILLIAM R. LIVINGSTON .....	Toronto, Ont.
PETER W. WOOD .....	Toronto, Ont.
GORDON D. deS. WOTHERSPOON .....	Uxbridge, Ont.

## officers

ALLAN L. BEATTIE .....	Chairman of the Board
WILLIAM R. LIVINGSTON .....	President
PETER W. WOOD .....	Vice-Chairman
KENNETH L. BEAUGRAND .....	Executive Vice-President and Secretary
KEITH J. MUNRO .....	Treasurer
JENNIFER I. LEDERMAN .....	Assistant-Secretary
CECIL R. HUNTER .....	Investment Adviser



**business office**

595 Bay Street  
Toronto, Ontario M5G 2C6

**manager and distributor**

Eaton Bay Funds Management Limited  
Toronto, Ontario

**transfer agent and registrar**

Eaton Trust Company

**custodian**

A Canadian Chartered Bank  
Toronto, Ontario

**auditors**

Clarkson Gordon  
Toronto, Ontario

# The Advantages of an Investment Fund

<b>Diversification of Risk</b>	Your capital has a greater degree of security through a wide participation in various equity markets.
<b>Liquidity</b>	You can buy or sell shares daily. The net asset value is reported every day in major newspapers.
<b>Ownership</b>	You own a share of the fund's equities instead of lending your capital to a financial institution for it to use at a fixed rate.
<b>Capital Growth Potential</b>	You have the potential to achieve greater returns through ownership of equities.
<b>Protection Against Inflation</b>	You can retain the value of your capital when the value of your shares increases at a faster rate than inflation.
<b>Full-time Professional Management</b>	Your fund is actively managed by investment professionals who have in the aggregate many years of experience in the equity markets.
<b>Tax Advantages</b>	You can achieve higher after-tax returns because of the tax exemption applicable to capital gains.
<b>Withdrawal Options</b>	You can have a systematic withdrawal plan which can provide income and can reduce your investment's exposure to tax.
<b>Shareholder Accounting</b>	Your record-keeping is simplified.
<b>Transfer Provisions</b>	You can easily modify your investment objectives by transferring between other funds in the Eaton Bay group of funds at a nominal fee.

For full details, see your fund's Simplified Prospectus.

## The Eaton Bay group of funds includes:

Eaton Bay Commonwealth Fund Ltd.  
Eaton Bay Dividend Fund Ltd.  
Eaton Bay Growth Fund Ltd.  
Eaton Bay Income Fund  
Eaton Bay International Fund Ltd.  
Eaton Bay Money Market Fund

**EATON BAY  
VIKING FUND  
A PART OF THE EATON  
FINANCIAL FAMILY**

In today's ever changing economy, it is important for individuals to maximize the use of all their resources in order to ensure that they meet their financial responsibilities to their family today and their own financial security in later years. One way of accomplishing that maximization is the development of a Financial Program which clearly defines objectives and outlines steps to be followed to reach these objectives.

At Eaton Financial the wide range of products and services offered provides basic insurance protection, savings, investment, and annuity programs, each of which is a necessary part of your total financial plan, and all available from a single source. In addition, Eaton Financial Representatives are trained to provide sound advice when developing a total program specifically designed to meet your personal goals, by

- (a) assessing your current needs using data supplied by you;
- (b) providing direction to help you establish your current needs and long range objectives; and
- (c) making recommendations that will enable you to achieve your overall goals.

Financial Planning ... the key for your security TODAY and IN THE FUTURE. Eaton Financial can help you start. Contact an Eaton Financial Representative at an Eaton Financial Centre location near you to discuss your personal financial program.

**EATON FINANCIAL SERVICES**  
Your financial department store.

## **fund highlights**

- Low initial investment. \$25 minimum instalments if investing under PreAuthorized Cheque Plan. \$300 investment required in first twelve months.
- Income tax savings through Registered Retirement Savings Plans.
- Voluntary investments. No long term contract.
- Convenient payment system. Automatic monthly transfers from your bank account.
- Inter-fund transfer privilege.
- Invested primarily in Canadian growth securities.
- Service at any Eaton Financial Centre.

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



THE INVESTMENT FUNDS INSTITUTE OF CANADA