



**EATON BAY
INTERNATIONAL FUND LTD.**

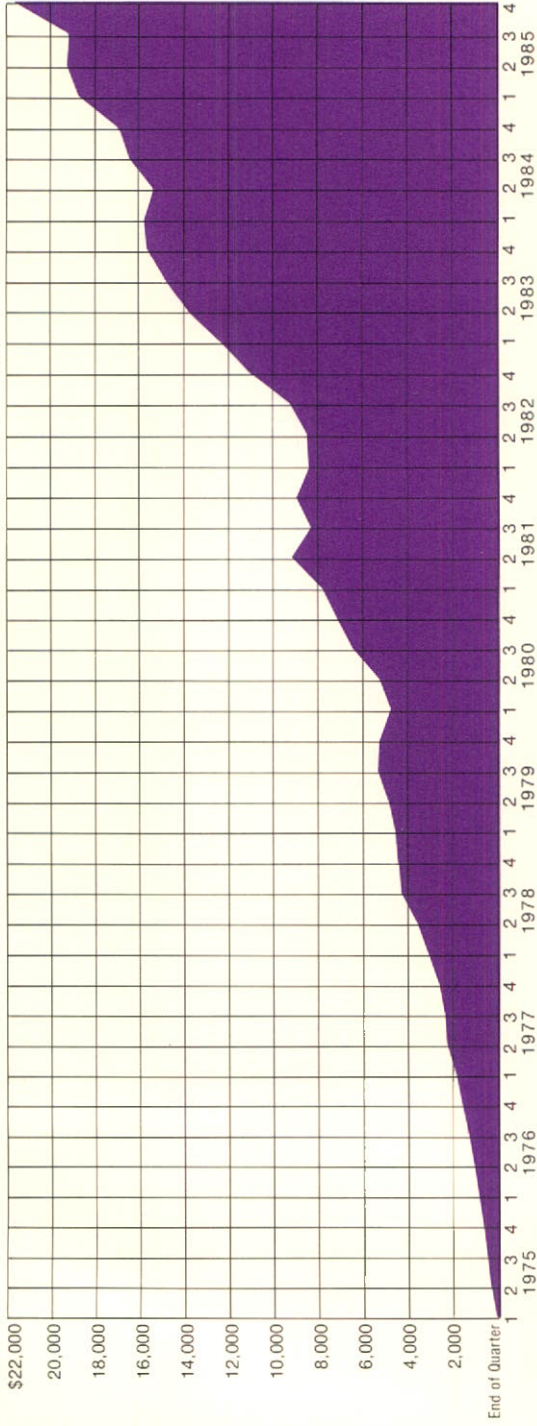
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annual report
december 31st, 1985



EATON BAY INTERNATIONAL FUND LTD.

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.*



\$22,000

20,000

18,000

16,000

14,000

12,000

10,000

8,000

6,000

4,000

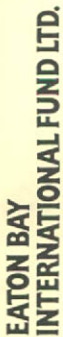
2,000

Cash value with
dividends
re-invested*
\$21,883

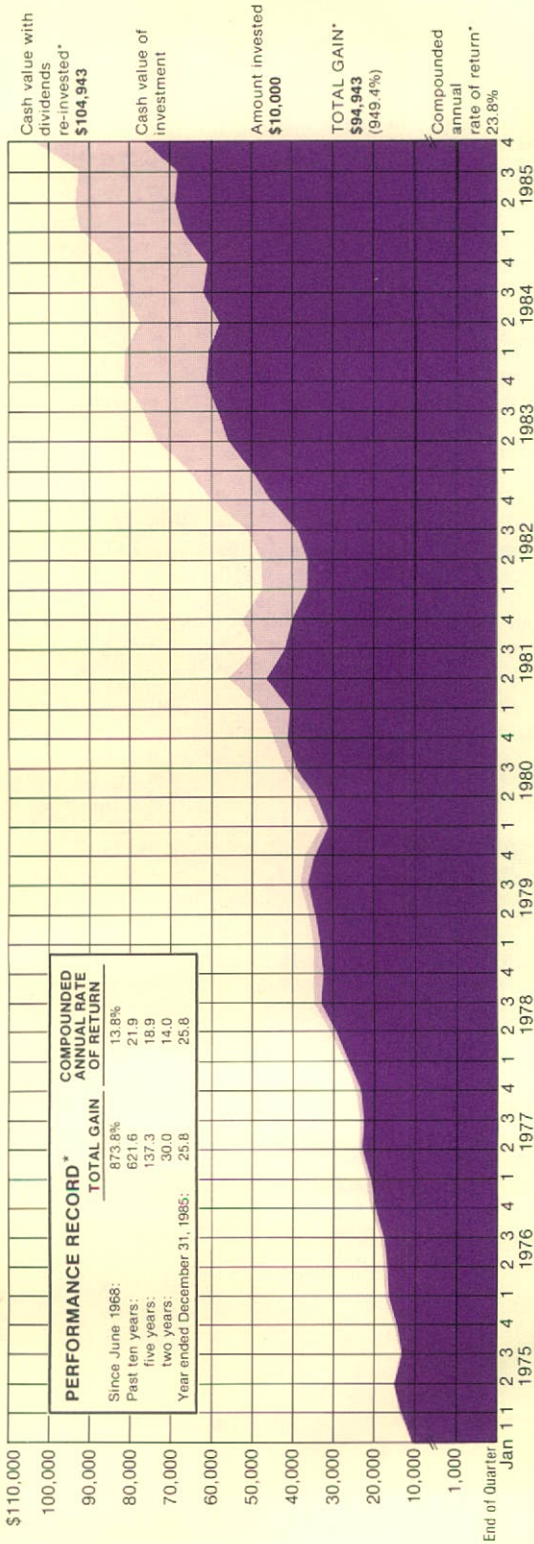
Amount invested
\$6,600

TOTAL GAIN*
\$15,283
(231.6%)

Compounded
annual
rate of return*
20.4%



**EATON BAY
INTERNATIONAL FUND LTD.**



* 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 25.8%. 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 \$106.3 million, up from \$66.7 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 11.9%, compared to 12.5% 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.

Your Fund in 1985 did better than the Canadian market for the fifth consecutive year. As in 1984, the U.S. market outperformed the Canadian market, as did the Japanese market after adjustment for the increase in the exchange value of the yen. 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
ASSETS:		
Investments, at quoted value (Average cost 1985 — \$48,882,134; 1984 — \$35,406,874):		
Canadian common stocks	\$ 23,871,100	\$17,043,361
Foreign common stocks	62,316,850	37,030,043
Canadian preferred stocks	—	543,750
Foreign preferred stocks	639,928	515,288
Foreign bonds	—	625,546
	<u>86,827,878</u>	<u>55,757,988</u>
Cash, interest-bearing	22,483	121,611
Short-term notes, at cost which approximates market value	19,777,905	10,588,038
Accrued investment income	569,031	381,522
Accounts receivable:		
Shares issued	<u>381,938</u>	<u>236,231</u>
	<u>107,579,235</u>	<u>67,085,390</u>
LIABILITIES:		
Accounts payable:		
Investment securities bought	788,267	—
Shares redeemed	213,756	107,122
Dividends	18,552	123,451
Management fees	10,578	—
Income taxes payable (note 4)	208,708	189,946
Call option, at market (premium received 1985 — \$11,006; 1984 — \$Nil) ...	<u>46,508</u>	<u>—</u>
	<u>1,286,369</u>	<u>420,519</u>
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (notes 2 and 3)	<u>\$106,292,866</u>	<u>\$66,664,871</u>
NET ASSET VALUE PER SHARE	<u>\$14.98</u>	<u>\$11.95</u>

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
INVESTMENT INCOME:		
Dividends		
— Canadian	\$ 401,094	\$ 409,720
— Other	1,513,607	1,280,388
Interest	1,449,526	1,131,342
	<u>3,364,227</u>	<u>2,281,450</u>
EXPENSE:		
Management fee (note 5)	<u>1,448,784</u>	<u>1,058,215</u>
Earnings before provision for income taxes	1,915,443	1,763,235
Provision for income taxes (note 4)	<u>790,131</u>	<u>710,086</u>
NET EARNINGS FOR THE YEAR	<u>\$1,125,312</u>	<u>\$1,053,149</u>
NET EARNINGS PER SHARE —		
Based on average number of shares outstanding during the year	<u>18.4¢</u>	<u>19.9¢</u>

(See accompanying notes)

statements of changes in net assets

for the years ended December 31, 1985 and 1984

	1985	1984
NET ASSETS, BEGINNING OF YEAR	<u>\$ 66,664,871</u>	<u>\$58,210,708</u>
ADDITIONS TO NET ASSETS:		
Net earnings for the year	1,125,312	1,053,149
Proceeds from issue of mutual fund shares (note 3) ...	32,762,613	18,544,412
Unrealized appreciation of investments (note 2)	17,559,128	—
Net gain on sales of securities*	<u>495,155</u>	<u>4,180,100</u>
	<u>51,942,208</u>	<u>23,777,661</u>
DEDUCTIONS FROM NET ASSETS:		
Dividends		
— out of net earnings (note 5) ..	383,405	395,938
— out of capital gains (note 5) ..	—	1,600,000
Payments on redemption of mutual fund shares (note 3) ...	11,930,808	10,385,313
Unrealized depreciation of investments (note 2)	<u>—</u>	<u>2,942,247</u>
	<u>12,314,213</u>	<u>15,323,498</u>
INCREASE IN NET ASSETS	<u>39,627,995</u>	<u>8,454,163</u>
NET ASSETS, END OF YEAR	<u><u>\$106,292,866</u></u>	<u><u>\$66,664,871</u></u>
NET ASSET VALUE PER SHARE (note 5):		
Beginning of year	<u>\$11.95</u>	<u>\$11.92</u>
End of year	<u>\$14.98</u>	<u>\$11.95</u>

*NET GAIN ON SALES OF SECURITIES:

Proceeds from sales of securities (a)	<u>\$ 2,474,742</u>	<u>\$ 5,598,873</u>
Cost of securities sold —		
Securities at cost, beginning of year	35,406,874	24,901,595
Purchases	<u>15,454,847</u>	<u>11,924,052</u>
	50,861,721	36,825,647
Securities at cost, end of year	<u>48,882,134</u>	<u>35,406,874</u>
Cost of securities sold	<u>1,979,587</u>	<u>1,418,773</u>
Net gain on sales of securities	<u><u>\$ 495,155</u></u>	<u><u>\$ 4,180,100</u></u>

(a) Excluding short-term debt instruments redeemed during the year of \$48,491,619 (1984 — \$41,471,401)

(See accompanying notes)

statement of investments and other net assets

December 31, 1985

AMERICAN COMMON STOCKS — 47.73%

Bell & Howell Company	
Champion International Corporation	
Communications Satellite Corporation	
Eastman Kodak Company	
The Federal Company	
Gibson Greetings Inc.	
Interco Incorporated	
* International Business Machines Corporation	
ITT Corporation	
Eli Lilly and Company	
Norfolk Southern Corporation	
Pioneer Corporation	
PPG Industries	
Stanadyne Inc.	
Tenneco Inc.	
The Travellers Corporation	
Tyco Laboratories Inc.	
Tyler Corporation	
Union Pacific Corp.	
USAir Group, Inc.	
U.S. Bancorp	
XTRA Corporation	

TOTAL AMERICAN COMMON STOCKS

CANADIAN COMMON STOCKS — 22.46%

AMCA International Ltd.	
Canadian Pacific Enterprises Limited	
CHUM Limited "B"	
Dome Canada Limited	
FCA International Ltd.	
Federal Industries Ltd. "A"	
Imperial Oil Limited "A"	
Inglis Limited	
Innopac Inc.	
Magna International Inc. "A"	
Norcen Energy Resources Limited	
Norcen Energy Resources Limited "A"	
Selkirk Communications Limited "A"	
Westburne International Industries Ltd.	

TOTAL CANADIAN COMMON STOCKS

JAPANESE COMMON STOCKS — 9.36%

Fuji Photo Film Co., Ltd. ADR	
Fuji Photo Film Co., Ltd.	
Hitachi, Ltd.	

TOTAL JAPANESE COMMON STOCKS

UNITED KINGDOM COMMON STOCKS — 1.53%

Cable & Wireless PLC	
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CONVERTIBLE PREFERRED STOCKS — 0.60%

Bell & Howell Company	
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TOTAL INVESTMENT PORTFOLIO — 81.68%

Short-term notes — 18.61%	
Other assets less liabilities and unearned option premium — (0.29)%	

TOTAL NET ASSETS — 100.00 %

*Outstanding call option written

International Business Machines Corporation

A statement of Portfolio Transactions for the year ended December 31, 1985 is available
(See accompanying notes)

Number of shares	Average cost	Quoted value	Diversification of \$10,000 of net assets
15,000	\$ 249,148	\$ 650,419	\$ 61
40,000	1,401,856	1,391,756	131
20,000	273,729	993,113	94
27,000	1,691,266	1,907,196	179
40,000	453,167	3,189,150	300
100,000	2,727,262	2,692,594	253
25,000	1,911,601	2,478,410	233
20,000	2,725,288	4,336,125	408
30,000	1,354,448	1,610,311	151
25,000	1,819,033	3,899,016	367
22,000	1,379,488	2,500,266	235
50,000	1,244,633	1,547,367	146
40,000	1,594,164	2,853,450	268
50,000	625,511	2,115,609	199
35,000	1,759,465	1,946,011	183
30,000	730,401	2,014,200	189
40,000	2,198,815	2,636,644	248
140,000	573,006	2,888,419	272
25,000	1,442,968	1,883,941	177
45,000	1,723,729	2,163,691	204
74,500	2,013,877	3,152,258	297
60,000	627,964	1,888,313	178
	<u>30,520,819</u>	<u>50,738,259</u>	<u>4,773</u>

76,500	1,498,977	1,204,875	113
74,514	928,318	1,397,138	131
45,000	277,240	1,890,000	178
300,000	1,521,873	2,400,000	226
96,900	720,538	2,083,350	196
200,000	1,756,400	2,750,000	259
38,571	1,188,643	1,967,121	185
120,000	361,460	2,025,000	191
120,000	1,765,750	1,890,000	178
120,000	894,000	2,535,000	238
48,300	715,500	802,988	76
13,700	188,644	212,350	20
61,447	247,779	1,474,728	139
71,800	1,209,949	1,238,550	116
	<u>13,275,071</u>	<u>23,871,100</u>	<u>2,246</u>

149,000	1,366,210	4,179,113	393
27,500	3,887	385,656	36
1,000,000	1,841,732	5,387,985	507
	<u>3,211,829</u>	<u>9,952,754</u>	<u>936</u>

135,000	<u>1,625,267</u>	<u>1,625,837</u>	<u>153</u>
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15,000	<u>249,148</u>	<u>639,928</u>	<u>60</u>
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48,882,134	86,827,878	8,168
19,777,905	19,777,905	1,861

(277,415)	(312,917)	(29)
<u>\$68,382,624</u>	<u>\$106,292,866</u>	<u>\$10,000</u>

Share subject to call	Date/Price	Premium received	Market value of option
2,000	January/\$140	\$11,006	\$46,508

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

auditors' report

To the Shareholders of
Eaton Bay International Fund Ltd.:

We have examined the statements of financial position of Eaton Bay International Fund Ltd. 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 (depreciation) 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 — 7,096,160 mutual fund shares
1984 — 5,579,308 mutual fund shares

The net unrealized appreciation (depreciation) of investments and call option is:

	1985	1984
Balance, beginning of year	\$20,351,114	\$23,293,361
Unrealized appreciation (depreciation) of investments during the year	17,559,128	(2,942,247)
Balance, end of year	<u>\$37,910,242</u>	<u>\$20,351,114</u>

3. CAPITAL STOCK TRANSACTIONS

Capital stock transactions during the year were as follows:

	1985		1984	
	Number of shares	Amount	Number of shares	Amount
Subscrip- tions	2,403,561	\$32,762,613	1,574,748	\$18,544,412
Redemp- tions	886,709	11,930,808	879,744	10,385,313

4. INCOME TAXES

Eaton Bay International Fund Ltd. qualifies as a mutual fund corporation for income tax purposes. The provision for income taxes in the statement of earnings 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 the net earnings for the year.

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 \$1,089,136 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		
1981	\$ 8.14	\$ 7.72	6.8¢	\$1.597	\$ 447,460	1.6500%
1982	7.72	8.89	6.5	nil	449,346	1.6500
1983	8.89	11.92	5.6	nil	732,460	1.6300
1984	11.92	11.95	7.3	.295	1,058,215	1.7003
1985	11.95	14.98	5.4	nil	1,448,784	1.7500

(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 \$43,622 (1984 — \$50,416) 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

Diversification of Risk	Your capital has a greater degree of security through a wide participation in various equity markets.
Liquidity	You can buy or sell shares daily. The net asset value is reported every day in major newspapers.
Ownership	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.
Capital Growth Potential	You have the potential to achieve greater returns through ownership of equities.
Protection Against Inflation	You can retain the value of your capital when the value of your shares increases at a faster rate than inflation.
Full-time Professional Management	Your fund is actively managed by investment professionals who have in the aggregate many years of experience in the equity markets.
Tax Advantages	You can achieve higher after-tax returns because of the tax exemption applicable to capital gains.
Withdrawal Options	You can have a systematic withdrawal plan which can provide income and can reduce your investment's exposure to tax.
Shareholder Accounting	Your record-keeping is simplified.
Transfer Provisions	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 Money Market Fund
Eaton Bay Viking Fund Limited

EATON BAY INTERNATIONAL 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.
- Voluntary investments. No long term contract.
- Convenient payment system. Automatic monthly transfers from your bank account.
- Inter-fund transfer privilege.
- Invested internationally for strong growth potential.
- Service at any Eaton Financial Centre.

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



MEMBER

THE INVESTMENT FUNDS INSTITUTE OF CANADA