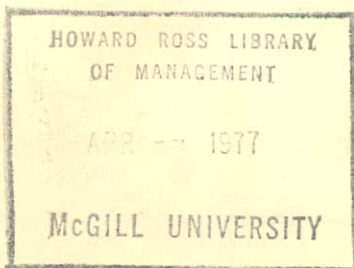


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EATON FINANCIAL SERVICES

**EATON  
LEVERAGE  
FUND  
LTD.**

**annual report**  
**december 31st, 1976**



ONE PLACE FOR ALL YOUR TOMORROWS

## To the Shareholders:

Your Board of Directors is pleased to present the 1976 Annual Report of your Fund.

Stock prices in most countries rose in 1976, for the second year in a row. Contrary to our expectations as stated in last year's Annual Report, the rise in Canadian prices again lagged very far behind the rise in New York. The Toronto Stock Exchange Industrial Index rose 3.9%, the Dow Jones Industrials 17.9% and the Tokyo Dow Jones 14.5%. The net asset value per share of your Fund increased 31.5%, including the dividend paid in December. This substantial increase reflects the prudent and timely international diversification of the investments of your Fund, and represents more than satisfactory performance.

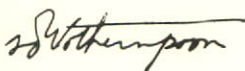
Economic growth in Canada was disappointing last year, especially business capital spending, and, for the first time, direct investment outside the country by Canadian business exceeded direct investment in Canada by foreign business. The provisions of the federal government's Anti-Inflation Program limiting profits, the expense and effort required to report compliance with the Anti-Inflation Program, and the belief that the federal government is not sympathetic to the business sector have led to a reduction in business confidence and in capital spending for future growth. Consumer spending and residential construction were strong and this resulted in growth in the economy overall. The rate of inflation declined significantly.

In 1977, the federal government is expected to introduce measures designed to restore business confidence and stimulate capital spending. There appears to be a growing recognition that all governments must restrain growth in their spending, reduce waste in social programs, encourage investment rather than consumption and restrain wage costs in the public sector, which have increased at a faster rate than those in the private sector. One hopeful sign is the reduction of 5% in the number of employees of the Ontario government.

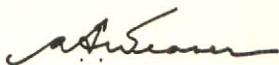
We believe that most adverse factors have been reflected in stock market prices in Canada. The economy is likely to expand moderately this year, and with common shares in the aggregate providing historically high yields and selling at historically low multiples of earnings the Canadian market is attractive. As our problems are addressed, prices are likely to move from discounting problems to anticipating improvement. This is what leads to higher stock prices.

The economic expansion in the U.S. appears to be well balanced and should continue for some time. As the U.S. is a substantial market for most exporting nations, this should stimulate growth in the world economy. Market prices are reasonable based on historical criteria and, in spite of the rises of the past two years, given the positive economic outlook, are likely to provide a good return from present levels. We continue to believe that your Fund's investments in shares of companies operating in other countries provides a very attractive balance, and we are hopeful that your Fund will experience another good year in 1977.

On Behalf of the Board,



Chairman



President

Toronto, Canada  
March 8, 1977

# statement of financial position

December 31, 1976

1976

1975

## ASSETS:

Investments, at quoted value:

(Average cost 1976 —  
\$18,727,440; 1975 —  
\$23,915,071)

Canadian common stocks..	\$ 5,751,250	\$ 6,377,875
Foreign common stocks ....	17,200,379	15,679,029
Canadian bonds .....	574,000	553,000
Foreign bonds .....	337,301	257,873
	<u>23,862,930</u>	<u>22,867,777</u>

Cash, interest-bearing .....	52,341	308,475
Short-term notes .....	198,564	495,890
Accrued investment income ....	164,583	175,183
Accounts receivable .....	413,347	1,255
Income taxes recover- able (note 3) .....	—	20,064
	<u>24,691,765</u>	<u>23,868,644</u>

## LIABILITIES:

Accounts payable .....	31,772	292,769
Redemptions payable .....	171,657	183,230
Income taxes payable (note 3) ..	98,293	—
	<u>301,722</u>	<u>475,999</u>

## NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY ..

\$24,390,043	\$23,392,645
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## SHAREHOLDERS' EQUITY:

Capital stock (note 2):

Authorized —

100 deferred shares of \$1 par  
value each

51,769,217 common shares of  
\$0.25 par value each less  
22,859,689 shares redeemed  
(1975 — 21,009,365 shares  
redeemed)

Issued and outstanding —

5,649,730 common shares  
(1975 — 7,032,573 shares)

\$ 1,412,432	\$ 1,758,143
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Surplus:

Retained earnings .....	16,080,796	15,998,498
Contributed surplus .....	1,761,325	6,683,298
Unrealized appreciation (depreciation) of invesments .....	<u>5,135,490</u>	<u>(1,047,294)</u>

## TOTAL SHAREHOLDERS' EQUITY .....

\$24,390,043	\$23,392,645
--------------	--------------

On behalf of the Board:

G. D. deS. Wotherspoon, Director

A. G. Weaver, Director

(See accompanying notes)

## statement of earnings

for the year ended December 31, 1976

	1976	1975
<b>INVESTMENT INCOME:</b>		
Dividends .....	\$ 886,680	\$ 942,366
Interest .....	91,725	108,665
	<u>978,405</u>	<u>1,051,031</u>
<b>EXPENSE:</b>		
Management fee (note 4) .....	285,575	280,493
Earnings before provision for income taxes .....	692,830	770,538
Provision for income taxes (note 3) .....	162,520	154,000
<b>NET EARNINGS</b> .....	<u>\$ 530,310</u>	<u>\$ 616,538</u>
<b>NET EARNINGS PER SHARE —</b>		
Based on average number of shares outstanding during year .....	<u>8.6¢</u>	<u>8.3¢</u>

## statement of surplus

for the year ended December 31, 1976

<b>RETAINED EARNINGS:</b>		
Balance, beginning of year ..	\$15,998,498	\$14,913,963
Net earnings .....	530,310	616,538
Net gain on sales of securities .....	—	815,053
	<u>16,528,808</u>	<u>16,345,554</u>
Dividends .....	(334,391)	(347,056)
Net loss on sales of securities .....	(113,621)	—
Balance, end of year .....	<u>\$16,080,796</u>	<u>\$15,998,498</u>
<b>CONTRIBUTED SURPLUS:</b>		
Balance, beginning of year ..	\$ 6,683,298	\$ 9,181,681
Excess of amounts received over par value of shares issued .....	1,706,703	1,244,847
	<u>8,390,001</u>	<u>10,426,528</u>
Excess of amounts paid over par value of shares redeemed .....	(6,628,676)	(3,743,230)
Balance, end of year .....	<u>\$ 1,761,325</u>	<u>\$ 6,683,298</u>
<b>UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS:</b>		
Balance, beginning of year ..	\$ (1,047,294)	\$ (7,521,725)
Unrealized appreciation of investments .....	6,182,784	6,474,431
Balance, end of year .....	<u>\$ 5,135,490</u>	<u>\$ (1,047,294)</u>

(See accompanying notes)



# statement of changes in net assets

for the year ended December 31, 1976

	1976	1975
<b>NET ASSETS, BEGINNING OF YEAR</b> .....	<u>\$23,392,645</u>	<u>\$18,546,521</u>
<b>ADDITIONS TO NET ASSETS:</b>		
Net earnings .....	530,310	616,538
Proceeds from issue of common shares .....	1,823,605	1,351,343
Unrealized appreciation of investments .....	6,182,784	6,474,431
*Net gain on sales of securities .....	—	815,053
	<u>8,536,699</u>	<u>9,257,365</u>
<b>DEDUCTIONS FROM NET ASSETS:</b>		
Dividends —		
Out of net earnings —		
6¢ per share (1975 —		
5¢ per share) .....	334,391	347,056
Payment on redemption of common shares .....	7,091,289	4,064,185
*Net loss on sales of securities .....	113,621	—
	<u>7,539,301</u>	<u>4,411,241</u>
<b>INCREASE IN NET ASSETS</b> ....	<u>997,398</u>	<u>4,846,124</u>
<b>NET ASSETS, END OF YEAR</b> ..	<u><u>\$24,390,043</u></u>	<u><u>\$23,392,645</u></u>
<b>NET ASSET VALUE PER SHARE:</b>		
Beginning of year .....	<u>\$ 3.33</u>	<u>\$ 2.35</u>
End of year .....	<u><u>\$ 4.32</u></u>	<u><u>\$ 3.33</u></u>
<b>*NET GAIN (LOSS) ON SALES OF SECURITIES:</b>		
Proceeds from sales of securities .....	<u>\$ 5,208,303</u>	<u>\$ 2,185,457</u>
Cost of securities sold:		
Securities at cost, beginning of year .....	23,915,071	24,924,902
Purchases .....	134,293	360,573
	<u>24,049,364</u>	<u>25,285,475</u>
Securities at cost, end of year .....	<u>18,727,440</u>	<u>23,915,071</u>
Cost of securities sold .....	<u>5,321,924</u>	<u>1,370,404</u>
Net gain (loss) on sales of securities .....	<u><u>\$ (113,621)</u></u>	<u><u>\$ 815,053</u></u>

(See accompanying notes)

# **schedule of investments and other net assets**

December 31, 1976

## **COMMON STOCKS — 94.11%**

### **BANKS — 4.46%**

The Bank of Nova Scotia .....

### **ELECTRICAL AND ELECTRONICS — 7.24%**

\*Hitachi Ltd. ....

### **LEISURE — 19.35%**

\*Fuji Photo Film Co. Ltd. ....

\*MacMillan, Inc. ....

\*Meredith Corp. ....

### **OFFICE SYSTEMS AND EQUIPMENT — 10.06%**

\*International Business Machines Corporation .....

Moore Corporation .....

\*The Rank Organization Limited .....

### **OIL AND GAS — 9.85%**

\*Atlantic Richfield Co. ....

Canadian Superior Oil Ltd. ....

\*Exxon Corp. ....

### **PHARMACEUTICALS — 2.81%**

\*Warner Lambert Company .....

### **PUBLIC UTILITIES — 4.03%**

Canadian International Power Company Limited .....

### **STEEL AND HEAVY INDUSTRIES — 17.23%**

Canron Limited .....

Dominion Foundries and Steel, Limited .....

\*Kaiser Industries Corporation .....

\*Signode Corporation .....

### **MISCELLANEOUS — 19.08%**

Canadian Corporate Management Company, Limited "A" .....

\*Federal Company .....

\*Interco Incorporated .....

\*Jonathan Logan, Inc. ....

Tonecraft Limited .....

### **TOTAL COMMON STOCKS**

### **BONDS — 3.74%**

Hudson's Bay Company 6% 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 .....

### **TOTAL BONDS**

### **TOTAL INVESTMENT PORTFOLIO — 97.85%**

Short-term notes — 0.81% .....

Other — 1.34% .....

### **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
51,000	\$ 1,090,125	\$ 446
2,000,000	1,767,330	724
1,000,000	3,039,364	1,246
80,035	726,618	298
49,700	952,563	391
6,000	1,690,161	693
10,000	367,500	151
180,000	396,000	162
12,000	699,064	287
15,000	618,750	254
20,000	1,081,884	444
22,000	685,193	281
60,000	982,500	403
30,000	697,500	286
35,000	931,875	382
80,000	1,200,413	492
34,000	1,371,900	563
35,000	735,000	301
65,000	1,606,434	659
29,000	1,352,986	555
40,000	630,469	259
80,000	328,000	134
	<u>22,951,629</u>	<u>9,411</u>
\$ 700,000	574,000	235
250,000	337,301	139
	<u>911,301</u>	<u>374</u>
	23,862,930	9,785
	198,564	81
	328,549	134
	<u>\$24,390,043</u>	<u>\$10,000</u>

## auditors' report

To the Shareholders of  
Eaton Leverage Fund Ltd.:

We have examined the statement of financial position and the schedule of investments and other net assets of Eaton Leverage Fund Ltd. as at December 31, 1976 and the statements of earnings, surplus 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, 1976 and the results of its operations and changes in 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,  
March 7, 1977

Clarkson, Gordon & Co.  
Chartered Accountants

## notes to financial statements

December 31, 1976

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments are recorded in the accounts at their quoted value at the close of each business day, with the difference between this amount and average cost being shown as unrealized appreciation (depreciation) of investments.

The quoted value of foreign investments is translated to Canadian dollars at exchange rates prevailing at the close of each business day.

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.

Average cost is used to determine the gain or loss on sales of securities.

The accrual method of recording income and expenses is followed by the company with dividends being recorded on their ex-dividend date.

For each common share sold the company receives an amount equal to the net asset value per share at the date of sale. Of this amount the par value of \$0.25 is allocated to capital stock and the remainder to contributed surplus. The common shares are redeemable at the option of the shareholder at their net asset value and for each common



share redeemed a corresponding allocation of the net asset value is made.

## 2. CAPITAL STOCK TRANSACTIONS

Capital stock transactions during the year were as follows:

	1976		1975	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Subscrip- tions .....	467,609	\$1,823,605	425,984	\$1,351,343
Redemp- tions .....	1,850,452	\$7,091,289	1,283,820	\$4,064,185

## 3. 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.

## 4. MANAGEMENT FEE

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

## 5. DIRECTORS AND OFFICERS

During the year the company had seventeen directors and seven officers. Three of the officers also served as directors.

## officers

GORDON D. deS. WOTHERSPOON	Chairman of the Board
ARTHUR G. WEAVER	President
WILLIAM H. ZIMMERMAN	Vice-Chairman
C. VERNER CHRISTENSEN	Treasurer
ROBERT A. DUNFORD	Secretary
MAX W. ZIESACK	Assistant Secretary
LYNN CONLON	Assistant Treasurer

## directors

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

**business office**

Suite 3023, Place Victoria,  
Montreal, Quebec H4Z 1B8

**manager and distributor**

Eaton Fund Management Limited  
Toronto, Ontario

**transfer agent and  
registrar**

Eaton 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.
- Invested internationally for strong growth potential.
- Service at any Eaton Financial Centre.

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